SP FINANCE p.l.c
No. 89, The Strand,
Sliema,
Malta.

Co. Registration No. C-89462

Ref: SPF - 15/2020

COMPANY ANNOUNCEMENT

Errata Corrige relative to Company Announcement issued by SP Finance plc (the "Company") on the 30th June 2020 - Ref. SPF13/2020.

The following is a company announcement issued by SP Finance p.l.c. (the "Company") pursuant to the Listing Rules as issued by the Listing Authority:

Quote

With reference to Company Announcement SPF13/2020, the Companies Audited Financial Statements for the financial year ended 31st December 2019, approved by the Board of Directors on the 30th June 2020, are being reproduced hereunder in terms of Circular dated 8th November 2018 on the Dissemination and Storage of Regulated Information issued by the Malta Financial Services Authority

Unquote

Dr. Andrea Micallef,
Company Secretary

1st July 2020

SP FINANCE P.L.C.

FINANCIAL STATEMENTS

FOR THE PERIOD ENDING 31st DECEMBER 2019

Company No. C- 89462

SP FINANCE P.L.C.

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SP FINANCE P.L.C.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

Directors:-	Mr. Joseph Casha Mrs. Josephine Casha Dr. Alex Perici Calascione – Non-executive director (appointed on 20 February 2019) Dr. Reuben Debono – Non-executive director (appointed on 20 February 2019) Mr. Mark Anthony Grech – Non-executive director (appointed on 20 February 2019)
Secretary:	Andrea Micallef
Security trustee:	Alter Domus Trustee Services (Malta) Limited
Bankers:-	HSBC Bank Malta p.l.c., Business Banking Centre Mill Street, Qormi
Registered Office:-	89, The Strand, Sliema, Malta.

The directors hereby present their annual report together with the audited financial statements of SP Finance p.l.c. (the "**Company**") for the period from 19 November 2018, being the Company's incorporation date, to 31 December 2019.

The directors also present their annual report together with the audited financial statements of the SP Finance p.l.c. Group (the "**Group**") which comprises the Company and its fully owned subsidiaries, namely SP Investments Limited (Reg. No. C89468), Pebbles St. Julians Limited (Reg. No. C89612), Pebbles Resort Limited (Reg. No. C89613) and Sea Pebbles Limited (Reg. No. C6138) for the period ending on 31 December 2019.

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

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

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

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

Review of Business
The Company registered a profit before tax of €121,399 (2018: N/A) while the Group registered a loss before tax of €575,606 (2018: Profit of €1,323,055).

The Group's revenue in 2019 amounted to €2,848,953 (2018: €1,548,077). The 84% increase in revenue is mainly attributable to the opening of the Pebbles Resort in July 2019.

The decrease in profitability compared to 2018 is mainly attributable to the opening of the Pebbles Resort in July 2019 which resulted in a depreciation charge of €789,322 (2018: €184,909) and finance costs of €606,988 (2018: €129,621) resulting from the bond issue and the finance lease liability. The delay in the opening of the Pebbles Resort by a few months also resulted in substantial costs to re-allocate booked guests in other hotels.

Notwithstanding the Group's loss registered in 2019, the directors are optimistic that its business fundamentals are sound and that the excellent customer reviews of the hotels it operates augur well for a speedy return to profitability post COVID-19.

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

A few weeks after the balance sheet date a pandemic (COVID-19) was declared by the World Health Organisation, which has dramatically curtailed international travel. The impact of COVID-19 and the associated additional risks for the Company and the Group are further explained in the next paragraph.

COVID-19 and Statement pursuant to Listing Rule 5.62
In late February 2020, air travellers' concerns regarding the spreading of the Coronavirus 2019 (COVID-19) resulted in the cancellation of thousands of holidays to Malta. Hundreds of flights to and from Malta were also cancelled, culminating in the practically total closure of the Malta International Airport in mid-March 2020.

As a result, in mid-March 2020, the Group was forced to cease operations of the two hotels it operates, which constitute its principal source of income. Other minor sources of income, consisting of rent receivable from related companies operating bars and restaurants were also negatively impacted following the forced closure of catering and entertainment venues to control the spread of the virus.

The directors have assessed the short to medium term impact of COVID-19 on the Group's finances and economic viability. In making this assessment, the directors have considered the following factors, among others:

- Short- and medium-term bank financing made available to the Group.
- The various measures introduced by the authorities to alleviate the financial impact of COVID-19, most notably the COVID-19 wage supplement that will remain in place at least until 30 September 2020.
- The successful implementation of cost-cutting measures, especially relating to the rent payable to the owner of the hotel in St. Paul's Bay until operations resume normally.
- The announcement that flights to and from Malta will resume on 15 July 2020; and
- The prospects that an effective vaccine against COVID-19 will be available by early 2021.

Following this assessment, the directors concluded that although COVID-19 will negatively impact the 2020 financial results, the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore, in terms of Listing Rule 5.62, hereby state that these financial statements have been prepared on the going concern basis.

Results, Dividends and Reserves
The results for the period are set in the Statement of Profit and Loss and Other Comprehensive Income on page 14.

The Board does not propose the payment of a dividend.

The retained earnings as at 31 December 2019 amounted to €502,761 (2018: €890,375) for Group and €120,909 for Company.

SP FINANCE P.L.C.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

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

The financial statements of SP Finance p.l.c. and the Group for the period ended on 31 December 2019 are included in the Annual Report 2019, which is available on the Company's website.

Statement of Responsibility pursuant to the Listing Rule 5.68
The directors confirm that, to the best of their knowledge:

- The financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2019, and of the financial performance and the cash flows for the period then ended, in accordance with International Financial Reporting Standards as adopted by the European Union; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that the Company and the Group face.

Statement pursuant to Listing Rule 5.70.1
Pebbles Resort Limited rented the bars and restaurants located within the Pebbles Resort to Sea Pebbles Leisure Limited, a company outside the Group whose directors are Mr. Joseph and Mrs. Josephine Casha. The latter company was contracted to provide the meals and breakfasts consumed by guests of Pebbles Resort.

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

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

Approved by the Board of Directors on 30 June 2020 and signed on its behalf by:

Mr. Joseph Casha **Director**	Mrs. Josephine Casha **Director**

STATEMENT OF COMPLIANCE WITH PRINCIPLES OF GOOD CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

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

1. that the proceeds of the bonds are applied for the purposes for which they were sanctioned as specified in the prospectus of the bonds issued.
2. the proper utilization of the resources of the Company.

3. the annual report and financial statements, the relevant public announcements and the Company's compliance with its continuing obligations under the Listing Rules.

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

The activities of the Board are exercised in a manner designed to ensure that it can effectively supervise the operations of the Company and protect the interests of bondholders and the shareholders. During the current financial period, meetings of the Board were held as frequently as considered necessary.

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

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

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

Executive Directors
Josephine Casha
Joseph Casha

Independent, Non-Executive Directors
Dr. Alex Perici Calascione
Dr. Reuben Debono
Mr. Mark Anthony Grech

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

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

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

1. Reviewing the company's strategy on an on-going basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders.

2. Implementing an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve company objectives.

3. Identifying and ensuring that significant risks are managed satisfactorily; and

4. Company policies are being observed.

Audit Committee

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

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

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

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

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

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

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

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

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

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

Relations with the market

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

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

Remuneration Statement
Pursuant to the Company's Memorandum and Articles of Association, the maximum annual aggregate emoluments that may be paid to the directors is determined by the Company further to a General Meeting during which the proposed aggregate emoluments or an increase in the maximum limit of such aggregate emoluments shall be proposed. Furthermore, the remuneration of directors is a fixed amount per annum and does not include any variable component relating to profit sharing, share options or pension benefits. During the year under review, the directors received emoluments amounting in total to €20,712.

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

Approved by the Board of Directors and signed on its behalf on the 30 June 2020

Josephine Casha

Joseph Casha

CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated and stand-alone parent company financial statements of SP Finance p.l.c set out on pages 14 to 56 which comprise the consolidated and parent company statement of financial position as at 31 December 2019, and the consolidated and parent company statement of profit and loss and comprehensive income, changes in equity and cashflow for the year then ended including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been prepared in accordance with the requirements of the Companies Act (Cap. 386), enacted in Malta.

Emphasis of matter

We draw attention to note 1 and note 32 to the financial statements which describes the effects of the COVID-19 pandemic on the Company and Group's operations subsequent to the year end 31 December 2019. Our opinion is not modified in respect of this matter.

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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

Our Audit Approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Materiality

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

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

Materiality	€51,000
How we determined it	1.8% of turnover
Rationale for the materiality benchmark applied	We selected turnover as the materiality benchmark and saw the effect on the Group's results. In our view, the turnover of the Group is considered the most appropriate measure of the success of the Group in generating enough profits to service its annual obligations toward the bond holders. We chose 1.8%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €2,550 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Significant Financing Transactions

Risk Description

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

How the scope of our audit responded to the risk

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Recoverability of Parent Company bond proceeds invested in its Subsidiary Company SP Investments Ltd	
Financial assets at amortised costs includes proceeds from the bond issue which were invested through cumulative redeemable preference shares in the subsidiary SP investments Limited. Investment in preference shares as at31 December 2019 amounted to €12 million. As explained in accounting policy Note 2, the recoverability of the investment is assessed at the end of each financial year. The investment is the principal financial asset of the Company that will be used to repay the principal amount of the bond, which is why we have given additional attention to this area. Specifically, in so far as the bonds are concerned, the Company is principally dependent on the receipt of dividend payments and the redemption of the investment in redeemable preference shares from the subsidiary SP Investments Limited. Both the businesses of Sea Pebbles Ltd "the Guarantor" and Pebbles Resort Ltd " the Group Company" were severely impacted by the spread of the COVID-19 pandemic to Europe in 2020, with the first case being detected in Malta in early March 2020. This pandemic is creating unprecedented levels of uncertainty in local and global economies alike as predictions as to the market's reaction to the easing of measures remains fluid. The subsidiary companies operate in the hospitality sector which has been immediately and directly impacted by the travel ban and mandatory closure of its hotels imposed locally and, in most countries, worldwide. Although the travel ban in Malta will be lifted on the 1 July 2020 the market's reaction thereto is still very unknown. In the light of all the above, the directors have stressed the previously prepared projections in order to assess the possible extent of the impact on the recoverability of its investment in its subsidiary companies. Their assessment at this point in time indicates that, based on the information currently available and on expectations as at the time of approval of these financial statements, no impairment is required in relation to this investment. The situation does remain very volatile and their assessment will be continuously reviewed and updated in order to be calibrated to the changing circumstances. Such future assessments may result in varying outcomes.	We have agreed the terms of its investment to supporting agreements. We have assessed the financial soundness of Sea Pebbles Ltd "the Guarantor" and Pebbles Resort Ltd " the Group Company". In doing this, we made reference to the latest audited financial statements, management accounts, cash flow projections, forecasts and other prospective information made available to us. Our work was extended to include a review of the directors' assessment of the impact of the COVID19 pandemic on the Group's business. We performed additional audit work on the assumptions, conditions and relevant risk assessments used by the directors to model the cash stress test effects due to the pandemic. At the date of this report its effects are subject to unprecedented levels of uncertainty with the full range of possible effects are unknown. Based on the information currently available the assumptions and conclusions as to the impairment assessment of the receivable balance do not appear to be unreasonable.

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

Findings
The results of our testing were satisfactory, and the amount invested in the subsidiary is appropriately recorded in the financial statements and disclosed in Note 14.

Other Matters
The financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 28 October 2019.

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

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

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

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

Responsibilities of the Directors and those charged with governance for the financial statements
The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit Committee
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance

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

is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Group's and Company's business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

VCA
50 YEARS OF SERVICE
CERTIFIED PUBLIC ACCOUNTANTS

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

Report on Other Legal and Regulatory Requirements

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

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

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

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

In our opinion, the Statement of Compliance set out on pages 4 to 7 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

We also have responsibilities:

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

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

Appointment
We were first appointed as auditors of the Group and the Company for the current financial period ended 31 December 2019. The Company was incorporated as a public limited company on 19 November 2018.

This copy of the audit report has been signed by:
MICHAEL CURMI
for and on behalf of
VCA CERTIFIED PUBLIC ACCOUNTANTS
30 June 2020

SP FINANCE P.L.C.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDING 31 DECEMBER 2019

	Notes	Group 2019 12 months €	Group 2018 12 months €	Company 2019 14 months €
Revenue	4	**2,848,953**	*1,548,077*	**440,000**
Costs				
Cost of sales	7	**(1,918,034)**	*(611,215)*	**(29,869)**
Gross profit		**930,919**	*936,862*	**410,131**
Administrative expenses	7	**(201,765)**	*(43,725)*	**(28,732)**
Other operating income	5	**105,550**	*61,750*	**60,000**
Fair value gain on investment property	12	**-**	*324,443*	**-**
(Loss)/Profit on sale of property, plant & equipment		**(14,000)**	*358,255*	**-**
Earnings before interest, tax and depreciation		**820,704**	*1,637,585*	**441,399**
Depreciation		**(789,322)**	*(184,909)*	**-**
Operating profit		**31,382**	*1,452,676*	**441,399**
Finance costs	6	**(606,988)**	*(129,621)*	**(320,000)**
(Loss)/Profit before taxation		**(575,606)**	*1,323,055*	**121,399**
Tax credit/(expense)	9	**187,992**	*(270,220)*	**(490)**
(Loss)/Profit for the period		**(387,614)**	*1,052,835*	**120,909**
Other comprehensive income				
Items that will not be subsequently reclassified to profit or loss				
Revaluation surplus net of deferred tax	22	-	*3,009,807*	-
Other comprehensive income for the year, net of tax		-	*3,009,807*	-
Total comprehensive income for the year		**(387,614)**	*4,062,642*	**120,909**
Profit attributable to:				
Equity holders of the Company		**(387,614)**	*4,062,642*	**120,909**
		(387,614)	*4,062,642*	**120,909**

SP FINANCE P.L.C.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	**Group 2019 €**	*Group 2018 €*	**Company 2019 €**
Assets				
Non-current assets				
Property, Plant and equipment	*10*	**28,092,155**	*19,904,653*	**-**
Right-of-use assets	*11*	**5,161,833**	*-*	**-**
Investment property	*12*	**5,974,491**	*3,811,400*	**-**
Investment in subsidiary	*13*	**-**	*-*	**19,097,783**
Financial assets at amortised cost	*14*	**-**	*-*	**12,000,000**
Other financial assets at amortised cost	*15*	**1,082,482**	*1,008,570*	**-**
		40,310,961	*24,724,623*	**31,097,783**
Current assets				
Trade and other receivables	*16*	**397,939**	*42,849*	**350,381**
Current income tax asset	*19*	**112,000**	*-*	**112,000**
Cash at bank and in hand		**623,613**	*11,823*	**5,815**
		1,133,552	*54,672*	**468,196**
Total Assets		**41,444,513**	*24,779,295*	**31,565,979**

SP FINANCE P.L.C.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	Group 2019 €	*Group 2018 €*	Company 2019 €
Equity				
Called up issued share capital	21	250,000	250,000	250,000
Share premium	21	17,750,000	17,750,000	17,750,000
Revaluation reserve	22	14,799,920	14,799,920	-
Fair value gain reserve	23	2,938,013	2,938,013	-
Other reserve	24	(17,531,725)	(17,531,725)	1,098,983
Retained earnings		502,761	890,375	120,909
Total equity		18,708,969	19,096,583	19,219,892
Liabilities				
Non-current liabilities				
Borrowings	20	13,005,233	-	12,000,000
Lease liability long term	11	5,072,123	-	-
Deferred tax liability	17	2,365,143	2,441,135	-
		20,442,499	2,441,135	12,000,000
Current liabilities				
Trade and other payables	18	1,448,354	88,069	346,087
Current income tax liability	19	226,100	399,426	-
Borrowings	20	400,000	2,754,082	-
Lease liability	11	218,591	-	-
		2,293,045	3,241,577	346,087
Total liabilities		22,735,544	5,682,712	12,346,087
Total equity and liabilities		41,444,513	24,779,295	31,565,979

These financial statements were approved and authorised for issue by the Board of Directors on the 30 June 2020 and signed on its behalf by:-

Mr. Joseph Casha
Director

Ms. Josephine Casha
Director

SP FINANCE P.L.C.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Share capital €	Share premium €	Revaluation Reserve €	Fair value gain reserve €	Other reserve €	Retained earnings €	Total €
Balance at 1st January 2018	**465,875**	**-**	**12,148,368**	**2,644,910**	**-**	**730,643**	**15,989,796**
Comprehensive income							
Profit for the year	-	-	-	-	-	1,052,835	1,052,835
Transfer of realised profit	-	-	(358,255)	-	-	-	(358,255)
Revaluation surplus net of deferred tax	-	-	3,009,807	-	-	-	3,009,807
Total comprehensive income	**465,875**	**-**	**14,799,920**	**2,644,910**	**-**	**1,783,478**	**19,694,183**
Net transfers of FV gain on IP	**-**		**-**	**293,103**	**-**	**(293,103)**	**-**
Transactions with owners							
Issue of share capital (before reorganisation)	1,200	-	-	-	-	-	1,200
Dividends	-	-	-	-	-	(600,000)	(600,000)
Total transactions with owners	**1,200**	-	**-**	**-**	**-**	**(600,000)**	**(598,800)**
Adjustments relating to reorganisation							
Reorganisation of group	(217,075)	17,750,000	-	-	(17,531,725)	-	1,200
Balance at 31st December 2018	**250,000**	**17,750,000**	**14,799,920**	**2,938,013**	**(17,531,725)**	**890,375**	**19,096,583**
Comprehensive income							
Loss for the year	-	-	-	-	-	(387,614)	(387,614)
Balance at 31st December 2019	**250,000**	**17,750,000**	**14,799,920**	**2,938,013**	**(17,531,725)**	**502,761**	**18,708,969**

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

SP FINANCE P.L.C.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 12 months €	Group 2018 12 months €	Company 2019 14 months €
Cashflow from operating activities				
(Loss)/Profit before taxation		**(575,606)**	*1,323,055*	**121,399**
Adjustments for:				
Depreciation		**789,322**	*184,909*	**-**
Finance costs		**585,934**	*129,621*	**320,000**
Amortisation of bond issue costs		**21,055**	-	**-**
Dividend income		**-**	-	**(440,000)**
Loss/(Profit) on disposal of fixed assets		**14,000**	*(358,255)*	**-**
Provision for doubtful debts		**7,126**	-	**-**
Fair value gain on investment property		**-**	*(324,443)*	**-**
Operating profit before working capital changes		**841,831**	*954,887*	**1,399**
Movement in receivables/related company balances		**(436,128)**	*(712,425)*	**(350,381)**
Movement in payables		**1,040,285**	*363,318*	**25,597**
Cash generated from/(used in) operations		**1,445,988**	*605,780*	**(323,385)**
Income tax paid		**(173,326)**	*(14,533)*	**-**
Interest paid		**(265,934)**	*(129,621)*	**-**
Net cashflows from/(used in) operating activities		**1,006,728**	*461,626*	**(323,385)**
Cashflows from investing activities				
Payments to acquire property, plant and equipment		**(9,415,701)**	*(268,248)*	**-**
Payments to acquire investment property		**(2,163,091)**	-	**-**
Proceeds from sale of property, plant and equipment		**700,000**	*580,000*	**-**
Net dividends received		**-**	-	**328,000**
Investment in preference shares of subsidiary		**-**	-	**(12,000,000)**
Net cashflows (used in)/generated from investing activities		**(10,878,792)**	*311,752*	**(11,672,000)**
Cashflows from financing activities				
Movement in bank loans		**(2,161,693)**	*(279,571)*	**-**
Dividends paid		**-**	*(600,000)*	**-**
Cash issue of shares		**-**	*1,200*	**1,200**
Third party borrowings		**1,700,000**	-	**-**
Bond proceeds		**12,000,000**	-	**12,000,000**
Bond issue costs		**(315,822)**	-	**-**
Lease liability payments		**(146,242)**	-	**-**
Movement in directors' balances		**(510,493)**	-	**-**
Net cash generated from/ (used in) financing activities		**10,565,750**	*(878,371)*	**12,001,200**
Net movement in cash and cash equivalents		**693,686**	*(104,993)*	**5,815**
Cash and cash equivalents at the beginning of the year		**(70,073)**	*34,920*	**-**
Cash and cash equivalents at the end of the year	**25**	**623,613**	*(70,073)*	**5,815**

1. Basis of preparation

Reporting entity

SP Finance P.L.C (the 'Company') is a limited liability which was incorporated in Malta on 19 November 2018. The Company's financial statements cover the period from the date of incorporation being 19 November 2018 to 31 December 2019.

The consolidated financial statements include the financial statements of SP Finance P.L.C and its subsidiaries. The Group's financial statements cover the period 1 January 2019 to 31 December 2019.

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

These financial statements have been prepared under the historical cost convention as modified by the fair valuation of the land and buildings class of property, plant and equipment and investment property

Group reorganisation

The Company was incorporated on 19 November 2018 under the terms of the Maltese Companies Act, 1995. On 28 November 2018, the Company acquired 100% indirect shareholding in Sea Pebbles Limited through a 100% direct shareholding in SP Investments Limited. Sea Pebbles Limited was already in existence and operating. The substance of the acquisition was that of a group restructuring by virtue of which the Company became the new parent company of the Group. Accordingly, the ultimate shareholders of Sea Pebbles Limited remained unchanged and the restructuring solely interposed a new holding company SP Investments Limited which is wholly owned by the Company, SP Finance P.L.C. This transaction has been accounted for in the consolidated financial statements as a reorganisation, and these have been compiled as though SP Finance P.L.C, was already the parent Company of the Group from incorporation.
Accordingly, in order to provide more meaningful information to potential investors, the comparative figures include the financial performance and position of the Group even though the new parent company was legally incorporated on 19 November 2018. The comparative figures of the Group therefore present the consolidated results for Sea Pebbles Limited and adjustments to reflect the impact of the reorganisation which have been reflected in the statement of changes in equity.

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

Events after the reporting period

In late February 2020, air travellers' concerns regarding the spreading of the Coronavirus 2019 (COVID-19) resulted in the cancellation of thousands of holidays to Malta. Hundreds of flights to and from Malta were also cancelled, culminating in the practically total closure of the Malta International Airport in mid-March 2020.

As a result, in mid-March 2020, the Group was forced to cease operations of the two hotels it operates, which constitute its principal source of income. Other minor sources of income, consisting of rent receivable from related companies operating bars and restaurants were also negatively impacted following the forced closure of catering and entertainment venues to control the spread of the virus.

Basis of preparation (cont.)

Going Concern

In view of the developments pertaining to the COVID-19 pandemic the directors have stressed the previously prepared projections in order to assess the impact on its operations and liquidity in the foreseeable future. The Group's reassessment of projections and cashflow forecasts have taken into account the full extent of the benefit of measures introduced by the Government of Malta and credit institutions aiming at assisting entities in the current crises, including reimbursement of an element of employee wages, deferral of direct, indirect and payroll taxes and NI contributions.

The Group is in the final stages of obtaining additional banking facilities with HSBC bank Malta p.l.c under the Malta Development Bank COVID-19 guarantee scheme, with the requested facilities amounting to €2.1m. At the date when these financial statements were authorised for issue, the bank has approved the facilities requested and is in the final administrative stages of issuing formal sanction letters.

The directors have assessed the short to medium term impact of COVID-19 on the Group's finances and economic viability. In making this assessment, the directors have considered the following factors, among others:

- Short- and medium-term bank financing made available to the Group.
- The various measures introduced by the authorities to alleviate the financial impact of COVID-19, most notably the COVID-19 wage supplement that will remain in place at least until 30 September 2020.
- The successful implementation of cost-cutting measures, especially relating to the rent payable to the owner of the hotel in St. Paul's Bay until operations resume normally.
- The announcement that all flights to and from Malta will resume on 15 July 2020; and
- The prospects that an effective vaccine against COVID-19 will be available by early 2021.

Following this assessment, the directors concluded that although COVID-19 will negatively impact the 2020 financial results, the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore, in terms of Listing Rule 5.62, hereby state that these financial statements have been prepared on the going concern basis.

Standards, interpretations and amendments to published standards effective in 2019

In 2019, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2019. Other than changing its accounting policies for leases as a result of adopting IFRS 16 'Leases', the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's and the Company's accounting policies.

IFRS 16 - Leases

IFRS 16 supersedes IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group and the Company are the lessor.

The Group and the Company have adopted IFRS 16 retrospectively from 1 January 2019 but have not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.

Basis of preparation (cont.)

Standards, interpretations and amendments to published standards effective in 2019 (cont.)

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.85%. The Company was not a lessee under operating lease arrangements as at 31 December 2018, and therefore its results are not impacted on the date of initial application (i.e. 1 January 2019).

Practical expedients applied

In applying IFRS 16 for the first time, the Group has elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4. No other practical expedients were used as they were not applicable.

Measurement of lease liabilities

	Group
	€
Operating lease commitments disclosed as at 31 December 2018 - (as restated) (a)	33,325
Discounted using the lessee's incremental borrowing rate at the date of initial application	(6,064)
Lease liability recognised as at 1 January 2019	**27,261**
Of which are:	
- Current lease liability	**3,347**
- Non-current lease liability	**23,914**
	27,261

Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by €27,261
- Lease liabilities – increase by €27,261

There was no impact on retained earnings as at 1 January 2019.

Lessor accounting

The Group and the Company did not need to make any adjustments to the accounting for assets held as lessors under operating leases as a result of the adoption of IFRS 16.

Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1st January 2020. The Group has not early adopted these revisions to the requirements of IFRS's as adopted by the EU and the Company's directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's and the Company's financial statements in the period of initial application.

2. Principal accounting policies

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

Basis of consolidation

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

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

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

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

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

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

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

Costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the

Principal accounting policies (cont.)

Property, plant & equipment (cont.)
Group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Any revaluation increase arising on the revaluation is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus unless it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is recognised in profit or loss to the extent that it

exceeds the balance, if any, held in the revaluation surplus relating to a previous revaluation of that asset. When the asset is derecognised, the attributable revaluation remaining in the revaluation surplus is transferred to retained earnings.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

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

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

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

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

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

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

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

Principal accounting policies (cont.)

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

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

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

Financial instruments

Financial assets

Recognition and derecognition

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

Classification and subsequent measurement

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

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

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

Financial assets measured at amortised cost

Debt instruments that meet the following conditions are subsequently measured at amortised cost when:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Principal accounting policies (cont.)

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

Financial assets measured at fair value through profit or loss

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

Impairment of financial assets

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

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

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

Financial liabilities

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

Trade and other receivables

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

Principal accounting policies (cont.)

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

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

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

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

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

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

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

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

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

Principal accounting policies (cont.)

Impairment of non-financial assets (cont.)

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

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

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

Revenue recognition

Hospitality

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

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

Dividends received

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

Borrowing costs

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

Leases

As explained in the basis of preparation, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described in note 12 and the impact of the change is described in the basis of preparation.
Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. The Group did not have any finance leases as at 31 December 2018.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group or the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective assets leased out under operating leases are included in investment property in the balance sheet. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Principal accounting policies (cont.)

Taxation

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

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

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

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

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

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

Foreign currencies

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

Principal accounting policies (cont.)

Segment reporting

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

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

Related parties

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

Dividends

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

3. Critical accounting estimates and judgements

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

In the opinion of the Group's directors, except as follows, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS1 (revised).

<u>Fair value measurement and valuation processes</u>

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

Information about the valuation techniques and inputs used in determining the fair value of these assets are disclosed in note 10 to these financial statements. The effect of COVID-19 has been disclosed in note 32 – Events after the reporting period.

<u>Expected credit loss allowances on loans and advances</u>

Credit loss allowance represent management's best estimate of expected credit losses in the financial assets subject to IFRS 9 impairment requirements at the balance sheet date. In this respect the directors are required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The Group and Company use the PD, LGD and EAD models in assessing loans and receivable and the provision matrix model for trade receivables to support the measurement of ECL. Under both methods the ECL were deemed to be immaterial and hence no adjustments were made to these financial statements. The effect of COVID-19 has been disclosed in note 32 - Events after the reporting period.

4. Segment information and revenue from contracts with customers

4.1. Segment information

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

Segment information and revenue from contracts with customers (con.t)
All of the Group's non-current assets are located in Malta and therefore the geographical information that would have otherwise been required by IFRS 8, is not presented in these consolidated financial statements.

4.2. Revenue from contracts with customers

i. Disaggregation of revenue from contracts with customers

	Group	Group	Company
	2019	**2018**	**2019**
	12 months	*12 months*	*14 months*
	€	**€**	**€**
Hospitality segment			
Accommodation service	2,848,953	1,548,077	-
Dividends received from subsidiaries	-	-	440,000
	2,848,953	**1,548,077**	**440,000**

ii. Liabilities related to contracts with customers
The Group has recognised the following liabilities relating to contracts with customers:

	Group	Group	Company
	2019	**2018**	**2019**
	€	**€**	**€**
Contract liabilities			
Advance deposits – hospitality	82,810	-	-
Deferred income – hospitality	29,069	-	-
Total contract liabilities	**111,879**	**-**	**-**

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

5. Other operating income

	Group	Group	Company
	2019	**2018**	**2019**
	12 months	*12 months*	***14 months***
	€	**€**	**€**
Service charge	**23,900**	5,500	**60,000**
Rental income	**81,650**	56,250	**-**
	105,550	**61,750**	**60,000**

6. Finance costs

	Group 2019	Group 2018	Company 2019
	12 months	*12 months*	*14 months*
	€	€	€
Interest on overdraft	9,593	1,614	-
Interest on bank borrowings	35,598	123,824	-
Other interest	8,474	3,332	-
Bond interest	320,000	-	320,000
Hire purchase interest	-	851	-
Interest on lease liability	212,269	-	-
Bond issue costs	21,054	-	-
	606,988	**129,621**	**320,000**

7. Expenses by nature

	Group 2019	Group 2018	Company 2019
	12 months	*12 months*	*14 months*
	€	€	€
Direct costs	1,048,848	304,221	-
Wages and salaries	430,956	150,923	7,964
Directors' remuneration	140,712	900	20,712
Utility expenses	180,532	90,169	-
Repairs and maintenance	171,173	56,365	-
Other expenses	147,578	52,362	29,925
	2,119,799	**654,940**	**58,601**

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

	Group 2019	Group 2018	Company 2019
	12 months	*12 months*	*14 months*
	€	€	€
Total remuneration payable to the auditors for:			
Audit services	**13,500**	-	13,500
Audit services charged by the component auditor	**11,724**	**4,800**	**-**
	25,224	**4,800**	**13,500**

8. Staff costs and employee information

	Group 2019	Group 2018	Company 2019
	12 months	*12 months*	*14 months*
	€	€	€
Wages and salaries (including directors)	536,292	139,211	28,676
Social security costs	35,376	12,612	-
	571,668	**151,823**	**28,676**

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

	Group 2019	Group 2018	Company 2019
	Number	*Number*	*Number*
Operations and administrations	32	10	4

9. Tax (credit)/expense

	Group 2019	Group 2018	Company 2019
	12 months	*12 months*	***14 months***
	€	€	€
Deferred tax (credit)/ charge	**(75,992)**	44,120	**490**
Current tax (credit)/ charge	**(112,000)**	226,100	**-**
	(187,992)	**270,220**	**490**

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

	Group 2019	Group 2018	Company 2019
	12 months	*12 months*	***14 months***
	€	€	€
Profit before taxation	**(575,606)**	1,323,055	**121,399**
Tax charge at 35%	**(201,462)**	463,069	**42,490**
Depreciation charges not deductible by way of capital allowances	**10,522**	14,477	**-**
Expenses disallowed for tax purposes	**6,886**	278	**-**
Additional allowable deductions	**(3,938)**	-	**-**
Deferred tax liability at reduced rate	**-**	(82,215)	**-**
Tax effect of non-taxable income	**-**	(125,389)	**(42,000)**
Tax expense	**(187,992)**	**270,220**	**490**

Tax recognised in other comprehensive income

Income tax recognised in other comprehensive income comprises the deferred tax impact on the Group's revaluation of land and buildings. Refer to notes 17 and 22 for further detail on the amounts recognised.

10. Property, Plant & Equipment

Group

	Land & Buildings	Motor Vehicles	Equipment	Electrical Installations	Furniture, & Fittings	Computer Equipment	Other fixed assets	Total
	€	€	€	€	€	€	€	€
Cost/ Valuation								
As at 1 January 2018	16,273,301	33,061	450,512	215,348	1,078,577	39,617	-	18,090,416
Additions	97,084	-	21,955	18,129	131,080	-	-	268,248
Revaluation	3,349,207	-	-	-	-	-	-	3,349,207
Disposals	(580,000)	-	-	-	-	-	-	(580,000)
As at 1 January 2019	19,139,592	33,061	472,467	233,477	1,209,657	39,617	-	21,127,871
Additions	5,161,389	13,000	1,200,969	918,643	1,893,645	23,055	205,000	9,415,701
Disposals	(714,000)	-	-	-	-	-	-	(714,000)
As at 31 December 2019	**23,586,981**	**46,061**	**1,673,436**	**1,152,120**	**3,103,302**	**62,672**	**205,000**	**29,829,572**
Depreciation								
As at 1 January 2018	272,258	15,264	266,927	58,231	387,793	37,836	-	1,038,309
Charge for the year	63,334	6,612	34,091	22,685	57,330	857	-	184,909
As at 1 January 2019	335,592	21,876	301,018	80,916	445,123	38,693	-	1,223,218
Charge for the year	165,838	7,232	94,120	68,338	157,519	4,069	17,083	514,199
As at 31 December 2019	**501,430**	**29,108**	**395,138**	**149,554**	**602,642**	**42,762**	**17,083**	**1,737,417**
Net Book Value								
As at 31 December 2019	**23,085,551**	**16,953**	**1,278,298**	**1,002,866**	**2,500,660**	**19,910**	**187,917**	**28,092,155**
As at 31 December 2018	*18,804,000*	*11,185*	*171,449*	*152,561*	*764,534*	*924*	*-*	*19,904,653*

Fair value of property

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

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

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

All the recurring property fair value measurements at 31 December 2019 and 2018, as applicable, use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

Property, Plant & Equipment (cont.)

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

A reconciliation from the opening balance to the closing balance of property for recurring fair value measurement categorised within level 3 of the fair value hierarchy, for the current and preceding financial years, is reflected in the table above and in note 10 for investment property.

Valuation techniques

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

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

Valuation processes

In 2019, the directors carried an assessment for those properties measured in accordance with the revaluation model under IAS 16 for property, plant and equipment and IAS 40 for Investment property, to determine whether a material shift in fair value has occurred.

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

The Group's property (land and buildings together with all other integral assets) and investment property were last revalued on 31 December 2018 and reflected in the Group's financial statements. The valuations were again obtained by the independent professional qualified valuer on 31 December 2019. The land and buildings together with all other integral assets were valued by Perit Colin Zammit (a firm of architects and civil engineers). The external valuations of the property as at 31 December 2018 and 2019, as applicable, have been performed using the comparisonmarket approach and Level 3 inputs of the fair valuation hierarchy.

In view of a limited number of properties with similar characteristics the valuations have been performed using unobservable inputs. The significant inputs to the approach used is a sales price per square metre related to transactions in comparable properties located in proximity to the respective property, with adjustments for differences in the size and condition of the property. As at 31 December 2019, the resultant fair value did not differ materially from the book values of the property, however, as disclosed in note 32 – Events after the Reporting Period, the carrying value of the properties might decline in value due to the impact of Covid-19.

Property, Plant & Equipment (cont.)

Information about fair value measurements using significant unobservable inputs (Level 3) as at 31 December 2019

Group	**Fair value at**		**Valuation technique**	**Unobservable inputs**	**Relationship of unobservable inputs to fair value**
	31 Dec 2019	*31 Dec 2018*			
Description	**€**	*€*			
Property, plant, and equipment					
Current use as hotel properties	**23,085,551**	*18,804,000*	Comparison Approach	Sales price per square metre * €5,500	The higher the sales price per square metre the higher the fair value
Investment properties					
Leased buildings	**5,974,491**	*3,811,400*	Comparison Approach	Sales price per square metre * €5,800	The higher the sales price per square metre the higher the fair value

*These inputs represent the range of inputs used in the external valuation carried out as at 31 December 2018 and 2019.

Historical cost basis of properties

If the cost model had been used, the carrying amounts of the revalued properties classified as property, plant and equipment would be €11,578,268 (2018: €4,040,522). The revalued amounts include a revaluation surplus of €14,799,920 before tax (2018: €14,799,920), which is not available for distribution to the shareholders of SP Finance P.L.C

Use as collateral

Land and buildings held by the Group, with a carrying amount of €12,000,000 are pledged as security for current and non-current borrowings.

Valuation of these assets has been reassessed after the balance sheet date following the spread of the COVID19 pandemic and the resulting implication on the Group’s operations. This is further explained in note 32 – Events after the balance sheet date.

11. Leases

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

i. Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	Group	
	2019	1 January 2019
	€	€
Right-of-use assets		
Land and buildings	**4,664,983**	-
Equipment	**109,410**	27,261
Furniture & fittings	**387,440**	-
	5,161,833	27,261
Lease liabilities		
Current	**218,591**	3,347
Non-current	**5,072,123**	23,914
	5,290,714	27,261

Additions to the right-of-use assets during the 2019 financial year were € 5,409,695.

ii. Amounts recognised in the statement of profit or loss

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

	Group
	2019
	€
Depreciation charge of right-of-use assets	
Land and buildings	246,820
Equipment	7,911
Furniture & fittings	20,392
	275,123
Interest expense (included in finance cost)	212,269

The total cash outflow for leases in 2019 was €358,511.

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

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

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

Until the 2018 financial year, leases of equipment were classified as operating leases, as described in the Group accounting policy. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

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

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

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

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

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

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

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

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

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

iv. Variable lease payments
The Group's leases do not contain variable payment terms.

Leases (continued)

v. Extension and termination options

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

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

12. Investment property

	Group 2019 €	Group 2018 €	Company 2019 €
At the beginning of the period	3,811,400	3,486,957	-
Additions	2,163,091	-	-
Revaluation	-	324,443	-
At the end of the period	**5,974,491**	**3,811,400**	**-**

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

Valuation of these assets has been reassessed after the balance sheet date following the spread of the COVID19 pandemic and the resulting implication on the Group's operations. This is further explained in note 32– Events after the balance sheet date.

i. Amounts recognised in profit or loss for investment properties

	Group 2019 €	Group 2018 €	Company 2019 €
Rental income from operating lease	81,650	56,250	-

ii. Lease arrangements

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

Investment property (cont.)

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

	Group 2019	Group 2018	Company 2019
	12 months	*12 months*	*14 months*
	€	€	€
Within one year	57,558	56,250	-
Between 1 – 2 years	58,308	57,558	-
Between 2 – 3 years	59,058	58,308	-
Between 3 – 4 years	59,058	59,058	-
Between 4 – 5 years	31,500	59,058	-
Later than 5 years	47,250	78,750	-
	312,732	**368,982**	**-**

13. Investment in subsidiary

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

Company	**Shares in subsidiary**	**Total**
	€	€
At 19 November 2018	-	-
Additions	19,097,783	19,097,783
At 31 December 2019	**19,097,783**	**19,097,783**

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

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

Valuation of these assets has been reassessed after the balance sheet date following the spread of the COVID19 pandemic and the resulting implication on the Company's operations. This is further explained in note 32 – Events after the balance sheet date.

Shares in subsidiaries represent the following investments:

Company	**Registered address**	**Principal Activity**	**2019 % Holding**
SP Investments Limited	89, The Strand, Sliema	Holding Company	100%
Sea Pebbles Limited	89, The Strand, Sliema	Hospitality operations	100%
Pebbles Resort Limited	89, The Strand, Sliema	Hospitality operations	100%
Pebbles St. Julians Limited	89, The Strand, Sliema	Non-Operating	100%

14. Financial assets at amortised costs

		Group 2019 €	Group 2018 €	Company 2019 €
Non-Current				
Redeemable preference shares	*Note i*	-	-	12,000,000
		-	**-**	**12,000,000**

i. Redeemable preference shares

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

15. Other financial assets at amortised costs

		Group 2019 €	Group 2018 €	Company 2019 €
Non-Current				
Amounts due by commonly controlled entities	*Note i*	1,082,482	1,008,570	-
		1,082,482	**1,008,570**	**-**

i. Amounts due by commonly controlled entities

Amounts due by commonly controlled entities are unsecured and interest free. €275,000 of the amounts due are repayable through a transfer of property by 31 December 2020. Such property shall be used for the operations of the Group and therefore since the generation of economic benefits to the Company is expected in the long term, this portion has been classified as non-current. The remaining balance of €807,482 shall be repayable within 2-4 years in accordance with the signed repayment agreement in place.

16. Trade and other receivables

		Group 2019 €	Group 2018 €	Company 2019 €
Trade receivables		67,208	19,459	-
Other receivables		166,563	23,390	-
VAT refundable		108,090	-	-
Amounts owed by subsidiary	*Note i*	-	-	290,381
Prepayments and accrued income		56,078	-	60,000
		397,939	**42,849**	**350,381**

Trade and other receivables (cont.)

i. Amounts owed by subsidiary

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

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

17. Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% / 10% (2018 – 35% / 10%). The movement in the deferred tax account is as follows:

	Group 2019 €	**Group 2018 €**	Company 2019 €
At the beginning of the year	**(2,441,135)**	(2,057,615)	-
Recognised in profit or loss:			
Movement in unabsorbed tax losses and capital allowances	**308,436**	-	-
Movement in excess of capital allowances over depreciation	**(176,878)**	(12,780)	-
Movement in effect of provisions	**2,494**	-	-
Movement in effect of bond issue costs amortisation	**(103,167)**	-	-
Movement in effect of leases accounting under IFRS 16	**45,109**	-	-
Effect due to revaluation of Investment Property	**-**	(31,340)	-
			-
Recognised in other comprehensive income:			
Effect due to revaluation of Land & Buildings	**-**	(339,400)	-
At the end of the year	**(2,365,143)**	**(2,441,135)**	**-**
Effect recognised in:			
Deferred tax movements recognised in profit & loss (note 9)	**75,992**	(44,120)	(490)
Deferred tax movements recognised in equity	**-**	(339,400)	-
Transfer of tax losses between group companies	**-**		490
	75,992	**(383,520)**	-

Deferred taxation (cont.)

The following amounts are shown in the balance sheet:

	Group 2019 €	*Group 2018 €*	**Company 2019 €**
Deferred tax assets			
Unabsorbed tax losses and capital allowances	**308,436**	-	-
Effect of leases accounting under IFRS 16	**45,109**	-	-
Effect of provisions	**2,496**	-	-
	356,041	-	-
Deferred tax liabilities			
Effect of excess of capital allowances over depreciation	**(356,477)**	*(179,595)*	-
Effect due to amortisation of bond issue costs	**(103,167)**	-	-
Effect due to revaluation of Land & Buildings	**(1,880,400)**	*(1,880,400)*	-
Effect due to revaluation of Investment Property	**(381,140)**	*(381,140)*	-
	(2,721,184)	*(2,441,135)*	-
	(2,365,143)	*(2,441,135)*	-

18. Trade and other payables

		Group 2019 €	*Group 2018 €*	**Company 2019 €**
Trade payables		**615,252**	*28,490*	-
Other payables		**63,856**	*31,210*	**5,750**
Indirect taxes		-	-	-
Amounts owed to commonly controlled entities and related entities	*Note i*	**61,195**	-	**490**
Accruals		**596,172**	*28,369*	**339,847**
Deferred income and advanced deposits		**111,879**	-	-
		1,448,354	*88,069*	**346,087**

i. Amounts due to commonly controlled entities and related entities

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

19. Current income tax asset/(liability)

	Group 2019 €	Group 2018 €	Company 2019 €
Balance as the beginning of the year	(399,426)	(187,859)	-
Credit/(Charge) for the year	112,000	(226,100)	-
Settlement tax paid	173,326	14,533	-
Tax at source	-	-	112,000
Balance at the end of the year	**(114,100)**	**(399,426)**	**112,000**
Balance sheet allocation			
Asset	112,000	-	112,000
Liability	(226,100)	(399,426)	-
	(114,100)	**(399,426)**	**112,000**

20. Borrowings

	Group 2019 €	Group 2018 €	Company 2019 €
Falling due within a year			
Bank overdrafts	-	81,896	-
Bank borrowings	-	2,161,693	-
Third party borrowings	400,000	-	-
Related party borrowings	-	510,493	-
	400,000	**2,754,082**	**-**
Falling due after more than one year			
Bonds	11,705,233	-	12,000,000
Third party borrowings	1,300,000	-	-
	13,005,233	**-**	**12,000,000**
Total borrowings	**13,405,233**	**2,754,082**	**12,000,000**

Borrowings (cont.)

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

	Group 2019 €	Group 2018 €	Company 2019 €
Face value of bonds			
Bonds	**12,000,000**	-	**12,000,000**
Issue costs	**(315,822)**	-	**-**
Accumulated amortisation	**21,055**	-	**-**
Net book amount	**(294,767)**	-	**-**
Amortised cost	**11,705,233**	**-**	**12,000,000**

(i) The Group's banking facilities as at 31st December 2019 amounted to €700,000 (2018: €200,00). The Company does not have a facility. The Group's overdrafts are secured by general hypothecs and special hypothecs over the Group's assets, guarantee's over related party assets and by pledges over various insurance policies.

(ii) The third-party loan relates to capital expenditure which is being repaid in quarterly instalments of €100,000. This loan is unsecured and interest-free.

(iii) By virtue of the Prospectus dated 8 April 2019, SP Finance p.l.c issued for subscription by the general public 120,000 secured bonds having a nominal value of €100 each for an aggregate principal amount of €12,000,000. These bonds have been issued at par.

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

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

	Group 2019 €	*Group 2018 €*	Company 2019 €
Interest rate exposure:			
At floating rates	**-**	*2,243,589*	**-**
At fixed rates	**11,705,233**	-	**12,000,000**
Interest free	**1,700,000**	*510,493*	**-**
Total borrowings	**13,405,233**	*2,754,082*	**12,000,000**

Borrowings (cont.)

	Group 2019 %	*Group 2018 %*	**Company 2019 %**
Weighted average effective interest rates			
At the balance sheet date:			
Bank overdrafts	**5.85**	*5.85*	**-**
Bank loans	**-**	*5.85*	**-**
Bond	**4**	-	**4**

	Group 2019 €	**Group 2018 €**	**Company 2019 €**
Maturity of long-term borrowings:			
Between 1 and 5 years	1,300,000	-	-
Over 5 years	11,705,233	-	12,000,000
	13,005,233	-	12,000,000

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

21. Share capital and Share premium

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

Details of share capital for Group as at 31 December 2018	**2018 €**
Authorised, issued and fully paid up	
1 January 2018 – 17 November 2018	
465,875 Ordinary shares of €1 each – Sea Pebbles Limited	465,875
	-
18 November 2018 – 31 December 2018	
Incorporation of SP Finance PLC – 1,200 Ordinary shares of €1 each 100% paid up	1,200
Reorganisation of Group on 28 November 2019 (Note 24)	(217,075)
	250,000

Share capital and Share premium (cont.)

Details of share capital for Company as at 31 December 2019

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

22. Revaluation reserve

	Group 2019	Group 2018	Company 2019
	€	€	€
At the beginning of the period	14,799,920	11,790,113	-
Gain on revaluation reserve	-	3,349,207	-
Deferred tax liability arising on revaluation of property	-	(339,400)	-
At the end of the period	**14,799,920**	**14,799,920**	**-**

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

23. Fair value gain reserve

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

	Group 2019	Group 2018	Company 2019
	€	€	€
At the beginning of the period	2,938,013	2,644,910	-
Gain on revaluation reserve	-	324,443	-
Deferred tax liability arising on revaluation of property	-	(31,340)	-
At the end of the period	**2,938,013**	**2,938,013**	**-**

This reserve is a non-distributable reserve.

24. Group Reorganisation

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

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

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

25. Cash and cash equivalents

	Group 2019 €	Group 2018 €	Company 2019 €
Cash at bank and in hand	623,613	11,823	5,815
Overdraft	-	(81,896)	-
At the end of the period	**623,613**	**(70,073)**	**5,815**

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

26. Related party transactions

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

	Group 2019 €	Group 2018 €	Company 2019 €
Revenue			
Subsidiaries			
Service charge	-	-	60,000
Dividends received	-	-	440,000
Other operating income			
Commonly controlled entities			
Rental income	48,400	30,000	-
Service fee	18,400	-	-
	66,800	30,000	500,000
Other operating expenses			
Commonly controlled entities			
Direct costs	86,626	-	-
	86,626	-	-
At the end of the period	**153,426**	**30,000**	**500,000**

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

27. Commitments

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

	Group		Company	
	2019	*2018*	**2019**	*2018*
	€	*€*	**€**	*€*
Authorised but not contracted	**-**	-	**-**	-
Contracted but not provided for	**110,985**	-	**-**	-

Operating lease commitments where the Group company is a lessee
The Group leases equipment under a non-cancellable operating lease expiring within 8 years.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 11 and the basis of preparation for further information.

Leases entered into during 2019, have been recognised as a right-of-use asset and are therefore not included in the below future minimum lease payments.

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

	Group	
	2019	*2018*
	€	*€*
Not later than 1 year	-	*4,597*
Later than 1 year and not later than 5 years	-	*18,386*
Later than 5 years	-	*10,342*
	-	*33,325*

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

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

29. Financial risk management

The Group's activities potentially expose it to a variety of financial risks on its financial assets and financial liabilities. The key components of financial risks to the Group are: market risk (namely, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. A re-assessment of the financial risks which the Group and the Company are exposed to has been made after the balance sheet and up to the date of approval of these financial statements as a result of the onset of the COVID19 pandemic and its impact on the Group's operations. This is further disclosed in note 32 – Events after the reporting period.

Market risk

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

Cash flow and fair value interest rate risk

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

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

Credit risk

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

	Group 2019 €	Group 2018 €	Company 2019 €
Carrying amounts			
Financial assets at amortised cost	**-**	-	**12,000,000**
Other financial assets at amortised cost	**1,082,482**	1,008,570	**-**
Trade and other receivables	**397,939**	42,849	**350,381**
Cash at bank and in hand	**623,613**	-	**5,815**
	2,104,034	**1,051,419**	**12,356,196**

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

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

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

Financial risk management (cont.)

Impairment of financial assets

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

- trade receivables and accrued income relating to the provision of services.

- Financial assets at amortised cost for Company, comprising investment in preference shares in subsidiary undertaking
- Other financial assets at amortised costs comprising loans receivable from related parties outside the group
- cash and cash equivalents.

Trade receivables and accrued income

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 accrued income.

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

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2019 and 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Based on the assessment carried out in accordance with the above methodology, the identified expected credit loss allowance on trade receivables and accrued income, was deemed immaterial. The movement in loss allowances as at 31 December 2019 and 2018 is also deemed immaterial by management. On this basis, the information pertaining to loss rates and loss allowances in the Group's provisions matrix, which would have otherwise been required by IFRS 7, is not presented as at 31 December 2019 and 2018.

Separately from the above methodology, the Group has also identified that a provision of €7,126 was required as at 31 December 2019 with respect to counterparties which have been placed into liquidation or are in a difficult economic situation. The assessment on these individual counterparties did not have an impact on the identified loss rates and expected credit losses identified on the rest of the Group's trade receivables and accrued income.

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

Financial assets at amortised costs

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

As at year-end, based on the Directors' assessments of these factors, the equity position of the respective counterparty, and, where the probability of default is high, the recovery strategies contemplated by management together with the support of shareholders in place, the resulting impairment charge required was deemed to be immaterial.

Financial risk management (cont.)

Other financial assets at amortised cost

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

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

As at year-end, based on the directors' assessments of these factors, the equity position of the respective counterparty, and, where the probability of default is high, the recovery strategies contemplated by management together with the support of shareholders in place, the resulting impairment charge required was deemed to be immaterial.

Cash at bank

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

Liquidity risk

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

The directors monitor liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period, in order to ensure that adequate funding is in place in order for the Group to be in a position to meet its commitments as and when they will fall due.

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

Financial risk management (cont.)

	Group 2019 €	Group 2018 €	Company 2019 €
Within one year			
Trade and other payables	-	66,383	**26,087**
Bank borrowings	**1,082,482**	2,197,291	-
Amounts due to directors	-	510,493	-
Bonds	**480,000**	-	**480,000**
Lease liability	**526,013**	-	-
	2,088,495	**2,774,167**	**506,087**
Between 2 – 5 years			
Bonds	**1,920,000**	-	**1,920,000**
Lease liabilities	**2,421,368**	-	-
	4,341,368	-	**1,920,000**
Over 5 years			
Bonds	**2,400,000**	-	**2,400,000**
Lease liabilities	**4,342,912**	-	-
	6,742,912	-	**2,400,000**
Total	**13,172,775**	**2,774,167**	**4,826,087**

Financial instruments not measured at fair value

At 31 December 2019 and 31 December 2018, the carrying amounts of payables, receivables and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities. The fair values of long-term borrowings, together with the related fair value disclosures, are presented in note 20.

30. Capital management

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

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

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

31. Cash flow information

Reconciliation of liabilities arising from financing activities

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

Group

	As at 31 December 2018	Adoption of IFRS 16	Cashflows	Other liability related changed	As at 31 December 2019
	€	€	€	€	€
Bank borrowings	2,161,693	-	(2,161,693)	-	-
Bonds	-	-	12,000,000	(294,765)	11,705,235
Lease liability	-	27,261	(146,242)	5,409,698	5,290,717
	2,161,693	**27,261**	**9,692,065**	**5,114,933**	**16,995,952**

Group

	As at 31 December 2017	Cashflows	Other liability related changed	As at 31 December 2018
	€	€	€	€
Bank borrowings	2,441,264	(279,571)	-	2,161,693
	2,441,264	**(279,571)**	**-**	**2,161,693**

Company

	As at 19 November 2018	Cashflows	Other liability related changed	As at 31 December 2019
	€	€	€	€
Bonds	-	12,000,000	-	12,000,000
	-	**12,000,000**	**-**	**12,000,000**

32. Events after the reporting period

Overall risk to the Group's operations

In late February 2020, air travellers' concerns regarding the spreading of the Coronavirus 2019 (COVID-19) resulted in the cancellation of thousands of holidays to Malta. Hundreds of flights to and from Malta were also cancelled, culminating in the practically total closure of the Malta International Airport in mid-March 2020.

As a result, in mid-March 2020, the Group was forced to cease operations of the two hotels it operates, which constitute its principal source of income. Other minor sources of income, consisting of rent receivable from related companies operating bars and restaurants were also negatively impacted following the forced closure of catering and entertainment venues to control the spread of the virus.

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

The duration and impact of the COVID-19 pandemic, as well as government fiscal assistance packages remains fluid. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

Business closures

The hotels experienced cancellations throughout the month of March leaving the Group no option but to close both hotels operated by the group in mid-March. The biggest effect to the tourism industry to Malta, although deemed necessary from a health viewpoint, was when the government felt the need to close our airport on the 20th March.

Cost cutting measures

The directors have been working tirelessly since February to ensure that the Group is able to survive this pandemic, the like that has not been experienced before in our lifetime. The directors has been actively working on processes and procedures to mitigate against closure particularly with regards to payroll where a number of measures including a reduced working week and the using up of annual leave were enacted. As revenues reduce to zero, the Group's operational expenses are being reduced through ongoing discussions with suppliers, suspension of lease charges during the closure period and payroll is now also being supported through a subsidy offered by Government.

Customer defaults

The ECL as at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequent to 31 December 2019, the Group and the Company re-assessed the recoverability of its trade receivables and other financial assets as at year end and considered the impact of COVID-19 on its ECL.

For trade receivables and accrued income, the directors adjusted the historical loss rates emanating from the provision matrix at year-end, to reflect a range of increases in default rates based on 'best' and 'worst' case scenarios. When applying the adjusted loss rates to its outstanding receivables, the loss allowance that would be required remained immaterial.

With respect to other financial assets at amortised cost, the directors adjusted the expected net cash flows emanating from recovery strategies by stressing the cash flows to take into account the impact of loss of business due to COVID-19 related closures or declines in business. The Group's assessment of the COVID-19's impact on the ECL on other receivables is still on-going.

The assessment for cash at bank resulted in negligible differences to the provision calculated at year-end, in view of the low risk of default attributable to these financial assets

Events after the reporting period (cont.)

Fair value of assets
Since 31 December 2019, the outbreak of COVID-19 and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global equity and security markets have experienced significant volatility and weakness, and this could have a an impact on the financial assets of the Group. As at 30 June 2020 the date that these financial statements were authorised for issue, the fair value of the Group's property, plant and equipment and investment property might be negatively impacted as a result of an unfavourable change of the input used to calculate the fair value, however, given the uncertainty as to the duration and effect of the pandemic and the business recovery therefrom, the amount of the reduction in value cannot be estimated reliably at the date of approval of these financial statements. These subsequent changes in the fair value of the Group's property, plant and equipment and investment property are non-adjusting post balance sheet events in accordance with IAS 10 – 'Events after the reporting date' and therefore are not required to be reflected in the financial statements as at 31 December 2019.

Borrowings
Whilst the true extent and length of this crisis cannot as yet be accurately assessed, the Group has paid its Bond interest for 2020 due in May and through the existing cash flow and additional banking facilities, it is further expected that it can meet its next bond interest payment due in May 2021.

In the light of all the above, the directors have stressed the previously prepared projections in order to assess the impact on its operations and liquidity in the foreseeable future. The Group's and Company's reassessment of projections and cashflow forecasts have taken into account the full extent of the benefit of measures introduced by the Government of Malta and Credit Institutions aimed at assisting entities in the current crises, including reimbursement of an element of employee wages, deferral of direct, indirect and payroll taxes and NI contributions as well as obtaining additional banking facilities which are at the final administrative stages.

As at the date of signing the financial statements the directors are certain that the Group will be successful in securing the additional funding of the requested amount of €2.1m from HSBC bank Malta p.l.c and throughout the negotiations with the bank all requested guarantees and terms of the bank facility has been accepted by the directors.

The Group is continuously assessing and responding effectively to this evolving situation.

33. Statutory information

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