G3 HOSPITALITY LIMITED (formerly SUNSITES LIMITED)

Annual Report and Financial Statements
31 December 2020

Company Registration Number: C 26935

Directors' report

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

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 business

During the year under review the company registered a loss after tax of €300,761 (2019: profit of €1,218,707) on a turnover of €3,952,432 (2019: €9,198,303). At 31 December 2020, the company's current liabilities exceeded current assets by €5,641,924 (2019: €3,758,438). 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. (Note 1.1)

On 30 January 2020, the company shareholders resolved to reduce the company's issued share capital by the redemption at par of 281,650 non-cumulative preference shares for an aggregate amount of €656,068.

Results and dividends

The income statement is set out on page 14. The directors do not recommend the payment of a dividend, and propose that the balance of retained earnings amounting to €4,900,780 (2019: €5,201,541) be carried forward to the next financial year.

Outlook for the financial year 2022

During the first two quarters of 2021, as expected, the COVID-19 pandemic persisted within the global community, including the impact of new variants which has led to a rise in positive cases. The company experienced an unprecedented adverse market situation, as prevalent in the tourism industry at large, as restrictions imposed by various governments continued to persist. Such restrictions had a direct negative impact on the hotels' accommodation and food and beverage services.

Notwithstanding the high level of risk and difficulties imposed by the pandemic, management retained all employees in anticipation of returning towards a relative norm during Quarter 3 of 2021. The encouraging roll-out of vaccinations in Malta and in other countries, started giving its first signs of the industry potentially recovering in the next quarters. During Quarter 1 and Quarter 2 of 2021 vacation travel did not gain momentum and the company thus relied solely on domestic tourism. With the successful take up of vaccines against COVID-19 Malta was put on the forefront to start welcoming tourists again in encouraging numbers to our islands from the end of Quarter 2. This impacted the company positively during Quarter 3 of 2021 and management of the company are envisaging positive results for the remaining weeks of 2021.

Directors' report - continued

Outlook for the financial year 2022 - continued

The Pergola Hotel & Spa and the Solana Hotel & Spa experienced high occupancy levels during Quarter 3 and Quarter 4 which were significantly close to 2019 levels. Management had anticipated a reduction in the average room rate (ARR) for 2021 when compared to 2019 however, ARR was better than budgeted resulting in a positive impact on liquidity and renewed optimism for business in the coming months.

Accommodation revenue streams shifted almost entirely towards online bookings which provided an element of stability and timing of cashflows to the group. In parallel, the group also shifted focus to the food and beverage revenue streams by focusing on online take-outs during the periods of mandatory outlet closures and by attracting domestic traffic through honouring the redemption of government vouchers.

The decision to retain all employees, coupled with the customer experience offered by the G3 Group entities, puts us on a strong footing to ramp up occupancy as confidence in the tourism sector continues to grow. Management continues to keep a close watch on variable expenditure whilst transitioning to a different business model, stream-lining operations and through constant containment of costs.

Management has prepared granular forecast profit and loss and cash flow projections for the period to June 2022, ten-year projections using prudent assumptions, and also factoring stress-test scenarios. Considering the various measures being taken globally to restrict the transmission of the pandemic as well as the advanced roll out of several vaccinations against the COVID-19 virus, (both locally and globally), forecasts are assuming a strong recovery in business as from end of Quarter 2 of 2022, increasing momentum towards the beginning of Quarter 3, 2022.

To counter liquidity strains during the leaner months, management availed itself of all support schemes issued by the Government of Malta, mainly the Wage Supplement Scheme and financing though the Malta Development Bank Guarantee Scheme. In addition to financing secured during 2020, in 2021, management successfully secured a further €1 million bank loan under the Malta Development Bank COVID-19 Guarantee Scheme to ensure that the company has adequate levels of liquidity to be able to operate comfortably and meet commitments as and when they fall due in the coming months. Furthermore, the company has secured moratoria on interest and capital payments with local banks which expired in October 2021.

On the basis of the above, the directors look forward with optimism towards a positive turnaround during the coming challenging months and 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.

Directors’ report - continued

Financial risk management - continued

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.

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:

	2020	2019
	€	€
Trade and other receivables (Note 5)	**2,999,134**	4,835,995
Cash and cash equivalents (Note 6)	**70,079**	157,110
	3,069,213	4,993,105

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.

Directors' report - continued

Financial risk management - continued

Liquidity risk - continued

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
	€	€	€	€	€	€
At 31 December 2020						
Bank borrowings	6,062,073	6,578,384	1,664,021	1,326,196	2,118,514	1,469,653
Lease obligation	197,733	208,141	96,488	76,214	35,439	-
Trade and other payables	5,711,822	5,711,822	4,630,366	1,081,456	-	-
	11,971,628	**12,498,347**	**6,390,875**	**2,483,866**	**2,153,953**	**1,469,653**
At 31 December 2019						
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	4,283,715	1,062,972	-	-
	10,857,666	11,915,947	6,157,451	1,976,009	2,204,900	1,487,580

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.

Directors' report - continued

Principal risks and uncertainties faced by the Company - continued

(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 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.

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.

Directors' report - continued

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	Daniel Grima Director

The Pergola
Adenau Street
Mellieha
Malta

21 December 2021

Independent auditor's report

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

Report on the audit of the financial statements

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 2020, 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 34, comprise:

- the statement of financial position as at 31 December 2020;
- the income statement for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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.

Emphasis of matter

We draw attention to Note 1.1 to these financial statements that refers to the prolonged impact of COVID-19 on the hospitality industry and on the Company's operations and financial performance. This matter is considered to be of fundamental importance to the understanding of these financial statements due to its nature and significance. Our opinion is not modified in respect of this matter.

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.

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.

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 2020* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

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

Area of the *Annual Report and Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 1 to 6) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Report on other legal and regulatory requirements – continued

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

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the 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

21 December 2021

Statement of financial position

	Notes	As at 31 December 2020 €	2019 €
ASSETS			
Non-current assets			
Property, plant and equipment	2	**20,036,024**	18,335,759
Investment in associate	3	**2**	2
Trade and other receivables	5	**2,704,199**	2,838,382
Total non-current assets		**22,740,225**	21,174,143
Current assets			
Inventories	4	**113,067**	170,173
Trade and other receivables	5	**848,689**	2,259,830
Cash and cash equivalents	6	**70,079**	157,110
Total current assets		**1,031,835**	2,587,113
Total assets		**23,772,060**	23,761,256
EQUITY AND LIABILITIES			
Equity			
Share capital	7	**845,288**	1,501,356
Revaluation reserve		**4,577,075**	4,577,075
Retained earnings		**4,900,780**	5,201,541
Total equity		**10,323,143**	11,279,972

Statement of financial position - continued

	Notes	As at 31 December 2020 €	2019 €
LIABILITIES			
Non-current liabilities			
Borrowings	9	**4,699,577**	3,734,335
Deferred tax liabilities	8	**877,856**	1,068,715
Institutional grants	10	**116,269**	159,976
Trade and other payables	11	**1,081,456**	1,062,972
Tax liability		**-**	109,735
Total non-current liabilities		**6,775,158**	6,135,733
Current liabilities			
Borrowings	9	**1,560,229**	1,686,637
Trade and other payables	11	**4,630,366**	4,283,715
Institutional grants	10	**26,247**	28,017
Tax liability		**456,917**	347,182
Total current liabilities		**6,673,759**	6,345,551
Total liabilities		**13,448,917**	12,481,284
Total equity and liabilities		**23,772,060**	23,761,256

The notes on pages 17 to 34 are an integral part of these financial statements.

The financial statements on pages 12 to 34 were authorised for issue by the board on 21 December 2021 and were signed on its behalf by:

John Grima
Director

Daniel Grima
Director

Income statement

	Notes	Year ended 31 December 2020 €	2019 €
Revenue	12	**3,952,432**	9,198,303
Cost of sales		**(3,503,383)**	(5,837,162)
Gross profit		**449,049**	3,361,141
Administrative expenses	13	**(1,103,871)**	(1,716,318)
Other operating income		**480,036**	27,337
Operating (loss)/profit		**(174,786)**	1,672,160
Finance costs	15	**(316,834)**	(361,867)
(Loss)/profit before tax		**(491,620)**	1,310,293
Tax credit/(expense)	16	**190,859**	(91,586)
(Loss)/profit for the year		**(300,761)**	1,218,707

The notes on pages 17 to 34 are an integral part of these financial statements.

Statement of changes in equity

	Share capital €	Revaluation reserve €	Retained earnings €	Total €
Balance at 1 January 2019	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)
Balance at 31 December 2019	1,501,356	4,577,075	5,201,541	11,279,972
Comprehensive income				
Loss for the year	-	-	(300,761)	(300,761)
Total comprehensive income	-	-	(300,761)	(300,761)
Transactions with owners				
Redemption of non-cumulative preference shares	(656,068)	-	-	(656,068)
Total transactions with owners	(656,068)	-	-	(656,068)
Balance at 31 December 2020	**845,288**	**4,577,075**	**4,900,780**	**10,323,143**

The notes on pages 17 to 34 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2020 €	2019 €
Cash flows from operating activities			
Cash generated from operations	17	**2,046,293**	2,290,531
Interest paid		**(316,834)**	(361,867)
Income tax paid		**-**	(188,830)
Net cash generated from operating activities		**1,729,459**	1,739,834
Cash flows used in investing activities			
Purchases of property, plant and equipment	2	**(2,655,324)**	(1,607,239)
Proceeds from disposal of property, plant and equipment		**-**	144,000
Net cash used in investing activities		**(2,655,324)**	(1,463,239)
Cash flows from/(used in) financing activities			
Movement in bank loans		**1,072,518**	(299,821)
Movement in finance lease		**(82,842)**	(71,560)
Net cash from/(used in) financing activities		**989,676**	(371,381)
Net movement in cash and cash equivalents		**63,811**	(94,786)
Cash and cash equivalents at beginning of year		**(604,554)**	(509,768)
Cash and cash equivalents at end of year	6	**(540,743)**	(604,554)

The notes on pages 17 to 34 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.

During the year under review the company registered a loss before tax of €491,620 (2019: profit before tax of €1,310,293) on a turnover of €3,952,432 (2019: €9,198,303). At 31 December 2020, the company's current liabilities exceeded current assets by €5,641,924 (2019: €3,758,438).

During the first two quarters of 2021, as expected, the COVID-19 pandemic persisted within the global community, including the impact of new variants which has led to a rise in positive cases. The company experienced an unprecedented adverse market situation, as prevalent in the tourism industry at large, as restrictions imposed by various governments continued to persist. Such restrictions had a direct negative impact on the hotels' accommodation and food and beverage services.

Notwithstanding the high level of risk and difficulties imposed by the pandemic, management retained all employees in anticipation of returning towards a relative norm during Quarter 3 of 2021. The encouraging roll-out of vaccinations in Malta and in other countries, started giving its first signs of the industry potentially recovering in the next quarters. During Quarter 1 and Quarter 2 of 2021 vacation travel did not gain momentum and the company thus relied solely on domestic tourism. With the successful take up of vaccines against COVID-19, Malta was put on the forefront to start welcoming tourists again in encouraging numbers from the end of Quarter 2. This impacted the company positively during Quarter 3 of 2021 and management is envisaging positive results for the remaining weeks of 2021.

The Pergola Hotel & Spa and the Solana Hotel & Spa experienced high occupancy levels during Quarter 3 and Quarter 4 which were significantly close to 2019 levels, at times even hitting 90% occupancy. Management had anticipated a reduction in the average room rate (ARR) for 2021 when compared to 2019 however, ARR was better than budgeted resulting in a positive impact on liquidity and provided renewed optimism for business in the coming months.

1. Summary of significant accounting policies – continued

1.1 Basis of preparation - continued

Prior the Covid-19 pandemic, the company and the group had embarked on a significant refurbishment process spanning over both hotels which required an element of funding through operations and bank financing. Moreover, the group was in the process of raising finance through the capital markets with approval envisaged for Q1 2020 in order to refinance existing bank facilities and some of its short-term liabilities. However, when business came to an unprecedented halt as a result of the pandemic, the company put on hold the listing process in order to focus on short-term operational matters. Consequently, the company experienced liquidity strains and management was forced to mitigate the reduced cash inflows by extending the refurbishment period and cost minimisation measures. Management also sought alternative financing required to see the full refurbishment phase come to a close. With economic recovery on the horizon, the group will be reaching out to the financial markets in the coming weeks with a view to raise financing in order to conclude the refurbishment phase and the acquisition of parcels of land which are currently under a promise of sale agreement, paving way for future growth.

Management has prepared granular forecast profit and loss and cash flow projections for the period to June 2022. Management has also prepared five-year projections using prudent assumptions, and also factoring stress-test scenarios. Projections consider the advanced roll out of vaccinations against the COVID-19 virus, (both locally and globally), and assume a strong recovery in business as from end of Quarter 2 of 2022 with increasing momentum towards the beginning of Quarter 3, 2022.

To counter liquidity strains during the leaner months, management availed itself of all support schemes issued by the Government of Malta, mainly the Wage Supplement Scheme and financing though the Malta Development Bank Guarantee Scheme. In addition to financing secured during 2020, in 2021 management successfully secured a further €1 million bank loan under the Malta Development Bank COVID-19 Guarantee Scheme to ensure that the company has adequate levels of liquidity to be able to operate comfortably and meet commitments as and when they fall due. Furthermore, the company has secured moratoria on interest and capital payments with local banks which expired in October 2021.

Projected cashflows factoring the above indicate that the company will have positive liquidity throughout the coming twelve months and unless there is a significant downturn in business, management and the board are confident that working capital requirements are adequately structured, even if additional financing through the capital markets does not materialise. In this regard, as an additional measure, 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 and have provided written commitment to inject up to €0.5 million of liquidity should the need arise. With the present facilities and the commitment of the shareholders, projections indicate a minimum headroom of €1 million.

On the basis of the above, the directors look forward with optimism towards a positive turnaround during the coming challenging months and remain confident that these financial statements can continue being prepared on a going concern basis.

1. Summary of significant accounting policies – continued

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.

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.

1. Summary of significant accounting policies – continued

1.3 Property, plant and equipment – continued

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.

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. Summary of significant accounting policies – continued

1.5 Financial assets - continued

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.

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. Summary of significant accounting policies – continued

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.

1.10 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. Summary of significant accounting policies – continued

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.

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. Summary of significant accounting policies - continued

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.

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 €
At 1 January 2020						
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	13,372,903	2,384,412	2,221,099	82,911	274,434	18,335,759
Year ended 31 December 2020						
Opening net book amount	13,372,903	2,384,412	2,221,099	82,911	274,434	18,335,759
Additions	1,554,829	252,766	788,931	-	58,798	2,655,324
Commissioned assets	222,005	28,192	24,237	-	(274,434)	-
Disposals	-	-	-	(18,700)	-	(18,700)
Depreciation charge	(238,960)	(239,222)	(467,649)	(9,228)	-	(955,059)
Depreciation released on disposals	-	-	-	18,700	-	18,700
Closing net book amount	**14,910,777**	**2,426,148**	**2,566,618**	**73,683**	**58,798**	**20,036,024**
At 31 December 2020						
Cost	15,656,795	5,129,274	7,518,604	194,394	58,798	28,557,865
Accumulated depreciation and impairment	(746,018)	(2,703,126)	(4,951,986)	(120,711)	-	(8,521,841)
Net book amount	**14,910,777**	**2,426,148**	**2,566,618**	**73,683**	**58,798**	**20,036,024**

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

	2020 €	2019 €
Furniture & fittings	**308,981**	355,270

The company has assets of €19,962,341 pledged as security for bank loans as at 31 December 2020.

The directors have considered the impact that COVID-19 may have on the values of the company's property, plant and equipment during 2021 and beyond. The directors are comfortable that projected revenues and profitability of the company adequately support the carrying amount of property, plant and equipment as at 31 December 2020. The carrying amount of property, plant and equipment, considering strains driven by COVID-19, does not materially differ from fair values determined using value-in-use calculations.

3. Investment in associate

	€
Year ended 31 December 2020 and 2019	
Opening and closing cost and carrying amount	**2**

The associate at 31 December 2020 and 2019 is shown below:

	Registered office	Class of shares held	Percentage of shares held 2020 %	2019 %
T.S. Consultants Limited	The Pergola, Adenau Street, Mellieha, Malta	Ordinary shares	**0.2**	0.2

4. Inventories

	2020 €	2019 €
Finished goods and goods for resale	**113,067**	170,173

5. Trade and other receivables

	2020 €	2019 €
Non-current		
Amounts due from related undertakings	**2,482,249**	2,643,581
Other receivables	**-**	194,801
Payment in advance	**221,950**	-
	2,704,199	2,838,382
Current		
Trade receivables – gross	**470,205**	1,011,803
Provision for impairment	**(14,892)**	(18,840)
Trade receivables – net	**455,313**	992,963
Other receivables	**-**	2,240
Payments in advance	**206,421**	154,000
Advances to shareholders	**-**	758,383
Institutional grant receivable	**-**	244,027
Indirect taxation	**61,572**	-
Prepayments and accrued income	**125,383**	108,217
	848,689	2,259,830

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:

	2020	2019
	€	€
Cash at bank and in hand	**70,079**	157,110
Bank overdraft (note 9)	**(610,822)**	(761,664)
Cash and cash equivalents	**(540,743)**	(604,554)

7. Share capital

	2020	2019
	€	€
Authorised		
439,614 ordinary shares of €2.329373 each	**1,024,025**	1,024,025
281,650 non-cumulative preference shares of €2.329373 each	**-**	656,068
Issued and fully paid		
362,882 ordinary shares of €2.329373 each	**845,288**	845,288
281,650 non-cumulative preference shares of €2.329373 each	**-**	656,068
	845,288	1,501,356

On 30 January 2020, the company shareholders resolved to reduce the company's issued share capital by the redemption at par of 281,650 non-cumulative preference shares for an aggregate amount of €656,068.

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% (2019: 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.

8. Deferred tax liabilities – continued

The movement on the deferred tax account is as follows:

	2020	2019
	€	€
At beginning of year	**1,068,715**	893,945
Recognised directly in profit or loss		
Deferred income taxes on temporary differences arising on depreciation of property, plant and equipment (note 16)	**(185,646)**	91,586
Deferred income taxes on temporary differences arising on provisions for impairment of trade and other receivables (note 16)	**(5,213)**	-
Recognised directly in equity		
Deferred taxes on temporary differences arising on revaluation of property, plant and equipment (note 16)	**-**	83,184
At end of year	**877,856**	1,068,715

The balance at 31 December represents:

	2020	2019
	€	€
Temporary differences arising on:		
depreciation of property, plant and equipment	**(513,548)**	(327,902)
revaluation of property, plant and equipment	**1,396,617**	1,396,617
provision for impairment of trade and other receivables	**(5,213)**	-
	877,856	1,068,715

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

As at year end the company had unrecognised deferred tax assets amounting €661,017 in relation to unutilised investment tax credits.

9. Borrowings

	2020	2019
	€	€
Non-current		
Bank loans	**4,590,510**	3,536,602
Finance lease	**109,067**	197,733
Total non-current	**4,699,577**	3,734,335
Current		
Bank loans	**860,741**	842,131
Bank overdraft (note 6)	**610,822**	761,664
Finance lease	**88,666**	82,842
Total current	**1,560,229**	1,686,637
Total borrowings	**6,259,806**	5,420,972

An amount of €1,469,653 (2019: €1,487,580) on bank loans representing long-term borrowings, are payable after more than 5 years.

The company has secured moratoria over capital and interest payments until October 2021.

During 2020, the company successfully applied for a loan through the COVID-19 Guarantee Scheme supported by the Malta Development Bank (MDB) which amounted to €2,000,000. This loan is subject to interest of 2.50%.

10. Institutional grants

	2020	2019
	€	€
Year ended 31 December		
Opening net book amount	**187,993**	216,010
Adjustment to the grant receivable in line with revised terms	**(19,230)**	-
Recognised in profit or loss	**(26,247)**	(28,017)
Closing net book amount	**142,516**	187,993
Disclosed as		
Current	**26,247**	28,017
Non-current	**116,269**	159,976
	142,516	187,993

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

	2020	2019
	€	€
Non-current		
Amounts due to related undertakings	**211,725**	158,508
Amounts due to shareholders	**3,451**	-
Other payables	**866,280**	904,464
	1,081,456	1,062,972
Current		
Capital creditors	**665,359**	673,763
Trade payables	**2,055,673**	1,911,261
Other payables	**1,029,481**	888,813
Indirect taxation	**-**	28,696
Accruals and deferred income	**879,853**	781,182
	4,630,366	4,283,715

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.

	2020	2019
	€	€
Revenue from hotel accommodation	**2,309,438**	5,854,544
Revenue from restaurants	**1,488,887**	3,003,389
Revenue from spas	**150,186**	223,166
Other ancillary products	**3,921**	117,204
	3,952,432	9,198,303

13. Profit

Profit is stated after charging the following:

	2020	2019
	€	€
Depreciation of property, plant and equipment (note 2)	**955,059**	919,518
Movement in provision for impairment of trade and other receivables	**(3,948)**	18,840
Write-off of long outstanding debts	**189,625**	194,803
Directors' emoluments	**226,051**	241,670
Employee benefit expense (note 14)	**1,235,975**	2,299,038

13. **Profit** - continued

Auditor's fees

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

	2020 €	2019 €
Annual statutory audit	**16,070**	13,000
Other advisory services	**68,000**	15,000
Tax advisory and compliance services	**10,000**	3,800
	94,070	31,800

14. Employee benefit expense

	2020 €	2019 €
Wages and salaries	**975,983**	1,873,099
Social security costs	**158,501**	142,640
	1,134,484	2,015,739
Amounts recharged by related party	**101,491**	283,299
	1,235,975	2,299,038

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

	2020	2019
Administrative	**10**	13
Operational	**104**	82
Managerial	**12**	10
	126	105

Wages and salaries are presented net of wage supplements from the Government amounting to €918,004 in view of the COVID-19 pandemic. Grants related to income are presented as a deduction in reporting the related expenses.

15. Finance costs

	2020 €	2019 €
Bank loans and overdrafts	**307,099**	340,850
Interest on finance lease	**9,735**	21,017
	316,834	361,867

16. Tax (credit)/expense

	2020 €	2019 €
Current tax expense	**-**	-
Deferred tax (credit)/expense (note 8)	**(190,859)**	91,586
	(190,859)	91,586

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

	2020 €	2019 €
(Loss)/profit before tax	**(491,620)**	1,310,293
Tax on (loss)/profit at 35%	**(172,067)**	458,603
Tax effect of:		
Capital allowances transferred from related party	**-**	8,704
Rent maintenance allowance	**(775)**	-
Exempt income	**(12,686)**	-
Expenses not allowable for tax purposes	**1,268**	3,281
Unrecognised deferred tax in prior year	**(6,599)**	44,937
Investment tax credits received during the year	**-**	(921,799)
Movement in unrecognised deferred tax	**-**	497,860
Tax (credit)/expense	**(190,859)**	91,586

17. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2020 €	2019 €
Operating (loss)/profit	**(174,786)**	1,672,160
Adjustments for:		
Depreciation of property, plant and equipment (note 2)	**955,059**	919,518
Released government grant	**(45,477)**	(28,017)
Movement in provision for impairment of trade and other receivables	**(3,948)**	18,840
Loss on disposal of motor vehicles	**-**	680
Operating profit before working capital	**730,848**	2,583,181
Changes in working capital:		
Inventories	**57,106**	(36,054)
Trade and other receivables	**1,549,272**	100,269
Trade and other payables	**(290,933)**	(356,865)
Cash generated from operations	**2,046,293**	2,290,531

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:

	2020	2019
	€	€
Authorised but not contracted	**-**	-
Contracted but not provided for	**-**	790,277
	-	790,277

19. Contingent liabilities

	2020	2019
	€	€
Hypothecary guarantees given in the normal course of business to related undertakings	**787,276**	787,276

20. 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:

	2020	2019
	€	€
Purchases of goods:		
Purchase of fixed assets from related undertaking	**212,768**	160,364
Expenses charged by related undertakings	**214,420**	424,174

20. 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:

	2020	2019
	€	€
Receivables:		
- Amounts receivable from related undertakings	**2,482,249**	2,643,581
- Advances to shareholders	**-**	758,383
Payables:		
- Amounts due to shareholders	**3,451**	-
- Amounts due to related undertakings	**211,725**	158,508

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

21. Statutory information

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

22. 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.