

G3 HOSPITALITY LIMITED (formerly SUNSITES  
LIMITED)

Annual Report and Financial Statements  
31 December 2019

G3 HOSPITALITY LIMITED (formerly SUNSITES LIMITED)  
Annual Report and Financial Statements - 31 December 2019

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	<b>Pages</b>
Directors' report	1 - 5
Independent auditor's report	6 - 10
Statement of financial position	11 - 12
Income statement	13
Statement of changes in equity	14
Statement of cash flows	15
Notes to the financial statements	16 - 33

## **Directors' report**

The directors present their report and the audited financial statements for the year ended 31 December 2019.

### **Principal activities**

The company operates the Pergola Holiday Club & Hotel & Spa and the Solana Hotel & Spa, both located in Mellieha. The company also operates the food and beverage sectors and the company's trading activity remained unchanged from previous years.

### **Change in name**

A resolution was passed to change the name of the company from Sunsites Limited to G3 Hospitality Limited with effect from 11 March 2020.

### **Review of the business**

During the year under review the company registered a profit after tax of €1,218,707 (2018: €250,415) on a turnover of €9,198,303 (2018: €6,256,185). At 31 December 2019, the company's current liabilities exceeded current assets by €3,758,438 (2018: €3,460,342). Shareholders have indicated that they will continue to support the business with liquidity to ensure that the company will be able to meet its liabilities as and when they fall due.

### **Results and dividends**

The income statement is set out on page 13. The directors do not recommend the payment of a dividend, and propose that the balance of retained earnings amounting to €5,201,541 (2018: €3,982,834) be carried forward to the next financial year.

### **Outlook for the financial year 2021 and events after the financial reporting date**

For financial reporting purposes, events relating to the COVID-19 pandemic are deemed to be non-adjusting subsequent events, and accordingly the financial results and financial position of the company reported within these financial statements for the year ended 31 December 2019 have not been impacted by these events.

In March 2020, Malta suffered the outbreak of the COVID-19 pandemic. This global pandemic disrupted the economies worldwide and had a devastating impact on the global hospitality industry. Inbound tourism came to practically a complete halt during the second quarter of 2020. As the local authorities declared a public health emergency, several restrictions including the closure of hospitality and catering establishments were enforced across the Maltese Islands. The company immediately put in place various contingency measures to mitigate the negative financial impact of this pandemic and its consequential restrictions. The Hotels were mainly in operation during the period June 2020 to mid-September 2020 when the government announced the re-opening of the airports, despite the low number of inbound tourism, in an effort to resume the hotels operations.

Once the local health authorities started relaxing measures, gradually allowing hospitality and catering establishments to reopen their doors and airport restrictions removed, the company followed suit by resuming operations in June and July 2020. On reopening its establishments, the company put particular emphasis on the strict implementation of hygiene and safety protocols as published by the local health authorities and the Malta Tourism Authority.

## **Directors' report - continued**

### **Outlook for the financial year 2021 and events after the financial reporting date - continued**

Management also ensured that the company availed itself of all support schemes issued by the Government of Malta to endure the adverse financial impact of the COVID-19 outbreak. The programmes in which the company participated include the wage supplement, electricity subsidy, rent subsidy, deferral of finance lease payments, tax deferral scheme and redemption of government vouchers. In order to safeguard the working capital of the hotel, as a minimum over the forthcoming twelve months, management successfully secured a €2 million bank loan under the Malta Development Bank COVID-19 Guarantee Scheme as well as securing a 12-month moratoria on the loan facilities.

During the Year 2021 as the virus persists within the global community and findings of new variants which is leading to a rise in positive cases, the company is experiencing an unprecedented adverse market situation, as prevalent in the tourism industry at large, as restrictions imposed by various governments continue to persist. These included the closure of the hotels' Food & Beverage outlets. Such closure also had a direct negative impact on the hotels' accommodation income. The company is in discussions with a number of banks in order to secure further financing, part of which will be utilised in the ramping up of business and the soft re-opening for inbound tourism, however to date such facilities have not yet been confirmed. The company is also exploring the financial markets. Management prepared forecast profit and loss and cash flow projections for the period to June 2022 and also high level forecasts up to 2031. Considering the various measures being taken globally to restrict the transmission of the pandemic as well as the roll out of several vaccinations against COVID-19 virus, forecasts are assuming a soft pick up in business in the local tourism industry in Quarter 3 of 2021, gradually increasing momentum after summer of 2022. Management expects revenue for 2021 and 2022 to still remain significantly below pre-COVID-19 levels. Forecasts prepared by management and approved by the board of directors factor prudent base case assumptions as well as stress scenarios. Failure to obtain additional financing, the company and the board of directors are committed to explore alternative measures. Furthermore, should the need arise, the shareholders have expressed their willingness to support the company in honouring its commitments as and when they fall due and to continue operating as a going concern. Support by the shareholders has also been common practice in the past and as at year end shareholder's equity amounts to €11 million.

On the basis of the above, the directors remain confident that these financial statements can continue being prepared on a going concern basis.

### **Financial risk management**

The company's activities potentially expose it to a variety of financial risks, including foreign exchange risk, price risk, credit risk and liquidity risk.

The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. Risk management is carried out within the company where applicable under policies approved by the management of the company. The company does not use derivative financial instruments to hedge risk exposures.

#### *Foreign exchange risk*

The company's operating revenues, expenditure and financing are mainly denominated in euro. Accordingly, the company's exposure to foreign exchange risk is not significant and a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been effected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

**Directors' report** - continued

**Financial risk management** - continued

*Credit risk*

Credit risk arises from cash and cash equivalents, debt securities, deposits with banks and financial institutions, as well as credit exposures to outstanding receivables. The credit quality of the customer is assessed, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

The maximum exposure to credit risk at the reporting date was:

	2019 €	2018 €
Trade and other receivables (Note 5)	4,835,995	5,146,190
Cash and cash equivalents (Note 6)	157,110	74,573
	<b>4,993,105</b>	<b>5,220,763</b>

*Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

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

	Carrying amount €	Contractual cash flows €	Less than 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €
<b>At 31 December 2019</b>						
Bank borrowings	5,140,397	6,183,739	1,781,159	820,460	2,094,540	1,487,580
Lease obligation	280,575	295,514	92,577	92,577	110,360	-
Trade and other payables	5,436,694	5,436,694	5,436,694	-	-	-
	<b>10,857,666</b>	<b>11,915,947</b>	<b>7,310,430</b>	<b>913,037</b>	<b>2,204,900</b>	<b>1,487,580</b>
<b>At 31 December 2018</b>						
Bank borrowings	5,262,895	6,766,667	1,312,832	1,019,495	2,176,060	2,258,280
Lease obligation	352,136	388,091	92,577	92,577	202,937	-
Trade and other payables	5,703,552	5,703,552	5,703,552	-	-	-
	<b>11,318,583</b>	<b>12,858,310</b>	<b>7,108,961</b>	<b>1,112,072</b>	<b>2,378,997</b>	<b>2,258,280</b>

## **Directors' report - continued**

### **Financial risk management - continued**

#### **Principal risks and uncertainties faced by the Company**

The successful management of risk is essential to enable the company to achieve its objectives. The ultimate responsibility for risk management rests with the company's directors, who evaluate the company's risk appetite and formulate policies for identifying and managing such risks. The principal non-financial risks and uncertainties facing the company include marketing and competition, talent and skills and customer service.

##### *(a) Market and competition*

The Company operates in a highly competitive environment. An effective, coherent and consistent strategy to respond to competitors and changing markets enables the company to sustain its market share and its profitability. The company continues to focus on providing a top quality service and product in managing the risk.

##### *(b) Talent and skills*

Failure to engage and develop the company's existing employees or to attract and retain talented employees could hinder the company's ability to maintain good service quality. The company's resource requirements are regularly reviewed.

##### *(c) Customer service*

The company's revenues are at risk if it does not continue to provide the level of service expected by its customers. The company's commitment to customers is embedded in its values. The relevant employees undertake intensive training programmes to ensure that they are aware of, and are abiding by, abide by, the levels of service that are required by the company's customers.

## **Directors**

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

Alex Grima  
Daniel Grima  
John Grima  
Jonathan Grima

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

## Directors' report - continued

### Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of each reporting period and of the profit or loss for that period.

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

- ensuring that the financial statements have been drawn up in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, Legal Notice 289 of 2015;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors

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

On behalf of the board



John Grima  
Director

The Pergola  
Adenau Street  
Mellieha  
Malta

17 May 2021



Daniel Grima  
Director



## *Independent auditor's report*

To the Shareholders of G3 Hospitality Limited (formerly known as Sunsites Limited)

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion:

- G3 Hospitality Limited (Formerly known as Sunsites Limited)'s financial statements give a true and fair view of the company's financial position as at 31 December 2019, and of the company's financial performance and cash flows for the year then ended in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-sized Entities) Regulations, 2015 and the Schedule accompanying and forming an integral part of those Regulations (GAPSME); and
- the financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

#### **What we have audited**

G3 Hospitality Limited (Formerly known as Sunsites Limited)'s financial statements, set out on pages 12 to 33, comprise:

- the statement of financial position as at 31 December 2019;
- the income statement for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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#### *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 company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Capt. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.





## *Independent auditor's report - continued*

To the Shareholders of G3 Hospitality Limited (formerly known as Sunsites Limited)

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### *Material Uncertainty Relating to Going Concern as a Result of COVID-19*

We draw attention to Note 1.1 to these financial statements, which describes the company's assessment of the estimated impacts of COVID-19 on its projected financial results, cash flows and financial position, taking cognisance of the unprecedented nature of the adverse economic conditions currently being experienced. Note 1.1 also makes reference to the fact that the company has ongoing negotiations with credit institutions to revise and increase the current facilities which the company currently avails of in order to mitigate the liquidity shortfall and to also address the breach in covenants. These events or conditions, along with other matters as set forth in the said Note, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue operating as a going concern. Our opinion is not modified in respect of this matter.

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### *Other information*

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

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

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

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

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### *Responsibilities of the directors for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with GAPSME and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



## *Independent auditor's report - continued*

To the Shareholders of G3 Hospitality Limited (formerly known as Sunsites Limited)

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### *Auditor's responsibilities for the audit of the financial statements*

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 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 Company's trade, customers and suppliers, and the disruption to their 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.



*Independent auditor’s report - continued*

To the Shareholders of G3 Hospitality Limited (formerly known as Sunsites Limited)

*Report on other legal and regulatory requirements*

The *Annual Report and Financial Statements 2019* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

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

Area of the <i>Annual Report and Financial Statements 2019</i> and the related Directors’ responsibilities	Our responsibilities	Our reporting
<p><b>Directors’ report</b> (on pages 1 to 5) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors’ report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.</p>	<p>We are required to consider whether the information given in the Directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>We are also required to express an opinion as to whether the Directors’ report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors’ report, and if so to give an indication of the nature of any such misstatements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> <li>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</li> <li>the Directors’ report has been prepared in accordance with the Maltese Companies Act (Cap. 386).</li> </ul> <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>



## *Independent auditor's report - continued*

To the Shareholders of G3 Hospitality Limited (formerly known as Sunsites Limited)

### *Report on other legal and regulatory requirements – continued*

**Area of the Annual Report and Financial Statements 2019 and the related Directors' responsibilities**

**Our responsibilities**

**Our reporting**

**Other matters on which we are required to report by exception**

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.
- the financial statements are not in agreement with the accounting records and returns.
- we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.

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

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#### *Other matter – use of this report*

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

**PricewaterhouseCoopers**

78, Mill Street  
Zone 5, Central Business District  
Qormi  
Malta



Stephen Mamo  
Partner

17 May 2021

## Statement of financial position

	Notes	As at 31 December	
		2019 €	2018 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	18,335,759	17,792,718
Investment in associate	3	2	2
Trade and other receivables	5	2,838,382	2,957,252
<b>Total non-current assets</b>		<b>21,174,143</b>	<b>20,749,972</b>
<b>Current assets</b>			
Inventories	4	170,173	134,119
Trade and other receivables	5	2,259,830	2,260,070
Cash and cash equivalents	6	157,110	74,573
<b>Total current assets</b>		<b>2,587,113</b>	<b>2,468,762</b>
<b>Total assets</b>		<b>23,761,256</b>	<b>23,218,734</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	7	1,501,356	1,501,356
Revaluation reserve		4,577,075	4,660,259
Retained earnings		5,201,541	3,982,834
<b>Total equity</b>		<b>11,279,972</b>	<b>10,144,449</b>

**Statement of financial position - continued**

	Notes	As at 31 December	
		2019 €	2018 €
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	9	3,734,335	4,541,147
Deferred tax liabilities	8	1,068,715	893,945
Institutional grants	10	159,976	187,993
Trade and other payables	11	1,062,972	1,185,074
Tax liability		109,735	337,022
<b>Total non-current liabilities</b>		<b>6,135,733</b>	<b>7,145,181</b>
<b>Current liabilities</b>			
Borrowings	9	1,686,637	1,073,884
Trade and other payables	11	4,283,715	4,518,478
Institutional grants	10	28,017	28,017
Tax liability		347,182	308,725
<b>Total current liabilities</b>		<b>6,345,551</b>	<b>5,929,104</b>
<b>Total liabilities</b>		<b>12,481,284</b>	<b>13,074,285</b>
<b>Total equity and liabilities</b>		<b>23,761,256</b>	<b>23,218,734</b>

The notes on pages 16 to 33 are an integral part of these financial statements.

The financial statements on pages 11 to 33 were authorised for issue by the board on 17 May 2021 and were signed on its behalf by:



John Grima  
Director



Daniel Grima  
Director

## Income statement

	Notes	Year ended 31 December	
		2019 €	2018 €
Revenue	12	9,198,303	6,256,185
Cost of sales		(5,837,162)	(4,090,946)
<b>Gross profit</b>		<b>3,361,141</b>	<b>2,165,239</b>
Administrative expenses	14	(1,716,318)	(1,569,173)
Other operating income		27,337	39,017
<b>Operating profit</b>		<b>1,672,160</b>	<b>635,083</b>
Finance costs	15	(361,867)	(213,172)
<b>Profit before tax</b>		<b>1,310,293</b>	<b>421,911</b>
Tax expense	16	(91,586)	(171,496)
<b>Profit for the year</b>		<b>1,218,707</b>	<b>250,415</b>

The notes on pages 16 to 33 are an integral part of these financial statements.

**Statement of changes in equity**

	Share capital €	Revaluation reserve €	Retained earnings €	Total €
Balance at 1 January 2018	1,501,356	5,402,897	3,724,444	10,628,697
Profit for the year	-	-	250,415	250,415
Transfer from revaluation reserve to income statement	-	(7,975)	7,975	-
Deferred taxation on property revaluation	-	(306,978)	-	(306,978)
Movement in revaluation	-	(427,685)	-	(427,685)
Balance at 31 December 2018	1,501,356	4,660,259	3,982,834	10,144,449
Profit for the year	-	-	1,218,707	1,218,707
Deferred taxation on property	-	(83,184)	-	(83,184)
<b>Balance at 31 December 2019</b>	<b>1,501,356</b>	<b>4,577,075</b>	<b>5,201,541</b>	<b>11,279,972</b>

The notes on pages 16 to 33 are an integral part of these financial statements.



## Statement of cash flows

	Notes	Year ended 31 December	
		2019 €	2018 €
<b>Cash flows from operating activities</b>			
Cash generated from operations	17	2,290,531	3,862,303
Interest paid		(361,867)	(213,172)
Income tax paid		(188,830)	(7,030)
Net cash generated from operating activities		1,739,834	3,642,101
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	2	(1,607,239)	(6,354,933)
Proceeds from disposal of property, plant and equipment		144,000	90,000
Net cash used in investing activities		(1,463,239)	(6,264,933)
<b>Cash flows from financing activities</b>			
Movement in institutional grants		-	244,027
Movement in bank loans		(299,821)	2,261,747
Movement in finance lease		(71,560)	232,486
Net cash used in financing activities		(371,381)	2,738,260
<b>Net movement in cash and cash equivalents</b>		<b>(94,786)</b>	<b>115,428</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>(509,768)</b>	<b>(625,196)</b>
<b>Cash and cash equivalents at end of year</b>	6	<b>(604,554)</b>	<b>(509,768)</b>

The notes on pages 16 to 33 are an integral part of these financial statements.

## Notes to the financial statements

### 1. Summary of significant accounting policies

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

#### 1.1 Basis of preparation

The financial statements have been prepared in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, Legal Notice 289 of 2015 (GAPSME), and the requirements of the Maltese Companies Act (Cap. 386). These financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment as disclosed in the accounting policies below.

At 31 December 2019, the company's current liabilities exceeded current assets by €3,758,438 (2018: €3,460,342). In order to safeguard the working capital of the two hotels over the forthcoming twelve months, management successfully secured a €2 million bank loan under the Malta Development Bank COVID-19 Guarantee Scheme as well as securing a 12-month moratoria on its loan facilities (such moratoria are not reflected in the balance sheet classification of amounts payable to financial institutions as this is deemed to be a non-adjusting post-balance sheet event). As also explained further below, shareholders have indicated that they will continue to support the business with liquidity to ensure that the company will be able to meet its liabilities as and when they fall due. The company is however not in possession of legal guarantees in this regard.

During the calendar years 2020 and 2021, the COVID-19 pandemic has led to unprecedented adverse market conditions in the global economy, and given that the HORECA industry has been severely impacted, the company has been actively restructuring the business and looking into ways to refinance operations as restrictions imposed by governments continue to persist.

Negotiations are ongoing with credit and financial institutions to support the company to continue operating successfully through increasing overdraft facilities and granting new and increased facilities. To date such facilities have not yet been confirmed by the bank. The company is currently also in breach of covenants in relation to ongoing bank facilities, and as part of ongoing discussions for further financing with the same financial institution, this matter is being addressed.

Management prepared forecast profit and loss and cash flow projections for the period to June 2022 and also high level forecasts up to 2031. Considering the various measures being taken globally to restrict the transmission of the pandemic as well as the roll out of several vaccinations against COVID-19 virus, forecasts are assuming a soft pick up in business in the local tourism industry in Quarter 3 of 2021, gradually increasing momentum after summer of 2022. Management expects revenue for 2021 and 2022 to still remain significantly below pre-COVID-19 levels. Forecasts prepared by management and approved by the board of directors factor prudent base case assumptions as well as stress scenarios. Failure to obtain additional financing, the company and the board of directors are committed to explore alternative measures. Furthermore, should the need arise, the shareholders have expressed their willingness to support the company in honouring its commitments as and when they fall due and to continue operating as a going concern. Support by the shareholders has also been common practice in the past and as at year end shareholder's equity amounts to €11 million.

On the basis of the above, the directors have concluded that at the time of approving these financial statements, the company's business is considered to be a going concern and the company is able to continue meeting its liabilities as and when they fall due.

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

**1.1 Basis of preparation - continued**

For financial reporting purposes, events relating to the COVID-19 pandemic are deemed to be non-adjusting subsequent events, and accordingly the financial results and financial position of the company reported within these financial statements for the year ended 31 December 2019 have not been adjusted to capture implications driven by such events.

**1.2 Foreign currency translation**

*(a) Functional and presentation currency*

The company's financial results and financial position are measured in the functional currency, i.e. euro ("€"), which is the currency of the primary economic environment in which the company operates. These financial statements are presented in euro ("€"), i.e. the presentation currency, which is the currency in which the company's share capital is denominated.

*(b) Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other income/(expense)'.

**1.3 Property, plant and equipment**

All property, plant and equipment is initially recorded at cost. All property, plant and equipment is subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs are recognised in profit or loss as incurred, in accordance with accounting policy 1.18.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land and buildings are subsequently shown at market value, based on valuations by external independent valuers, less subsequent depreciation. Valuations are carried out when the directors consider that the carrying amount of land and buildings differs materially from that which would be determined using fair values at the end of the reporting period.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the statement of changes in equity and shown as a revaluation reserve in equity. Decreases that offset previous increases of the same asset are debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

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

**1.3 Property, plant and equipment**

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's property portfolio at periodic intervals. The fair values are based on market values, being the estimated amount or price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows that can be received from renting out the property. A yield that reflects the specific risk inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	%
Office/Hotel Furniture & Fittings	6.67 – 10
Office equipment	25
Catering and other equipment	10 – 16.67
Linen and Soft Furnishings	10
Motor vehicles	20
Buildings	2.22

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1.4).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

**1.4 Impairment of non-financial assets**

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

**1.5 Financial assets**

**1.5.1 Classification**

The company classifies its financial assets in the loans and receivables category. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments on initial recognition and re-evaluates this designation at every reporting date.

## 1. Summary of significant accounting policies – continued

### 1.5 Financial assets - continued

#### 1.5.1 Classification - continued

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables, loans receivable and cash and cash equivalents in the statement of financial position (note 1.7 and 1.8).

#### 1.5.2 Recognition and measurement

The company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value plus transaction costs.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

#### 1.5.3 Impairment

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The company first assesses whether objective evidence of impairment exists. The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment loss. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

**1.5.3 Impairment – continued**

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in note 1.7.

**1.6 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of inventories comprises the invoiced value of goods, and in general, includes transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**1.7 Trade and other receivables**

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (note 1.5.3). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

**1.8 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

**1.9 Share capital**

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

## 1. Summary of significant accounting policies – continued

### 1.10 Financial liabilities

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value, including transaction costs. These liabilities are subsequently measured at amortised cost. The company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

### 1.11 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 1.12 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred, and subsequently measured in accordance with the policy described in note 1.10. On derecognition, any difference between the carrying amount and the redemption or settlement amount is recognised in profit or loss.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### 1.13 Offsetting financial instruments

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

### 1.14 Current and deferred tax

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

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income 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.

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

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

**1.14 Current and deferred tax – continued**

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

**1.15 Provisions**

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

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

**1.16 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is recognised upon delivery of products or performance of services, and is stated net of sales tax, returns, rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the company's activities as described below.

*(a) Sales of services in the hospitality activity*

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

*(b) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

**1.17 Institutional grants**

Grants that compensate the Company for expenses incurred are recognised in the income statement on a systematic basis in the same reporting periods in which the expenses are incurred. This compensation is disclosed in the same reporting line as the related expense.

Institutional grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them.



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

**1.17 Institutional grants - continued**

Grants that compensate the Company for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge. Capital grants are recorded as deferred income and released to the income statement over the estimated life of the related assets.

**1.18 Borrowing costs**

All borrowing costs are expensed in profit or loss and are recognised for all interest-bearing instruments on an accrual basis using the effective interest method and are charged against income without restriction.

**1.19 Dividend distribution**

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

**2. Property, plant and equipment**

	Land and buildings €	Furniture & fittings €	Plant & equipment €	Motor vehicles €	Assets under construction €	Total €
<b>At 1 January 2019</b>						
Cost	13,134,325	4,416,509	6,677,213	260,305	-	24,488,352
Accumulated depreciation	(263,890)	(2,222,110)	(4,074,649)	(134,985)	-	(6,695,634)
Net book amount	12,870,435	2,194,399	2,602,564	125,320	-	17,792,718
<b>Year ended 31 December 2019</b>						
Opening net book amount	12,870,435	2,194,399	2,602,564	125,320	-	17,792,718
Additions	745,636	431,807	28,223	127,139	274,434	1,607,239
Disposals	-	-	-	(174,350)	-	(174,350)
Depreciation charge	(243,168)	(241,794)	(409,688)	(24,868)	-	(919,518)
Depreciation released on disposals	-	-	-	29,670	-	29,670
Closing net book amount	13,372,903	2,384,412	2,221,099	82,911	274,434	18,335,759
<b>At 31 December 2019</b>						
Cost	13,879,961	4,848,316	6,705,436	213,094	274,434	25,921,241
Accumulated depreciation and impairment	(507,058)	(2,463,904)	(4,484,337)	(130,183)	-	(7,585,482)
Net book amount	<b>13,372,903</b>	<b>2,384,412</b>	<b>2,221,099</b>	<b>82,911</b>	<b>274,434</b>	<b>18,335,759</b>

**2. Property, plant and equipment - continued**

The carrying value of total assets held under a lease as at 31 December were as follows:

	2019 €	2018 €
Furniture & fittings	<b>355,270</b>	401,558

The company have assets of €18,424,478 pledged as security for bank loans as at 31 December 2019.

**3. Investment in associate**

	€
<b>Year ended 31 December 2019 and 2018</b>	
Opening and closing cost and carrying amount	<u>2</u>

The associate at 31 December 2019 and 2018 is shown below:

	Registered office	Class of shares held	Percentage of shares held	
			2019 %	2018 %
TS Consultants Limited	The Pergola, Adenau Street, Mellieha, Malta	Ordinary shares	0.2	0.2

**4. Inventories**

	2019 €	2018 €
Finished goods and goods for resale	<b>170,173</b>	134,119

**5. Trade and other receivables**

	2019 €	2018 €
<b>Non-current</b>		
Amounts due from related undertakings	2,643,581	2,618,244
Other receivables	194,801	339,008
	<b>2,838,382</b>	<b>2,957,252</b>
<b>Current</b>		
Trade receivables – gross	1,011,803	1,154,038
Provision for impairment	(18,840)	-
Trade receivables – net	992,963	1,154,038
Other receivables	2,240	50,674
Payments in advance	154,000	-
Advances to shareholders	758,383	674,841
Institutional grant receivable	244,027	244,027
Indirect taxation	-	65,358
Prepayments and accrued income	108,217	71,132
	<b>2,259,830</b>	<b>2,260,070</b>

Amounts due from related undertakings are unsecured, interest free and have no fixed date of repayment

**6. Cash and cash equivalents**

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

	2019 €	2018 €
Cash at bank and in hand	157,110	74,573
Bank overdraft (note 9)	(761,664)	(584,341)
Cash and cash equivalents	<b>(604,554)</b>	<b>(509,768)</b>

**7. Share capital**

	2019 €	2018 €
<b>Authorised</b>		
439,614 ordinary shares of €2.329373 each	<b>1,024,025</b>	1,024,025
281,650 non-cumulative preference shares of €2.329373 each	<b>656,068</b>	656,068
<b>Issued and fully paid</b>		
362,882 ordinary shares of €2.329373 each	<b>845,288</b>	845,288
281,650 ordinary shares of €2.329373 each	<b>656,068</b>	656,068
	<b>1,501,356</b>	1,501,356

**8. Deferred tax liabilities**

Deferred income taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2018: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. tax effect of 8% of the transfer value.

The movement on the deferred tax account is as follows:

	2019 €	2018 €
At beginning of year	<b>893,945</b>	450,343
<i>Recognised directly in profit or loss</i>		
Deferred income taxes on temporary differences arising on depreciation of property, plant and equipment (note 16)	<b>91,586</b>	136,624
<i>Recognised directly in equity</i>		
Deferred taxes on temporary differences arising on provisions for impairment of trade receivables (note 16)	<b>83,184</b>	306,978
<b>At end of year</b>	<b>1,068,715</b>	893,945

The balance at 31 December represents:

	2019 €	2018 €
Temporary differences arising on:		
depreciation of property, plant and equipment	<b>(327,902)</b>	(419,488)
revaluation of property, plant and equipment	<b>1,396,617</b>	1,313,433
	<b>1,068,715</b>	893,945

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months.

**8. Deferred tax liabilities – continued**

As at year end the company had unrecognised deferred tax assets amounting €497,860 in relation to unutilised investment tax credits.

**9. Borrowings**

	2019 €	2018 €
<b>Non-current</b>		
Bank loans	3,536,602	4,260,666
Finance lease	197,733	280,481
<b>Total non-current</b>	<b>3,734,335</b>	<b>4,541,147</b>
<b>Current</b>		
Bank loans	842,131	417,888
Bank overdraft (note 6)	761,664	584,341
Finance lease	82,842	71,655
<b>Total current</b>	<b>1,686,637</b>	<b>1,073,884</b>
<b>Total borrowings</b>	<b>5,420,972</b>	<b>5,615,031</b>

An amount of €148,979 (2018: €2,808,895) on bank loans representing long-term borrowings, are payable after more than 5 years.

In 2020 and 2021, the company has secured a 12-month moratoria over capital and interest payments.

**10. Institutional grants**

	2019 €	2018 €
<b>Year ended 31 December</b>		
Opening net book amount	216,010	244,027
Recognised in profit or loss	(28,017)	(28,017)
<b>Closing net book amount</b>	<b>187,993</b>	<b>216,010</b>
<b>Disclosed as</b>		
Current	28,017	28,017
Non-current	159,976	187,993
	<b>187,993</b>	<b>216,010</b>

**10. Institutional grants – continued**

During 2018, the company has been approved financial assistance in respect of ERDF SME Growth Scheme which is co-finance by the European Regional Development Fund (Council Regulation 1080/2006) and the Government of Malta to the amount of €244,027 in supply of equipment and machinery.

**11. Trade and other payables**

	2019	2018
	€	€
<b>Non-current</b>		
Amounts due to related undertakings	158,508	98,541
Other payables	904,464	1,086,533
	1,062,972	1,185,074
<b>Current</b>		
Capital creditors	673,763	1,710,204
Trade payables	1,911,261	1,865,171
Other payables	888,813	222,192
Indirect taxation	28,696	-
Accruals and deferred income	781,182	720,911
	4,283,715	4,518,478

**12. Revenue**

All the company's revenue was derived from the sale in the local market of hospitality together with the provision of other ancillary services.

	2019	2018
	€	€
Revenue from hotel accommodation	5,854,544	4,083,520
Revenue from restaurants	3,003,389	1,943,658
Revenue from spas	223,166	75,396
Other ancillary products	117,204	153,611
	9,198,303	6,256,185

**13. Profit**

Profit is stated after charging the following:

	2019	2018
	€	€
Depreciation of property, plant and equipment (note 2)	919,518	756,114
Provision for impairment of trade and other receivables	18,840	85,023
Write-off of long outstanding debts	194,803	-
Directors' emoluments	241,670	134,852
Employee benefit expense (note 14)	<b>2,299,038</b>	<b>1,710,701</b>

*Auditor's fees*

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2019 and 2018 relate to the following:

	2019	2018
	€	€
Annual statutory audit	13,000	6,500
Other advisory services	15,000	-
Tax advisory and compliance services	3,800	710
	<b>31,800</b>	<b>7,210</b>

**14. Employee benefit expense**

	2019	2018
	€	€
Wages and salaries	1,873,099	1,364,789
Social security costs	142,640	117,872
	<b>2,015,739</b>	<b>1,482,661</b>
Amounts recharged by related party	283,299	228,040
	<b>2,299,038</b>	<b>1,710,701</b>

The average number of persons employed by the company during the financial reporting year was:

	Company	
	2019	2018
Administrative	13	13
Operational	82	65
Managerial	10	6
	<b>105</b>	<b>84</b>

**15. Finance costs**

	2019 €	2018 €
Bank loans and overdrafts	340,850	195,070
Interest on finance lease	21,017	18,102
	361,867	213,172

**16. Tax expense**

	2019 €	2018 €
Current tax expense	-	34,872
Deferred tax expense (note 8)	91,586	136,624
	91,586	171,496

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

	2019 €	2018 €
Profit before tax	1,310,293	421,911
Tax on profit at 35%	458,603	147,669
Tax effect of:		
Capital allowances transferred from related party	8,704	(21,331)
Charge statement of sales of motor vehicles	-	(3,051)
Exempt income	-	(9,806)
Expenses not allowable for tax purposes	3,281	58,015
Unrecognised deferred tax in prior year	44,937	-
Investment tax credits received during the year	(921,799)	-
Movement in unrecognised deferred tax	497,860	-
Tax expense	91,586	171,496



**17. Cash generated from operations**

Reconciliation of operating profit to cash generated from operations:

	2019 €	2018 €
Operating profit	1,672,160	635,083
Adjustments for:		
Depreciation of property, plant and equipment (note 2)	919,518	756,114
Released government grant	(28,017)	(28,017)
Provision for impairment	18,840	85,023
Loss/(gain) on disposal of motor vehicles	680	(11,000)
Operating profit before working capital	2,583,181	1,437,203
Changes in working capital:		
Inventories	(36,054)	(55,418)
Trade and other receivables	100,269	(276,646)
Trade and other payables	(356,865)	2,757,164
Cash generated from operations	2,290,531	3,862,303

**18. Commitments**

**Capital commitments**

Commitments for capital expenditure related to the refurbishment of property, plant and equipment not provided for in these financial statements are as follows:

	2019 €	2018 €
Authorised but not contracted	-	-
Contracted but not provided for	790,277	-
	790,277	-

**19. Contingent liabilities**

	2019 €	2018 €
Hypothecary guarantees given in the normal course of business to related undertakings	787,276	787,276
	787,276	787,276

## 20. Events after the reporting period

### *COVID-19 implications on going concern*

For financial reporting purposes, events relating to the COVID-19 pandemic are deemed to be non-adjusting subsequent events, and accordingly the financial results and financial position of the company reported within these financial statements for the year ended 31 December 2019 have not been impacted by these events.

In March 2020, Malta suffered the outbreak of the COVID-19 pandemic. This global pandemic disrupted the economies worldwide and had a devastating impact on the global hospitality industry. Inbound tourism came to practically a complete halt during the second quarter of 2020. As the local authorities declared a public health emergency, several restrictions including the closure of hospitality and catering establishments were enforced across the Maltese Islands.

For further details please refer to Note 1.1.

### *Transfer to shares*

After year end, the company will transfer the non-cumulative preference shares having a value of €656,068 as denoted in Note 7 to the financial statements. The proceeds arising will be assigned to the shareholders and offset against balances owed by them. A redemption reserve fund will be created to the equivalent amounts from retained earnings in 2020.

## 21. Related party transactions

G3 Hospitality Limited (formerly Sunsites Limited) forms part of the G3 Group. All companies forming part of the G3 Group are related parties since these companies all have common ultimate controllers. Trading transactions between these companies typically include company interest charges, management fees and other such items which are normally encountered in a group context.

The following transactions were entered into with related parties during the financial reporting period:

	2019 €	2018 €
<b>Sale of services:</b>		
Sales to related undertakings	-	7,268
<b>Purchases of goods:</b>		
Purchase of fixed assets from related undertaking	160,364	270,000
Expenses charged by related undertakings	424,174	550,585

**21. Related party transactions – continued**

The transactions disclosed above were carried out on commercial terms. Year-end balances with related parties, arising principally from the transactions referred to previously, are set out below:

	2019	2018
	€	€
<b>Receivables:</b>		
- Amounts receivable from related undertakings	2,643,581	2,618,244
- Advances to shareholders	758,383	674,841
<b>Payables:</b>		
- Amounts due to related undertakings	158,508	98,451

The above balances are unsecured, interest free and have no fixed date of repayment.

**22. Statutory information**

G3 Hospitality Limited (formerly Sunsites Limited) is a limited liability company and is incorporated in Malta.

**23. Comparative information**

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