



143, The Strand, Gzira. Malta

COMPANY ANNOUNCEMENT

Stivala Group Finance p.l.c. (the "Company")

Approval of Annual Report and Financial Statements 2021

| | |
|----------------------|---------------|
| Date of Announcement | 29 April 2022 |
| Reference | STV41/2022 |

Company Announcement issued by Stivala Group Finance p.l.c. (the "Company") pursuant to the Capital Markets Rules issued by the Malta Financial Services Authority.

QUOTE

The Board of Directors of Stivala Group Finance plc hereby announces that during the meeting of its Board of Directors held on the 28th of April 2022, the Company's annual report and financial statements for the financial year ended 31st December 2021 were approved and submitted to the shareholders for their approval.

During the Annual General Meeting ("AGM") which took place on the same day, the 28th April 2022:

- a. The Company's annual report and financial statements were approved;
- b. The Company has approved the reappointment of HLB CA as the company's auditors and authorised the Board of Directors to determine their remuneration;

The AGM also approved the following Board composition:

Company Directors:

Mr. Ivan Stivala – appointed Chairman as from 1st May 2022
Mr. Michael Stivala
Mr. Martin Stivala
Dr. Ann Marie Agius
Mr. Francis Gouder
Mr. Jean Paul Debono

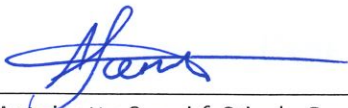
Company Secretary:

Ms. Antoinette Scerri

The aforementioned Annual Report and Financial Statements, as approved, are available for viewing and download in the Investors' Section of the Company's website at https://stivalagroup.com/?page_id=21. Attached to this Company Announcement is a Directors' Declaration on ESEF Annual Financial Reports.

UNQUOTE

By order of the Board



Antoinette Scerri f: Stivala Group Finance PLC
Company Secretary
29th April 2022

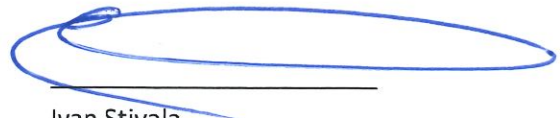
**DIRECTORS' DECLARATION
ON ESEF ANNUAL FINANCIAL REPORTS**

We, the undersigned Michael Stivala (499374M) and Ivan Stivala (352278M), in our capacity as Directors of Stivala Group Finance p.l.c, a company registered under the Laws of Malta with company registration number C82218, (hereinafter the "Company") , hereby certify:

- i. That the Annual Financial Report for the year ended 31st December 2021 has been approved by the Board of Directors of the Company and is hereby being made available to the public.
- ii. That the Annual Financial Report has been prepared in terms of the applicable rules and regulations, including the Commission Delegated Regulation on the European Single Electronic Format ("ESEF")¹ and the Capital Markets Rules².
- iii. That the Audit Report on the ESEF Annual Financial Report is an exact copy of the original signed by the auditor and that no alterations have been made to the audited elements of the Annual Financial Report including the annual financial statements.
- iv. That the Annual Financial Report shall serve as the official document for the purposes of the Capital Markets Rules and, where the issuer is registered in Malta, the Companies Act (Chapter 386 of the Laws of Malta).

A blue ink signature of Michael Stivala, consisting of a large, loopy oval shape with a smaller loop on the left side.

Michael Stivala
Director

A blue ink signature of Ivan Stivala, consisting of a large, loopy oval shape with a smaller loop on the left side.

Ivan Stivala
Director

¹ Commission Delegated Regulation 2019/815 on the European Single Electronic Format, as may be further amended from time to time.

² Capital Markets Rules as issued by the Malta Financial Services Authority (MFSA).

Stivala Group Finance p.l.c.

Annual Report and Consolidated Financial Statements for the year ended 31 December 2021

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Stivala Group Finance p.l.c.

Chairman's Statement for the year ended 31 December 2021

Performance

While the pandemic has adversely impacted our hospitality business, I am encouraged by the immediate increase in travel demand experienced during 2021 following the easing of travel restrictions by source countries. There are signs all around us that people are adapting to a "new normal" – and certainly the return of travel is one of the best indicators. In 2021, our hospitality operations generated €8.6 million in revenue, a 57% surge over 2020, while gross profit increased by 169% to €5.3 million, though still 36% below pre-pandemic levels.

The property letting division of the Group remained strong throughout 2021 at almost full occupancy. In this regard, revenue generated by this division amounted to €6.2 million, being marginally higher on a comparable basis (2020: €6.1 million). I am pleased to report that the newly developed ST Balluta Business Centre in Sliema, comprising 8 floors of office space, has been fully leased.

Principal Divestment of Major Shareholder

On 26 April 2021, one of the major shareholders, Carlo Stivala, relinquished his 25% ownership interest in the Stivala Group and in consideration, €60.0 million of immovable property owned by the Group was transferred to a company ultimately owned by Carlo Stivala and his descendants. The divestment process was concluded smoothly and as planned. We wish Carlo all the very best in his future endeavours.

Consequently, the consolidated statement of profit or loss and other comprehensive income for 2021 reflects a net loss on major shareholder's divestiture of €21.1 million which has been mitigated by an uplift in fair value of investment properties of €30.0 million and buildings under property, plant and equipment of €30.3 million (net of deferred tax), respectively.

The Group's business model remains strong with a property portfolio valued at €331 million (2020: €325 million). Net borrowings as at 31 December 2021 amounted to €85.2 million compared to €83.4 million a year earlier.

Development Projects

The Group has continued to position itself for growth by investing in its properties. During 2021, the Group was involved in the following development projects:

ST Tower, Ta' Xbiex

Development works are currently underway for the construction of a 15-floor commercial building in Testaferrata Street, Ta' Xbiex. On completion, the property will comprise 14 floors of rentable office space and a top floor earmarked for catering purposes. The Group expects to complete the project by the end of 2024 at an estimated cost of €14.5 million.

Ponsomby Hotel and School, Gzira

The Group is presently developing a hotel and school over a site area measuring circa 400m². This project is scheduled to be completed by Q1 2023 at an estimated cost of circa €7.9 million. The proposed property will comprise a school as to the initial 4 floors and an 82-room hotel from the 5th floor to the 10th floor. The roof level will include a pool and decking area. The afore-mentioned school is set to form part of an Italian-based higher education institution specialising in osteopathy and physiotherapy.

Stivala Group Finance p.l.c.

Chairman's Statement for the year ended 31 December 2021

Novotel Hotel (redevelopment of the Blubay Suites & Apartments)

The Group has building permits in hand for the redevelopment of the 54-room Blubay Block located in Ponsomby Street, Gzira. Works are scheduled to commence in Q4 2022 and will extend for a period of circa 30 months at a cost of approximately €15 million. The plan is to develop an 11-floor property having 292 rooms, along with underground parking and ancillary facilities such as an indoor pool and fitness area, as well as a pool and deck area at roof level. Furthermore, the Group has entered into a franchise agreement for the purposes of operating the proposed 4-star hotel under the "Novotel" brand name.

Movenpick hotel (redevelopment of the Sliema Hotel)

The Group is planning to demolish the 70-room Sliema Hotel and develop a 165-room 5-star hotel at an estimated cost of €10.5 million. Furthermore, the Group has entered into a franchise agreement to operate the said hotel under the "Movenpick" brand name. Closure of the Sliema Hotel will take place after the new Novotel Hotel is completed and fully operational.

Residential units for resale

The Group is developing a property in Sqaq Dun Andrea, Msida which is presently in shell form. On completion, the project will consist of 54 residential units spread over 4 adjacent blocks.

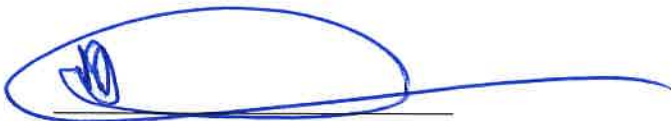
Corporate Social Responsibility

Refer to page 17 for the Group's commitment to corporate social responsibility.

Looking Forward

As we look out over the next several years, we believe our property portfolio is poised to capitalise on major trends we see impacting the Group's business activities. Focusing on hospitality, we believe firmly in the resilience of travel which lead us to be optimistic about the future of our Group and the tourism industry in Malta.

I would like to take this opportunity to thank all our employees, business partners, shareholders, our Board of Directors and other stakeholders for their continued support.



Mr. Michael Stivala
Chairman/CEO and Director

Stivala Group Finance p.l.c.

Directors' Report for the year ended 31 December 2021

The Board of Directors are hereby presenting their annual report together with the audited financial statements of the Group and the Company for the year ended 31 December 2021.

Principal activities

The principal activity of the Company is to act as a finance and investment company, in particular the financing or re-financing of the funding requirements of related companies within the Stivala Group.

The principal activities of the Group relate to the property letting, development and hospitality. The Group owns and leases a number of commercial, residential and office properties. These include apartments and various hotels namely Bayview Hotel, Blubay Apartments, Blubay Suites, Sliema Hotel and Azur Hotel, majority of which are situated in Gzira and Sliema.

Review of business

The Company registered a loss before tax of €21,182,263 during the year ended 31 December 2021 (2020: profit before tax of €1,020,427).

The Group registered a consolidated profit before tax of €4,395,177 during the year ended 31 December 2021 (2020: €27,472,088).

Given the Group's and Company's financing structure and the positive net assets position of the Group and the Company at the end of the financial year, the Directors consider the Group's and Company's state of affairs as at the close of the financial year to be satisfactory.

Performance

The Company's revenue amounting to €41,142,087 (2020: €3,458,801) is derived from dividends receivable from its subsidiary. The major cost of the Company is the bond interest payable amounting to €2,347,500 (2020: €2,347,500). The Company registered a loss after taxation of €20,380,454 (2020: profit after taxation of €200,000) and as at year end, its total equity amounted to net liability of €18,751,247 (2020: net assets of €1,674,207).

The Group's revenue for the year amounts to €15,065,293 (2020: €11,748,502). The main revenue streams of the group are hospitality and rental income. The rental income is slightly higher compared with prior year while a significant 100% increase was noted for the hospitality industry due to gradual easing of covid-19 restrictions. After deducting the main expenses being the cost of sales and distribution costs related to hospitality as well as administrative expenses, the Group incurred an operating loss of €1,178,984 (2020: registered an operating profit of €1,257,424).

On the other hand, the increase in the Group's total comprehensive income for the year is primarily due to increasing change in fair value of investment property and property, plant and equipment.

In prior year, the Group commissioned Falzon and Cutajar - Architects and Civil Engineers to carry out a thorough valuation exercise of the properties owned by the Group. In current year, the directors assessed the valuation of their properties at year end as part of the annual reassessment based on the market values of similar properties around the area. This has resulted in the reporting of a change in fair value of investment property and property plant and equipment of €27,570,497 and €30,355,009, net of deferred tax in the statement of profit or loss and other comprehensive income, respectively.

The Bond Issue

By virtue of the prospectus dated 25 September 2017 and 18 July 2019, the Company issued 45,000,000 4% secured bonds with a face value of €100 each, redeemable at par on 18 October 2027 and 15,000,000 3.65% secured bonds with a face value of €100 each, redeemable at par on 29 July 2029, respectively. The funds received were intended for further purchase and development of its properties, in line with the Group's vision of continuous business expansion.

Stivala Group Finance p.l.c.

Directors' Report for the year ended 31 December 2021

Principal risks and uncertainties

The Directors are aware of the various risks faced by the Group as a result of its diversified business lines primarily on hospitality and property development and letting. A number of measures are in place to ensure that such risks and uncertainties are maintained at acceptable levels and are in line with the Group's risk strategy of sustainable, long-term growth and profitability.

The key risks faced by the group include credit risk, strategic risk, operational risk, liquidity risk and legislative risks. Together with other risks and uncertainties inherent in the business, these require strong capital management as safeguard against competent authority requirements and unfavourable events. Given such, the Group regularly reviews operational and capital targets against actual and forecast business levels to minimise such risks if necessary, to the most considerable level possible in the interest of institutional stakeholders.

The main types of risk types are outlined hereunder:

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities and from its financing activities including deposits with banks.

Customer credit risk is managed by the Group's management subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on each customer's credit limits. Outstanding customer receivables are regularly monitored. An impairment analysis is performed on each reporting date in accordance with the guidelines set in IFRS 9 Financial Instruments Standard. The Group exercises a prudent credit control policy, and accordingly, it is not subject to any significant exposure or concentration of credit risk. The Group banks only with local financial institutions with high quality standard or rating. The Group's operations are principally carried out in Malta and most of the Group's revenue originates from clients based in Malta.

Strategic risk

This risk relates to the value of Group's assets and local property market in general.

The Group has strict guidelines and engages competent professionals on quality and valuation of its investment properties and property, plant and equipment. The Group's properties are rented out to various tenants, except for those sites where development is in progress. The Group currently has lease agreements with in-substance fixed rental receivables in place after the non-cancellable period, which will protect the Group from unforeseen circumstances and inflation. Although COVID-19 had an impact on deferral of rental collections from some of its tenants, the Group ensures to implement sound capital management policies and flexible cash flow as disclosed below under liquidity risk, to mitigate such risk.

Operational risk

Operational risk maybe defined as the risk of losses arising from defects or failures in its internal processes, people, systems or external events including risks related to fraud, technological and conduct risk.

Operational risk is inherent in all processes, systems and activities of the Group. As such, all employees are responsible for managing and controlling operational risks associated with their own activities and business processes where they are involved. The Group, in terms of operational risk management and control, continues to identify, evaluate and mitigate such risks, regardless if these actually occurred or not. The Group also assesses at each reporting date (unless immediate evaluation is necessary) areas of concern for improvement to minimise such operational risks, arising due to the volatile results of each year's operations.

Stivala Group Finance p.l.c.

Directors' Report for the year ended 31 December 2021

Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations.

The Group is heavily dependent on the operations of the hotels it owns and the rental market. It regularly reviews the financial performance of its revenue streams in order to ensure that there is sufficient liquidity to sustain its operations. Given the evolving nature of COVID-19, the Group's immediate cash flow will be stretched. Through arrangements with bankers, the Group is seeking to smoothen the impact over this difficult period. Cost cut practices have also been continuously implemented.

Legislative risks

The Group is governed by a number of laws and regulations. Failure to comply could have financial and reputational implications and could materially affect the group's ability to operate. The Group has embedded operating policies and procedures to ensure compliance with existing legislation.

The Group may also be subject to reputation and litigation risk as a result of its course of actions and operations. This may pose significant effect on the Group's and the various stakeholders' wellbeing, if ignored. The Board of Directors exercises the highest levels of ethical behaviour possible through a number of appropriate policies, procedures and controls, implemented on its day to day operations.

The hotel industry globally is marked by strong and increasing consolidation and many of the Group's current and potential competitors may thus have bigger name recognition, larger customer bases and greater financial and other resources than the companies within the Group. In response to this, the Group and the Company's hotels have undergone renovations that would cater the taste of the majority, still being offered at the most affordable cost.

Pandemics

The outbreak of nation or world-wide pandemics such as Covid-19 may hinder occupational health and safety of the employees and heavily disrupt normal business operations. Such risks are additional to the potential economic impact on customers and the extent of recovery following a possible outbreak. Taking advantage of the lessons learnt from Covid-19 during this past two years, by quickly reacting to health authorities advice and constantly implementing additional measures, the Group managed to maintain operations. The Group's constant proactive approach to such adversity, will ensure that such risk is mitigated.

Financial risk management and exposures

Note 32 Financial Risk Management to these financial statements provide details in connection with the Company's use of financial instruments, its financial risk management objectives and policies and the financial risks to which it is exposed.

Events after reporting period

All events occurring after the balance sheet date until the date of authorisation for issue of these financial statements and that are relevant for valuation and measurement as at 31 December 2021 for the Group and the Company are included in these consolidated financial statements.

Stivala Group Finance p.l.c.

Directors' Report for the year ended 31 December 2021

On another note, the geopolitical situation in Eastern Europe intensified on February 24, 2022, with Russia's invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed. In addition to the human toll and impact of the events on entities that have operations in Russia, Ukraine, or neighboring countries (e.g., Belarus) or that conduct business with their counterparties, the war is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption.

The Directors are closely monitoring the possible impact on its operations and financial performance and are committed to take all necessary steps to mitigate the impact. This has no impact on the financial statements of the Group and the Company as at date of approval.

Future developments

It is very uncertain to anticipate the political, economic and health happening worldwide including the Russia-Ukraine war and covid-19 pandemic as it continues to evolve. Despite these uncertainties, the Group started 2022 with an upward trend on its hospitality revenue exceeding its budgets by approximately 100% while the property letting/development sector continues to operate normally.

The strong upturn in 2022 proved that the customers continue to trust the Group. While major renovations took place in 2021 for ST Bayview Hotel, the Group has other projects to refurbish and rebrand other properties within the Group. These include development projects for ST Tower, Ponsonby Hotel and School, Dun Andrea, Movenpick Hotel and Novotel Hotel. All of these are part of the Group's ultimate objective to focus on creating, acquiring and enhancing its operations to create shareholder value over the medium term to ensure the clients get the best possible service and value. The Group remains to have an optimistic outlook for 2022.

Dividends and Reserves

The results for the year are set in the Consolidated Statement of Comprehensive Income on page 29 and 30.

The Board of Directors does not propose the payment of dividend in order to further strengthen the financial position of the Group. Retained profits carried forward at the reporting date amounted to €5,293,934 (2020: €25,639,068) for the Group and accumulated losses of €19,006,247 (2020: retained profits of €1,374,207) for the Company.

Directors

The Directors of the Company since the beginning of the year up to the date of this report were:

Mr. Michael Stivala - Chairman/CEO and Executive Director

Mr. Ivan Stivala - Executive Director

Mr. Martin John Stivala - Executive Director

Dr. Ann Marie Agius - Non-Executive Director

Mr. Francis Gouder - Non-Executive Director

Mr. Jean Paul Debono - Non-Executive Director (appointed on 21 April 2022)

Mr. Mark Bamber - Non-Executive Director (appointed on 1 March 2021 and resigned on 21 April 2022)

Mr. Joseph Brincat - Non-Executive Director (resigned on 30 April 2021)

Company Secretary

Ms. Antoinette Scerri

Stivala Group Finance p.l.c.

Directors' Report

for the year ended 31 December 2021

Remuneration committee and corporate governance

During the period under review, the functions of the Remuneration Committee were carried out by the Board of Directors in view of the fact that the remuneration of Directors is not performance related.

Statement of Directors' Responsibilities for the financial statements

The Directors are required by the Maltese Companies Act, 1995 (Cap.386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU 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 such financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying consistently appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- 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 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, 1995 (Cap. 386). They are also responsible for safeguarding the assets of the Group and the parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Stivala Group Finance p.l.c. for the year ended 31 December 2021 are included in the Annual Report 2021, which is published in hard-copy printed form and is available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Additionally, the directors are responsible for:

- the preparation and publication of the Annual Financial Report, including the consolidated financial statements and the relevant tagging requirements therein, as required by Capital Markets Rule 5.56A, in accordance with the requirements of ESEF RTS,
- designing, implementin, and maintaining internal controls relevant to the preparation of the Annual Financial Report that is free from material non-compliance with the requirements of the ESEF RTS, whether due to fraud or error, and consequently, for ensuring the accurate transfer of the information in the Annual Financial Report into a single electronic reporting format.

Statement of responsibility pursuant to the Capital Market Rules issued by Malta Financial Services Authority

The Directors confirm that in accordance with the Capital Market Rules, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2021, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Directors' Report includes a fair review of the performance of the business and the financial position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group and the Company face.

Stivala Group Finance p.l.c.

Directors' Report for the year ended 31 December 2021

Going concern – Capital Markets Rules 5.62

Having made an appropriate assessment of going concern as discussed in Note 2.1 to these financial statements, the financial statements of the Group and the Company are prepared on a going concern basis. The Directors regard that pursuant to Capital Markets Rule 5.62, this is appropriate, after due consideration of the Group's and Company's financial support from the shareholder and ultimate beneficial owners. Specifically, the Directors have prepared financial and capital plans for the next eleven years which show that the Group and the Company is in a position to continue operating as a going concern for the foreseeable future. These plans take into account risks and uncertainties facing the Group and the Company, including but not limited to, the effect of the completion of divestment of major shareholder's interest in the Group and the Company, as announced last 27 April 2021.

Shareholder register information pursuant to Capital Market Rule 5.64

- Structure of Capital

The Company has an authorised share capital of €500,000 Ordinary Shares of €1 each and issued and fully paid up share capital of €255,000 with a nominal value of €1 each. Each Ordinary Share is entitled to one vote. The Ordinary Shares in the Company shall rank pari passu for all intents and purposes at law. There are currently no different classes of Ordinary Shares in the Company and accordingly all Ordinary Shares have the same rights, voting rights and entitlements in connection with any distribution whether of dividends or capital.

- Principal divestment of major shareholder

Pursuant to the Company announcement issued by Stivala Group Finance p.l.c ('the Company') on 27 April 2021, one of the major shareholders Mr. Carlo Stivala, has resigned from the board of directors of all companies forming part of the Stivala Group of which he was a director. The share capital of the Company has been reduced by €75,000, made up of €75,000 ordinary shares of €1 each, equivalent to 25% of the issued share capital of the Company. As a result, the indirect shareholding in the Company of each of Martin Stivala, Ivan Stivala and Michael Stivala and their respective descendants (the "ultimate beneficial owners") has increased from 25% to 33.33% of the Company's issued share capital.

Furthermore, the resultant issued share capital amounting to €225,000 has been increased by €30,000 to amount to €255,000 in accordance with Capital Market Rule 3.17. The afore-stated €30,000 ordinary shares of €1 each have been subscribed to as fully paid-up shares by Carmelo Stivala Trustee Limited on behalf of each of the ultimate beneficial owners. Information on other financial impact of the shareholder's divestiture is disclosed further in note 22.

- Appointment and removal of Directors

Article 55.1A of the Company's Memorandum and Articles of Association states that a shareholder holding not less than 25% of the issued share capital of the Company having voting rights or a number of shareholders who between them hold not less than 25% of the issued share capital of the Company having voting rights ("a qualifying shareholder") shall be entitled to appoint (1) director for every such qualifying shareholding, by letter addressed to the Company. Any shareholder who does not qualify to appoint directors in terms of the provisions of paragraph (a) of this sub-article 55.1, and who has not aggregated his holdings with those of other shareholders for the purposes of appointing a director(s) pursuant thereto shall be entitled to participate and vote in an election of directors to take place once in every year at the Annual General Meeting of the Company.

Stivala Group Finance p.l.c.

Directors' Report

for the year ended 31 December 2021

The Chairman shall be appointed by the directors at their first meeting following the annual general meeting in each year, save for the first chairman who shall retain the post of chairman until such time as he resigns or is earlier removed in accordance with the provisions of the articles regulating the removal of directors.

Any director may be removed at any time by the Company in general meeting. The director who is to be removed shall be given opportunity of making representations to the general meeting at which a resolution for his removal is to be taken.

- Powers of Directors

Subject to applicable provisions of the Articles, the directors may exercise all the powers of the Company to borrow money and to hypothecate or charge its undertaking, property and uncalled capital or any part thereof, and to issue equity securities and debt securities on such terms, in such manner and for such consideration as they think fit, whether outright or as security for any debt, liability or obligation of the Company or of any third party. Provided that the members in general meeting may, from time to time, restrict and limit the aforesaid powers of the directors, in such manner as they may deem appropriate.

- General Meetings

Subject to the provisions of the Act, the Company shall in each year hold an annual general meeting at such time and place as the directors shall appoint. All general meetings other than the annual general meetings shall be called extraordinary general meetings. The Directors may convene an extraordinary general meeting whenever they think fit. Extraordinary general meetings may also be convened on such requisition, or in default, may be convened by such requisitionists, as provided by the Act. If at any time, there are not in Malta sufficient directors capable of acting to form a quorum, any director, or any two members of the Company, may convene an extraordinary general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors.

A general meeting of the Company shall be deemed not to have been duly convened unless at least 14 (fourteen) days notice has been given in writing, to all those members entitled to receive such notice. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it was given, and shall specify the place, the day and the hour of the meeting, and in case of extraordinary business or special business, the general nature of the business, and shall be accompanied by a statement regarding the effect and scope of any proposed resolution in respect of such extraordinary business.

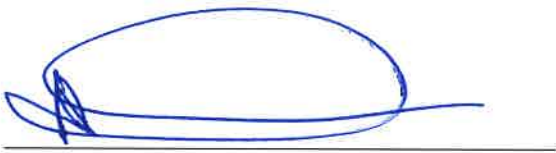
Stivala Group Finance p.l.c.

Directors' Report for the year ended 31 December 2021

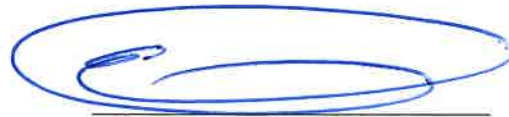
- Auditors

Pursuant to the Company's statutory obligations in terms of Companies Act and Capital Market Rules, the appointment of the auditors and the authorisation of the Directors to set their remuneration will be proposed and approved at the Company's AGM. HLB CA Falzon have expressed their willingness to continue in office.

These financial statements were approved for issue by the Board and signed on its behalf on 28 April 2022 by:



Mr. Michael Stivala - Chairman/CEO and Director



Mr. Ivan Stivala - Director

Registered Office

143,
The Strand,
Gzira GZR 1026

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

Pursuant to the Capital Market Rules as issued by the Malta Financial Services Authority (the "Rules"), Stivala Group Finance p.l.c. ("the Company") is hereby reporting on the extent of its own adoption of the Code of Principles of Good Corporate Governance ("the Code") contained with the Capital Market Rules.

Introduction

Pursuant to the Capital Market Rules issued by the Malta Financial Services Authority, Stivala Group Finance p.l.c. ("the Company") is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance ("the Principles") with respect to the financial year under review.

The Company became subject to the principles when its bonds were admitted to capital market and subsequent trading on the Malta Stock Exchange. Accordingly this report of the Company on this matter covers the whole year.

The Company acknowledges that although the Code does not dictate or prescribe mandatory rules, compliance with the principles of good corporate governance recommended in the Code is in the best interests of the Company, its shareholders and other stakeholders.

The Company has only issued debt securities which have been admitted to trading on the Malta Stock Exchange accordingly it is exempt from reporting on the matters prescribed in Capital Market Rules 5.97.1 to 5.97.3, 5.97.6 and 5.97.7 in this corporate governance statement ("the Statement"). It is in the light of this exemption afforded to the Company that the Directors are herein reporting on the corporate governance of the Company.

General

Good corporate governance is the responsibility of the Board of Directors of the Company ("the Board") as a whole, and has been and remains a priority for the Company. In deciding on the most appropriate manner in which to implement the Code, the Board took cognisance of the Company's size, nature and operations, and formulated the view that the adoption of certain mechanisms and structures which may be suitable for companies with extensive operations may not be appropriate for the Company. The limitations of size and scope of operations inevitably impact on the structures required to implement the Code, without however diluting the effectiveness thereof.

The Board considers that, to the extent otherwise disclosed herein, the Company has generally been in compliance with the Principles throughout the year under review.

This Statement shall now set out the structures and processes in place within the Company and how these effectively achieve the goals set out in the Code for the year under review. For this purpose, this Statement will make reference to the pertinent principles of the Code and then set out the manner in which the Board considers that these have been adhered to.

For the avoidance of doubt, reference in this Statement to compliance with the principles of the Code means compliance with the Code's main principles and the Code provisions.

Compliance with the Code

The Directors believe that for the financial year under review the Company has generally complied with the requirements for each of these principles. Further information in this respect is provided hereunder.

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

Principle One - The Board

The Directors report that for the financial year under review, the Directors have provided the necessary leadership in the overall direction of the Company and have performed their responsibilities for the efficient and smooth running of the Company with honesty, competence and integrity. The Board is composed of members who are competent and proper to direct the business of the Company with honesty, competence and integrity. All the members of the Board are fully aware of, and conversant with, the statutory and regulatory requirements connected to the business of the Company. The Board is accountable for its performance and that of its delegates to shareholders and other relevant stakeholders.

The Board has throughout the period under review provided the necessary leadership in the overall direction of the Company, and has adopted prudent and effective systems which ensure an open dialogue between the Board and Senior Management.

The Company has a structure that ensures a mix of Executive and Non-Executive Directors and that enables the Board to have direct information about the Company's performance and business activities.

Principle Two - Chairman and CEO

The position of the Chairman and that of the CEO are occupied by same individual. Exceptionally, the Board decided that the Chief Executive should become Chairman. Such decision was consulted to major shareholders in advance. This structure was successful as it concentrated the leadership of the Board and of executive management by a single person. The Board has now discussed the role of the Chairman at some length, and agreed that the role of the Chairman of the Board should be held by a third party who is not the CEO of the Company/Group. However, in the light of the current significant impact of the COVID-19 pandemic on the tourism industry, the Board felt that a disruption of leadership at the current time would not be in the Company/Group's best interest.

The role of Chairman exercises independent judgement and is responsible to lead the Board and set its agenda, whilst also ensuring that the Directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the Company. The Chairman is also responsible for ensuring effective communication with shareholders and encouraging active engagement by all members of the Board for discussion of complex or contentious issues. The role of CEO is then accountable to the Board for all business operations of the Company.

Principle Three - Composition of the Board

The Board is composed of 6 members, with 3 Executive and 3 Non-Executive Directors. The Board is responsible for the overall long term strategy and general policies of the Company, of monitoring the Company's systems of control and financial reporting and that it communicates effectively with the market as and when necessary.

The CEO provides the rest of the Directors with access to the information on the Company's financial position and systems. He acts as the main point of communication between the Board and overall corporate operations as he is responsible for proper implementation of sustainable business solutions, effective framework of internal controls over risk in relation to the business and strategic goals devised by the Board.

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

The Board of Directors consists of the following:

Mr. Michael Stivala - Chairman/CEO and Executive Director
Mr. Ivan Stivala - Executive Director
Mr. Martin John Stivala - Executive Director
Dr. Ann Marie Agius - Non-Executive Director
Mr. Francis Gouder - Non-Executive Director
Mr. Jean Paul Debono - Non-Executive Director (appointed on 21 April 2022)
Mr. Mark Bamber - Non-Executive Director (appointed on 1 March 2021 and resigned on 21 April 2022)
Mr. Joseph Brincat - Non-Executive Director (resigned on 30 April 2021)

In accordance with the provisions of the Company's Articles of Association, the appointment of Directors to the Board is exclusively reserved to the Company's shareholders, except in so far as appointment is made by the Board to fill a casual vacancy, which appointment would be valid until the conclusion of the next AGM of the Company following such an appointment. In terms of the Articles of Association, a director shall hold office for a period of one (1) year from the date of appointment. Provided that no appointment may be made for a period exceeding three (3) years. Notwithstanding the period for which a director has been appointed, on the lapse of such period, a director will be eligible for re-appointment. Dr. Ann Marie Agius, Mr. Francis Gouder and Mr. Jean Paul Debono are considered by the Board to be independent non-executive members of the Board, in that they have no involvement or relationship with the Company or with the majority shareholders.

None of the independent Non-Executive Directors:

- a) are or have been employed in any capacity with the Company and/or the Group;
- b) have or had a significant business relationship with the Company and/or the Group;
- c) has received or receives significant additional remuneration from the Company and/or the Group;
- d) has close family ties with any of the Company's executive Directors or senior employees;
- e) has served on the board for more than twelve consecutive years; or
- f) is or has been within the last three years an engagement partner or a member of the audit team of the present or former external auditor of the Company and/or the Group.

Each Non-Executive Director has declared in writing to the Board that he/she undertakes:

- a) to maintain in all circumstances his independence of analysis, decision and action; not to seek or
- b) accept any unreasonable advantages that could be considered as compromising his/her independence; and
- c) to clearly express his/her opposition in the event that he finds that a decision of the Board may harm the Company.

Principle Four - The Responsibilities of the Board

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for the Company's strategy and decisions with respect to the issue, servicing and redemption of its bonds in issue, and for monitoring that its operations are in conformity with its commitments towards bondholders, shareholders, and all relevant laws and regulations. The Board is also responsible for ensuring that the Company establishes and operates effective internal control and management information systems and that it communicates effectively with the market.

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

The Executive Officers of the Company may be asked to attend board meetings or general meetings of the Company, although they do not have the right to vote thereat until such time as they are also appointed to the Board. The rest of the Directors may entrust to and confer upon the CEO any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

In fulfilling its mandate, the Board:

- a) has a clearly-defined Company strategy, policies, management performance criteria and business policies which can be measured in a precise and tangible manner;
- b) has established a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information such that the Board can discharge its duties, exercise objective judgment on corporate affairs and take pertinent decisions to ensure that an informed assessment can be made of all issues facing the board;
- c) establishes an Audit Committee in terms of Capital Market Rules 5.117 – 5.134;
- d) continuously assesses and monitors the Company's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
- e) evaluates management's implementation of corporate strategy and financial objectives, and regularly reviews the strategy, processes and policies adopted for implementation using key performance indicators so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the Company; and
- f) ensures that the Company has appropriate policies and procedures in place to assure that the Company and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards.

As part of succession planning, the Board ensure that the Company implements appropriate schemes to recruit, retain and motivate employees and Senior Management. Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the Company's expense.

Principle Five - Board meetings

The Directors meet regularly to dispatch the business of the Board. The Directors are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting board papers, which are circulated in advance of the meeting. Minutes are prepared during Board meetings recording faithfully attendance, and resolutions taken at the meeting. These minutes are subsequently circulated to all Directors as soon as practicable after the meeting. The Chairman ensures that all relevant issues are on the agenda supported by all available information, whilst encouraging the presentation of views pertinent to the subject matter and giving all Directors every opportunity to contribute to relevant issues on the agenda. The agenda on the Board seeks to achieve a balance between long-term strategic and short-term performance issues.

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

The Board meets as often and as frequently required in line with the nature and demands of the business of the Company. Directors attend meetings on a frequent and regular basis and dedicate the necessary time and attention to their duties as Directors of the Company. The Board met 5 times during the financial year under review. The following Directors attended meetings as follows:

- Mr. Michael Stivala - Chairman, CEO, Executive Director - 5 meetings
- Mr. Ivan Stivala - Executive Director - 5 meetings
- Mr. Martin John Stivala - Executive Director - 5 meetings
- Dr. Ann Marie Agius - Non-Executive Director - 5 meetings
- Mr. Francis Gouder - Non-Executive Director - 5 meetings
- Mr. Mark Bamber - Non-Executive Director (newly appointed on 1 March 2021) - 3 meetings
- Mr. Joseph Brincat - Non-Executive Director (resigned on 30 April 2021) - 1 meeting

Principle Six - Information and Professional Development

The Directors believe that for the financial year under review they conducted sufficient professional development for its officers. The Company will continue with this commendable practice. As part of succession planning and employee retention, the Board ensure that the Company implements appropriate schemes to recruit, retain and motivate employees and Senior Management and keep a high morale amongst employees.

Principle Seven - Evaluation of the Board's performance

The current composition of the Board allows for a cross-section of skills and experience and achieves the appropriate balance required for it to function effectively. During the year, the Directors carried out a self-evaluation performance analysis, including the Chairman and/or the CEO. The results of this analysis did not require any material changes in the Company's corporate governance structure.

Principle Eight - Committees

Principle Eight A of the Code deals with the establishment of a remuneration committee for the Company aimed at developing policies on remuneration for Directors and Senior Executives and devising appropriate remuneration packages.

In view of the size and type of operation of the Company, the Board does not consider the Company to require the setting up of a remuneration committee, and the Board itself carries out the functions of the remuneration committee specified in, and in accordance with, Principle Eight A of the Code, given that the remuneration of Directors is not performance-related.

The Board has established a remuneration policy for Directors and Senior Executives, underpinned by formal and transparent procedures for the development of such a policy and the establishment of the remuneration packages of individual Directors.

The Board confirms that there have been no changes in the Company's remuneration policy during the year under review and the Company does not intend to effect any changes in its remuneration policy for the following financial year.

The maximum annual aggregate emoluments that may be paid to the Directors is, pursuant to the Company's Memorandum and Articles of Association, approved by the shareholders in general meeting.

The Board is composed exclusively of executive and non-executive Directors. The determination of remuneration arrangements for board members is a reserved matter for the Board as a whole.

During the financial year under review, Mr. Michael Stivala, Mr. Ivan Stivala and Mr. Martin John Stivala each held an indefinite full-time contract of service with ST Hotels Ltd.

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

The remuneration policy for Directors has been consistent since inception; no Director (including the Chairman) is entitled to profit sharing, share options or pension benefits. There is no linkage between the remuneration and the performance of Directors. A fixed honorarium is payable at each financial year to the Non-Executive Directors.

For the financial year under review the aggregate remuneration of the Directors of the Company and the Group (where the Company forms part) were as follows:

| | |
|--|----------|
| Fixed remuneration from Company | €26,385 |
| Fixed remuneration from Sub-subsidiary | €157,974 |

Principle Eight B of the Code deals with the formal and transparent procedure for the appointment of Directors.

In view of the size and type of operation of the Company, the Board does not consider the Company to require the setting up of a nomination committee. Reference is also made to the information provided under the subheading 'Principle Three' above, which provides for a formal and transparent procedure for the appointment of new Directors to the Board.

Principle Nine - Relations with shareholders and with the market

Pursuant to the Company's statutory obligations in terms of the Companies Act (Cap. 386 of the Laws of Malta) and the Capital Market Rules issued by the Malta Financial Services Authority, the Annual Report and Financial Statements, the election of Directors and approval of Directors' fees, the appointment of the auditors and the authorisation of the Directors to set the auditors' fees, and other special business, are proposed and approved at the Company's AGM.

With respect to the Company's bondholders and the market in general, during the financial year under review, a Company announcement has been issued to the market on 27 April 2021 in relation to the completion of Mr. Carlo Stivala's divestiture from Stivala group. Further information regarding this matter was disclosed in note 22 of the financial statements.

The Company's Articles of Association allow minority shareholders to call special meetings on matters of importance to the Company, provided that the minimum threshold of ownership established in the Articles of Association is met.

Principle Ten - Relations with Institutional shareholders

The Directors are of the view that this Principle is not applicable to the Company.

Principle Eleven - Conflicts of Interest

Principle Eleven deals with conflicts of interest and the principle that Directors should always act in the best interests of the Company

All of the Directors of the Company, except for Dr. Ann Marie Agius, Mr. Francis Gouder and Mr. Jean Paul Debono are Executive Officers of the Company. The other Executive Directors have a direct beneficial interest in the share capital of the Company, and as such are susceptible to conflicts arising between the potentially diverging interests of the shareholders and the Company. During the financial year under review, no private interests or duties unrelated to the Company were disclosed by the Directors which were or could have been likely to place any of them in conflict with any interests in, or duties towards, the Company.

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

The Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the Company. Furthermore, in accordance with the provisions of article 145 of the Companies Act (Cap. 386 of the Laws of Malta), every Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company is under the duty to fully declare his interest in the relevant transaction to the Board at the first possible opportunity and he will not be entitled to vote on matters relating to the proposed transaction and only parties who do not have any conflict in considering the matter will participate in the consideration of the proposed transaction .

Principle Twelve - Corporate Social Responsibility

Principle Twelve encourages Directors of listed companies to adhere to accepted principles of corporate social responsibility

The Company seeks to adhere to sound Principles of Corporate Social Responsibility in its management practices, and is committed to enhance the quality of life of all stakeholders and of the employees of the Company and the Group.

The Board is strongly committed to the environment, and to the welfare of the community in which we operate. All directors are mindful that sustainable development and environmental protection are critical, both for the success of our tourism and development activities, and for the benefit of our community's quality of life. To this end, the Group has taken initiatives to minimise its consumption of natural resources, reduce its generation of waste, and to incorporate sustainability principles and attractive design in its developments.

In carrying on its business the Group is fully aware and at the forefront to preserving the environment and continuously review its policies aimed at respecting the environment and encouraging social responsibility and accountability.

The Audit Committee

The Audit Committee's primary objective is to assist the Board in fulfilling its responsibilities: in dealing with issues of risk, control and governance; and review the financial reporting processes, financial policies and internal control structure. During the financial year under review, the Audit Committee met 5 times.

Although the Audit Committee is set up at the level of the Company its main tasks are also related to the activities of the subsidiary, sub- subsidiaries and operational companies.

The Board has set formal terms of establishment and the terms of reference of the Audit Committee that establish its composition, role and function, the parameters of its remit as well as the basis for the processes that it is required to comply with. The Audit Committee is a sub-committee of the Board and is directly responsible and accountable to the Board. The Board reserves the right to change these terms of reference from time to time.

Furthermore, the Audit Committee has the role and function of scrutinising and evaluating any proposed transaction to be entered into by the Company and a related party, to ensure that the execution of any such transaction was at arm's length and on a commercial basis and ultimately in the best interests of the Company.

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

The Audit Committee is composed of 3 independent, Non-Executive Directors:

- Mr. Francis Gouder – Chairman of Audit Committee and Member
- Dr. Ann Marie Agius – Member
- Mr. Jean Paul Debono – appointed on 21 April 2022
- Mr. Mark Bamber – appointed on 1 March 2021 and resigned on 21 April 2022
- Mr. Joseph Brincat – resigned on 30 April 2021

Mr. Jean Paul Debono is a Non-Executive Director and a qualified accountant, a founder and managing partner in a firm, who the Board considers as independent and competent in accounting as required in terms of the Capital Market Rules. He is specialised in accounts, taxation and financial reporting and has extensive experience in servicing local and international clients across a wide range of industry sectors.

Internal Control

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. The Directors are aware that internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against normal business risks.

During the financial year under review the Company operated a system of internal controls which provided reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing the Company.

Other key features of the system of internal control adopted by the Company in respect of its own internal control as well as the control of its subsidiaries and affiliates are as follows:

Risk identification

The Board of Directors, with the assistance of the Management team, is responsible for the identification and evaluation of key risks applicable to the areas of business in which the Company and its subsidiaries are involved. These risks are assessed on a continual basis.

Information and communication

Periodic strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives are regularly convened by the Board. Regular budgets are prepared and performance against these plans is actively monitored and reported to the Board.

In conclusion, the Board considers that the Company has generally been in compliance with the Principles throughout the period under review as befits a company of this size and nature.

Stivala Group Finance p.l.c.

Corporate Governance Statement for the year ended 31 December 2021

Non-compliance with the principles and the reasons therefor have been identified below.

| Code Provision | Explanation |
|----------------|---|
| 4.2 | The Board has not formally developed a succession policy for the future composition of the Board of Directors as recommended by Code Provision 4.2.7. In practice, however, the Board is actively engaged in succession planning and involved in ensuring that appropriate schemes to recruit, retain and motivate employees and Senior Management are in place. |
| 7.1 | The Board has not appointed a committee for the purpose of undertaking an evaluation of the Board's performance. The Board believes that the size of the Company and the Board itself does not warrant the establishment of a committee specifically for the purpose of carrying out a performance evaluation of its role. The size of the Board is such that it should enable it to evaluate its own performance without the requirement of setting up an ad-hoc committee for this purpose. The Board shall retain this matter under review over the coming year. |
| 8B | The Board has not appointed a Nominations Committee, particularly of the appointment process being specifically set out in the Articles of Association. The Board, however, intends to keep under review the utility and possible advantages of having a Nominations Committee and following an evaluation may, if the need arises, make recommendations to the shareholders for a change to the Articles of Association. |

Approved by the Board on 28 April 2022 and signed on its behalf by:

Mr. Michael Stivala
- Chairman/CEO and Director

Mr. Ivan Stivala
- Director

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

Report on the Financial Statements for the year ended 31 December 2021

Opinion

We have audited the individual financial statements of Stivala Group Finance p.l.c. ("the Company") and the consolidated financial statements of the Company and its subsidiaries (together, "the Group"), set out on pages 29 to 98, which comprise the statement of financial position as at 31 December 2021, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2021, and of the Group's and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap.281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that in our professional judgement were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon.

We do not provide a separate opinion on these matters.

1. Going concern

Risk description

As required by International Financial Reporting Standards and as disclosed in the Statement of Directors' Responsibilities, the Directors are required to adopt the going concern basis in the preparation of the financial statements, unless it is inappropriate to presume that the Group and the Company will continue in business in the foreseeable future.

One of the significant events that happened during 2021 was the completion of Mr. Carlo Stivala's divestment from Stivala group. In 2021, this event brought the Company to a net loss of €20,380,454 and a net liability of €18,751,247. On a group level, it made a massive decrease of €20,345,134 on retained profits compared with prior year. The financial impact of the divestiture has created an uncertain environment which may impact significant assumptions that are used in the Group's and Company's assessment of its ability to continue as a going concern.

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

The Group's liquidity forecast underlying the going concern assessment is subject to significant estimation and therefore represents a key audit matter.

Relevant references in the annual report and financial statements:

- Judgements in applying accounting policies and key sources of estimation uncertainty: Note 3
- Note on Assets held for distribution to owner: note 22

How the scope of our audit responded to the risk

Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Group's ability to continue as a going concern. In obtaining sufficient, appropriate audit evidence we:

- Obtained the Group's cash flow forecast for the period subsequent to the reporting date up until Dec 2032 and discussed these with management, focusing on updates made to respond to the continued impacts and uncertainties around COVID-19 ongoing developments and expected recovery period. We also tested the arithmetical accuracy of the forecast.
- Evaluated the Directors' ability to accurately forecast by comparing actual to historical information. As part of our procedures on events after the reporting period, obtained an understanding of the precision of management's forecast and to identify any potential management bias included in such projections.
- Assessed for reasonableness of the main inputs and assumptions used in the projections, such as operational cash flows, inflows from sales of property, capital expenditures, debt financing and other funding availability against our understanding of the business and industry developments, historical data and any other available information.
- Performed an analysis of the capital expenditure forecasted by the Group to be incurred on its major development projects and the availability of funding to finance such expenditure from the Stivala Group finance plc plan of debt issue on the last quarter of this year and other planned bank financing for these projects. We have assessed for reasonableness the net cashflows forecasted on these major development projects.

We also assessed the relevance and adequacy of disclosures relating to going concern presented in Note 2.1 to the accompanying financial statements.

Findings

The result of our testing was satisfactory and we concur that the going concern assumption is appropriate.

2. Investment property and Property, plant and equipment valuations

Risk description

The Group carries its investment property and buildings under property, plant and equipment at fair value, with changes in fair value being recognised in the profit or loss and other comprehensive income, respectively. The last market valuation performed by independent architects on these properties was on 31 May 2020.

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

2. Investment property and Property, plant and equipment valuations (continued)

In the years where a valuation is not obtained, management verifies all major inputs to the independent valuation report, assesses any property valuation movements when compared to the previous valuation report and holds discussions with the independent valuer, as necessary.

As at 31 December 2021, fair value was based on valuation performed by the directors as part of their responsibility for annual assessment. Investment property and property, plant and equipment amounted to €178,713,402 and €148,337,079 as at 31 December 2021, respectively and are deemed material to the financial statements.

Estimating the fair value is a complex process involving a number of judgements and estimates regarding various inputs. Consequently, we have determined the valuation of the aforementioned properties to be a key audit matter.

Relevant references in the annual report and financial statements:

- Accounting policy: notes 2.5, 2.7 and 2.21
- Note on Property, Plant and Equipment: note 13
- Note on Investment Property: note 17
- Judgements in applying accounting policies and key sources of estimation uncertainty: Note 3

How the scope of our audit responded to the risk

- We obtained an understanding of the Group's process for determining fair value measurements and disclosures and the relevant control procedures. We assessed inherent and control risk related to the fair value measurements and disclosures and evaluated whether the fair value measurements and disclosures are in accordance with the Group's financial reporting framework and are consistently applied.

- We performed tests relating to the valuation of the Group's property, focusing on management reviews over the property valuations by inspecting management analysis and minutes of meetings of the board and audit committee where such valuation was discussed;

- Performing procedures over the accuracy and completeness of the inputs or rationale used in the valuations in the light of our understanding of the business and industry developments, historical data and other available information focusing on updates made to respond to the continued impact and uncertainties around COVID-19 ongoing developments and expected recovery period.

- We also assessed the relevance and adequacy of disclosures relating to the Group's fair valuation of property, plant and equipment, and investment properties presented in various notes mentioned above.

Findings

The result of our testing was satisfactory and we concur that the valuations of the investment property and property, plant and equipment are appropriate.

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

3. Recoverability of deferred tax asset

Risk description

As at 31 December 2021, the Group has recognised a deferred tax asset amounting to €10,573,639 arising primarily from deductible temporary differences in respect of excess of capital allowance over depreciation, unabsorbed capital allowances and unutilized tax losses and investment tax credit that it believes are recoverable. The recoverability of recognised deferred tax asset is in part dependent on the Group's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses. We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary difference.

Relevant references in the annual report and financial statements:

- Accounting policy: notes 2.19
- Note on Deferred Tax: note 26
- Judgements in applying accounting policies and key sources of estimation uncertainty: Note 3

How the scope of our audit responded to the risk

We ensured that IAS 12 Income Taxes has been correctly applied in respect of deferred tax, paying particular attention to the following situations: (a) the revaluation of an asset (b) unabsorbed capital allowances and unutilized tax losses and (c) investment tax credits.

We assessed the accuracy of forecast future taxable profits by evaluating historical forecasting accuracy and comparing assumptions with our expectations of those assumptions derived from our knowledge of the industry and our understanding obtained during the audit.

Findings

We are satisfied that the deferred tax asset has been properly recognised and measured in view of the fact that taxable profits will be available against which the deductible temporary differences can be utilized.

Other Information

The Directors are responsible for the other information. The other information comprises of the Chairman's Statement, Directors' Report and Corporate Governance Statement of Compliance. Our opinion on the financial statements does not cover this information. Except for our opinion on the Directors' Report in accordance with the Companies Act, Cap. 386 of the Laws of Malta and on the Corporate Governance Statement of Compliance in accordance with the Capital Market Rules issued by the Malta Financial Services Authority, our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

Report on the Financial Statements for the year ended 31 December 2021

Opinion

We have audited the individual financial statements of Stivala Group Finance p.l.c. ("the Company") and the consolidated financial statements of the Company and its subsidiaries (together, "the Group"), set out on pages 29 to 98, which comprise the statement of financial position as at 31 December 2021, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2021, and of the Group's and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap.281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that in our professional judgement were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon.

We do not provide a separate opinion on these matters.

1. Going concern

Risk description

As required by International Financial Reporting Standards and as disclosed in the Statement of Directors' Responsibilities, the Directors are required to adopt the going concern basis in the preparation of the financial statements, unless it is inappropriate to presume that the Group and the Company will continue in business in the foreseeable future.

One of the significant events that happened during 2021 was the completion of Mr. Carlo Stivala's divestment from Stivala group. In 2021, this event brought the Company to a net loss of €20,380,454 and a net liability of €18,751,247. On a group level, it made a massive decrease of €20,345,134 on retained profits compared with prior year. The financial impact of the divestiture has created an uncertain environment which may impact significant assumptions that are used in the Group's and Company's assessment of its ability to continue as a going concern.

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

The Group's liquidity forecast underlying the going concern assessment is subject to significant estimation and therefore represents a key audit matter.

Relevant references in the annual report and financial statements:

- Judgements in applying accounting policies and key sources of estimation uncertainty: Note 3
- Note on Assets held for distribution to owner: note 22

How the scope of our audit responded to the risk

Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Group's ability to continue as a going concern. In obtaining sufficient, appropriate audit evidence we:

- Obtained the Group's cash flow forecast for the period subsequent to the reporting date up until Dec 2032 and discussed these with management, focusing on updates made to respond to the continued impacts and uncertainties around COVID-19 ongoing developments and expected recovery period. We also tested the arithmetical accuracy of the forecast.
- Evaluated the Directors' ability to accurately forecast by comparing actual to historical information. As part of our procedures on events after the reporting period, obtained an understanding of the precision of management's forecast and to identify any potential management bias included in such projections.
- Assessed for reasonableness of the main inputs and assumptions used in the projections, such as operational cash flows, inflows from sales of property, capital expenditures, debt financing and other funding availability against our understanding of the business and industry developments, historical data and any other available information.
- Performed an analysis of the capital expenditure forecasted by the Group to be incurred on its major development projects and the availability of funding to finance such expenditure from the Stivala Group finance plc plan of debt issue on the last quarter of this year and other planned bank financing for these projects. We have assessed for reasonableness the net cashflows forecasted on these major development projects.

We also assessed the relevance and adequacy of disclosures relating to going concern presented in Note 2.1 to the accompanying financial statements.

Findings

The result of our testing was satisfactory and we concur that the going concern assumption is appropriate.

2. Investment property and Property, plant and equipment valuations

Risk description

The Group carries its investment property and buildings under property, plant and equipment at fair value, with changes in fair value being recognised in the profit or loss and other comprehensive income, respectively. The last market valuation performed by independent architects on these properties was on 31 May 2020.

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

2. Investment property and Property, plant and equipment valuations (continued)

In the years where a valuation is not obtained, management verifies all major inputs to the independent valuation report, assesses any property valuation movements when compared to the previous valuation report and holds discussions with the independent valuer, as necessary.

As at 31 December 2021, fair value was based on valuation performed by the directors as part of their responsibility for annual assessment. Investment property and property, plant and equipment amounted to €178,713,402 and €148,337,079 as at 31 December 2021, respectively and are deemed material to the financial statements.

Estimating the fair value is a complex process involving a number of judgements and estimates regarding various inputs. Consequently, we have determined the valuation of the aforementioned properties to be a key audit matter.

Relevant references in the annual report and financial statements:

- Accounting policy: notes 2.5, 2.7 and 2.21
- Note on Property, Plant and Equipment: note 13
- Note on Investment Property: note 17
- Judgements in applying accounting policies and key sources of estimation uncertainty: Note 3

How the scope of our audit responded to the risk

- We obtained an understanding of the Group's process for determining fair value measurements and disclosures and the relevant control procedures. We assessed inherent and control risk related to the fair value measurements and disclosures and evaluated whether the fair value measurements and disclosures are in accordance with the Group's financial reporting framework and are consistently applied.

- We performed tests relating to the valuation of the Group's property, focusing on management reviews over the property valuations by inspecting management analysis and minutes of meetings of the board and audit committee where such valuation was discussed;

- Performing procedures over the accuracy and completeness of the inputs or rationale used in the valuations in the light of our understanding of the business and industry developments, historical data and other available information focusing on updates made to respond to the continued impact and uncertainties around COVID-19 ongoing developments and expected recovery period.

- We also assessed the relevance and adequacy of disclosures relating to the Group's fair valuation of property, plant and equipment, and investment properties presented in various notes mentioned above.

Findings

The result of our testing was satisfactory and we concur that the valuations of the investment property and property, plant and equipment are appropriate.

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

3. Recoverability of deferred tax asset

Risk description

As at 31 December 2021, the Group has recognised a deferred tax asset amounting to €10,573,639 arising primarily from deductible temporary differences in respect of excess of capital allowance over depreciation, unabsorbed capital allowances and unutilized tax losses and investment tax credit that it believes are recoverable. The recoverability of recognised deferred tax asset is in part dependent on the Group's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses. We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary difference.

Relevant references in the annual report and financial statements:

- Accounting policy: notes 2.19
- Note on Deferred Tax: note 26
- Judgements in applying accounting policies and key sources of estimation uncertainty: Note 3

How the scope of our audit responded to the risk

We ensured that IAS 12 Income Taxes has been correctly applied in respect of deferred tax, paying particular attention to the following situations: (a) the revaluation of an asset (b) unabsorbed capital allowances and unutilized tax losses and (c) investment tax credits.

We assessed the accuracy of forecast future taxable profits by evaluating historical forecasting accuracy and comparing assumptions with our expectations of those assumptions derived from our knowledge of the industry and our understanding obtained during the audit.

Findings

We are satisfied that the deferred tax asset has been properly recognised and measured in view of the fact that taxable profits will be available against which the deductible temporary differences can be utilized.

Other Information

The Directors are responsible for the other information. The other information comprises of the Chairman's Statement, Directors' Report and Corporate Governance Statement of Compliance. Our opinion on the financial statements does not cover this information. Except for our opinion on the Directors' Report in accordance with the Companies Act, Cap. 386 of the Laws of Malta and on the Corporate Governance Statement of Compliance in accordance with the Capital Market Rules issued by the Malta Financial Services Authority, our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

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

- the information given in the Directors' Report for the year ended 31 December 2021 is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with the Companies Act, Cap. 386 of the Laws of Malta.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment, obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Directors and the Audit Committee for the financial statements

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

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

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

Auditors' 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.

In terms of article 179A(4) of the Companies Act (Cap.386), the scope of our audit does not include assurance on the future viability of the audited entity or on the efficiency or effectiveness with which the Directors have conducted or will conduct the affairs of the entity.

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

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

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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, future events or conditions may cause the Group to cease 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 and Group's business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

Report on other legal and regulatory requirements

The Annual Report and Consolidated Financial Statements of Stivala Group Finance p.l.c. for the year ended 31 December 2021 contains other areas required by legislation on which we are required to report. The directors are responsible for these other areas.

Matters on which we are required to report by the Capital Market Rules

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

The Capital Market Rules also require the auditor to include a report on the statement of compliance prepared by the directors. We are also required to express an opinion as to whether, in the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have identified material misstatements with respect to the information referred to in Capital Market Rules 5.97.4 and 5.97.5.

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

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

In our opinion:

- the Corporate Governance Statement set out on pages 11 - 19 has been properly prepared in accordance with the requirements of the Capital Market Rules 5.94 and 5.97.
- in the light of the knowledge and understanding of the Company and the Group and its environment obtained in the course of the audit the information referred to in Capital Market Rules 5.97.4 and 5.97.5 are free from material misstatement.

Under the Capital Market Rules we also have the responsibility to:

- review the statement made by the Directors, set out on pages 3 - 10, that the business is a going concern, together with supporting assumptions or qualifications as necessary.

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

Matters on which we are required to report on compliance with the European Single Electronic Format Regulatory Technical Standard (the "ESEF RTS"), by reference to Capital Markets Rule 5.55.6

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive (the "ESEF Directive 6") on the Annual Financial Report of Stivala Group Finance p.l.c. for the year ended 31 December 2021, entirely prepared in a single electronic reporting format.

Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

The directors are responsible for the preparation of the Annual Financial Report, including the consolidated financial statements and the relevant mark-up requirements therein, by reference to Capital Markets Rule 5.56A, in accordance with the requirements of the ESEF RTS.

Our responsibility is to obtain reasonable assurance about whether the Annual Financial Report, including the consolidated financial statements and the relevant electronic tagging therein, complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6.

Our procedures included:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the Annual Financial Report, in accordance with the requirements of the ESEF RTS.
- Obtaining the Annual Financial Report and performing validations to determine whether the Annual Financial Report has been prepared in accordance with the requirements of the technical specifications of the ESEF RTS.
- Examining the information in the Annual Financial Report to determine whether all the required taggings therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF RTS.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the Annual Financial Report for the year ended 31 December 2021 has been prepared, in all material respects, in accordance with the requirements of the ESEF RTS.

Matters on which we are required to report by exception under the Companies Act

Pursuant to articles 179(10) and 179(11) of the Maltese Companies Act (Cap. 386) Act, we also have responsibilities under the Companies Act to report if in our opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit.

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

Appointment and audit tenure

We were first appointed by those charged with governance to act as statutory auditor by the board of Directors on 12 October 2020 for the financial year ended 31 December 2020. Our appointment has been renewed annually by shareholder resolution representing a total uninterrupted engagement of 2 years. The Company became listed in on the Malta Stock Exchange on 25 September 2017.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which was issued on the same date as this report.



Independent Auditor's Report to the shareholders of Stivala Group Finance p.l.c.

Non-audit services

No prohibited non-audit services referred to in Article 18A(1) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta were provided by us to the Company and the Group and we remain independent of the Company and the Group. No other services besides statutory audit services as disclosed in the annual report in note 7 to the financial statements, were provided by us to the Company and its controlled undertakings.

A handwritten signature in blue ink, appearing to be 'Jozef Wallace Galea', written over the text of the report.

*The partner in charge of the audit resulting in this independent auditor's report is
Jozef Wallace Galea for and on behalf of*

HLB CA Falzon
Registered Auditors
28 April 2022

www.hlbmalta.com

Together we make it happen

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PARTNERS: Jozef Wallace Galea, Alfred Falzon, Patrizio Prospero, Fiona Buttigieg.

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Stivala Group Finance p.l.c.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2021

| | Note | The Group | | The Company | |
|---|------|--------------------|-------------------|---------------------|------------------|
| | | 2021 | 2020 | 2021 | 2020 |
| | | € | € | € | € |
| Revenue from contracts with customers | 6 | 6,698,242 | 3,472,276 | - | - |
| Rental income | 25 | 8,367,051 | 8,276,226 | - | - |
| Revenue | | 15,065,293 | 11,748,502 | - | - |
| Cost of sales and services | 7 | (3,713,173) | (3,918,098) | - | - |
| Gross profit | | 11,352,120 | 7,830,404 | - | - |
| Distribution and selling costs | 7 | (46,382) | (31,410) | - | - |
| Administrative expenses | 7 | (13,551,147) | (7,763,267) | (48,125) | (30,874) |
| Other operating charges | 7 | (2,233) | (3,909) | - | - |
| Other operating income | 8 | 1,068,658 | 1,225,606 | 4,011 | - |
| Operating (loss)/profit | | (1,178,984) | 1,257,424 | (44,114) | (30,874) |
| Change in fair value of investment properties | 17 | 29,967,931 | 29,020,926 | - | - |
| Share in (loss)/profit of associates | 15 | (47,300) | 353,844 | - | - |
| Gain on transfer of properties | 22 | 38,741,687 | - | - | - |
| Loss on major shareholder's divestiture | 22 | (59,872,736) | - | (59,872,736) | - |
| Dividends income | | - | - | 41,142,087 | 3,458,801 |
| Finance and similar income | 9 | - | 1 | - | - |
| Finance costs | 10 | (3,215,421) | (3,160,107) | (2,407,500) | (2,407,500) |
| Profit before tax | | 4,395,177 | 27,472,088 | (21,182,263) | 1,020,427 |
| Income tax credit/(expense) | 12 | 7,991,525 | (479,723) | 801,809 | (820,427) |
| Profit for the year | | 12,386,702 | 26,992,365 | (20,380,454) | 200,000 |

The notes on page 38–98 form part of these financial statements.

Stivala Group Finance p.l.c.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2021

| | Note | The Group | | The Company | |
|---|------|------------|-------------|--------------|---------|
| | | 2021 | 2020 | 2021 | 2020 |
| | | € | € | € | € |
| Profit for the year | | 12,386,702 | 26,992,365 | (20,380,454) | 200,000 |
| Other comprehensive income | | | | | |
| <i>Items that will not be subsequently reclassified to profit or loss:</i> | | | | | |
| Change in fair value of property, plant and equipment due to revaluation, net of deferred tax | | 30,355,009 | 81,337,654 | - | - |
| Total comprehensive income for the year | | 42,741,711 | 108,330,019 | (20,380,454) | 200,000 |
| Earnings per share (cents) | | | | | |
| - Basic profit for year attributable to ordinary equity holders of the parent | 28 | 48.58 | 89.97 | (79.92) | 0.67 |

The notes on page 38–98 form part of these financial statements.

Stivala Group Finance p.l.c.

Consolidated Statement of Financial Position as at 31 December 2021

| | Note | The Group | | The Company | |
|---------------------------------------|------|--------------------|--------------------|-------------------|-------------------|
| | | 2021 | 2020 | 2021 | 2020 |
| | | € | € | € | € |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant & equipment | 13 | 152,490,635 | 230,621,283 | - | - |
| Intangible asset | 18 | 6,057 | 26,952 | - | - |
| Investment in subsidiaries | 14 | - | - | 60,004,872 | 60,004,895 |
| Investment in associates | 15 | 307,544 | 354,844 | - | - |
| Investment property | 17 | 178,713,402 | 34,337,699 | - | - |
| Right-of-use assets | 25 | 607,302 | 815,512 | - | - |
| Deferred taxation | 26 | 10,573,639 | 4,959,080 | 291,410 | 311,329 |
| Total non-current assets | | 342,698,579 | 271,115,370 | 60,296,282 | 60,316,224 |
| Current assets | | | | | |
| Inventories | 19 | 11,657 | 8,558 | - | - |
| Property held-for-sale | 20 | 2,179,099 | - | - | - |
| Assets held for distribution to owner | 22 | - | 59,947,736 | - | - |
| Trade and other receivables | 21 | 9,861,024 | 6,652,026 | - | - |
| Current tax recoverable | 12 | - | - | 22,095 | 904,041 |
| Other financial assets | 16 | 8,004,289 | 15,753,525 | - | 778,040 |
| Cash and cash equivalents | 31 | 199,234 | 592,023 | 4,597 | 2,400 |
| Total current assets | | 20,255,303 | 82,953,868 | 26,692 | 1,684,481 |
| Total assets | | 362,953,882 | 354,069,238 | 60,322,974 | 62,000,705 |

The notes on page 38–98 form part of these financial statements.

Stivala Group Finance p.l.c.

Consolidated Statement of Financial Position as at 31 December 2021

| | Note | The Group | | The Company | |
|--|--------|--------------------|--------------------|---------------------|-------------------|
| | | 2021 | 2020 | 2021 | 2020 |
| | | € | € | € | € |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Issued capital | 27 | 255,000 | 300,000 | 255,000 | 300,000 |
| Revaluation reserve | 29 | 225,017,482 | 200,672,324 | - | - |
| Incentives and benefits reserves | 30 | 4,825,440 | 4,825,440 | - | - |
| Retained earnings | | 5,293,934 | 25,639,068 | (19,006,247) | 1,374,207 |
| Total equity | | 235,391,856 | 231,436,832 | (18,751,247) | 1,674,207 |
| Non-current liabilities | | | | | |
| Interest bearing loans and borrowings | 16, 23 | 80,290,082 | 79,613,708 | 59,670,000 | 59,610,000 |
| Finance lease liability | 16, 25 | 394,949 | 646,088 | - | - |
| Deferred taxation | 26 | 25,513,615 | 25,880,637 | - | - |
| Total non-current liabilities | | 106,198,646 | 106,140,433 | 59,670,000 | 59,610,000 |
| Current liabilities | | | | | |
| Current borrowings | 16, 23 | 4,867,999 | 3,743,624 | 18,567,863 | - |
| Finance lease liability | 16, 25 | 232,626 | 194,992 | - | - |
| Trade and other payables | 24 | 12,808,095 | 9,570,738 | 836,358 | 716,498 |
| Current tax due | 12 | 3,454,660 | 2,982,619 | - | - |
| Total current liabilities | | 21,363,380 | 16,491,973 | 19,404,221 | 716,498 |
| Total liabilities | | 127,562,026 | 122,632,406 | 79,074,221 | 60,326,498 |
| Total equity and liabilities | | 362,953,882 | 354,069,238 | 60,322,974 | 62,000,705 |

The notes on page 38-98 form part of these financial statements.

The financial statements set out on pages 29 to 98 were approved and authorized for issue by the Board of Directors and signed on its behalf by:

Mr. Michael Stivala
- Chairman/CEO and Director

28 April 2022

Mr. Ivan Stivala
- Director

Stivala Group Finance p.l.c.

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

The Group

| | Issued capital € | Revaluation reserve € | Incentives and benefits reserves € | Retained earnings € | Total Equity € |
|--|------------------------|-----------------------------|---|---------------------------|----------------------|
| Balance as at 1 January 2020 | 300,000 | 89,123,934 | - | 33,682,879 | 123,106,813 |
| Reclassification within equity (in relation to prior years) | - | 3,511,484 | 4,825,440 | (8,336,924) | - |
| Profit for the year | - | - | - | 26,992,365 | 26,992,365 |
| Other comprehensive income | - | 81,337,654 | - | - | 81,337,654 |
| Total comprehensive income for the year | - | 81,337,654 | - | 26,992,365 | 108,330,019 |
| Transfer of fair value gain on investment property, net of deferred tax | - | 26,699,252 | - | (26,699,252) | - |
| Balance as at 31 December 2020 | 300,000 | 200,672,324 | 4,825,440 | 25,639,068 | 231,436,832 |

The notes on page 38–98 form part of these financial statements.

Stivala Group Finance p.l.c.

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

The Group

| | Issued capital € | Revaluation reserve € | Incentives and benefits reserves € | Retained earnings € | Total Equity € |
|--|------------------------|-----------------------------|---|---------------------------|----------------------|
| Balance as at 1 January 2021 | 300,000 | 200,672,324 | 4,825,440 | 25,639,068 | 231,436,832 |
| Reduction due to major shareholder's divestiture (see note 22) | (75,000) | (33,580,348) | - | (5,161,339) | (38,816,687) |
| Issuance of share capital | 30,000 | - | - | - | 30,000 |
| Profit for the year | - | - | - | 12,386,702 | 12,386,702 |
| Other comprehensive income/loss (note 29) | - | 30,355,009 | - | - | 30,355,009 |
| Total comprehensive income for the year | - | 30,355,009 | - | 12,386,702 | 42,741,711 |
| Transfer of fair value gain on investment property, net of deferred tax | - | 27,570,497 | - | (27,570,497) | - |
| Balance as at 31 December 2021 | 255,000 | 225,017,482 | 4,825,440 | 5,293,934 | 235,391,856 |

The notes on page 38–98 form part of these financial statements.

Stivala Group Finance p.l.c.
Statement of Changes in Equity
for the year ended 31 December 2021

| The Company | Issued capital € | Retained earnings € | Total Equity € |
|---|---------------------|---------------------------|----------------------|
| Balance as at 1 January 2020 | 300,000 | 1,174,207 | 1,474,207 |
| Profit for the year | - | 200,000 | 200,000 |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | 200,000 | 200,000 |
| Balance as at 31 December 2020 | 300,000 | 1,374,207 | 1,674,207 |
| Balance as at 1 January 2021 | 300,000 | 1,374,207 | 1,674,207 |
| Reduction due to major shareholder's divestiture (see note 22) | (75,000) | - | (75,000) |
| Issuance of share capital | 30,000 | - | 30,000 |
| Loss for the year | - | (20,380,454) | (20,380,454) |
| Other comprehensive income | - | - | - |
| Total comprehensive loss for the year | - | (20,380,454) | (20,380,454) |
| Balance as at 31 December 2021 | 255,000 | (19,006,247) | (18,751,247) |

The notes on page 38-98 form part of these financial statements.

Stivala Group Finance p.l.c.

Consolidated Statement of Cash Flows for the year ended 31 December 2021

| | Note | The Group | | The Company | |
|---|-------|-------------------|------------------|---------------------|------------------|
| | | 2021 € | 2020 € | 2021 € | 2020 € |
| Cash flows from operating activities | | | | | |
| Profit before tax | | 4,395,177 | 27,472,088 | (21,182,263) | 1,020,427 |
| Adjustments for: | | | | | |
| Change in fair value of investment properties | 17 | (29,967,931) | (29,020,926) | - | - |
| Gain on transfer of properties | 22 | (38,741,687) | - | - | - |
| Loss on major shareholder's divestiture | 22 | 59,872,736 | - | - | - |
| Share in (loss)/profit of associates | 15 | 47,300 | (353,844) | - | - |
| Depreciation of right-of-use assets and property, plant and equipment | 7 | 3,687,024 | 5,953,883 | - | - |
| Amortisation | 18 | 20,895 | 41,339 | 60,000 | 60,000 |
| Provision for expected credit losses (ECL) | 7, 32 | 7,920,416 | (16,026) | (4,011) | 207 |
| Dividends income | | - | - | (41,142,087) | (3,458,801) |
| Finance and similar income | 9 | - | (1) | - | - |
| Finance costs | 10 | 3,215,421 | 3,160,107 | 2,347,500 | 2,347,500 |
| Working capital changes: | | | | | |
| (Increase)/decrease in inventories | 19 | (3,099) | 9,130 | - | - |
| (Increase)/decrease in property held-for-sale | 20 | (679,099) | 27,721 | - | - |
| Decrease / (increase) in receivables | | (783,042) | 425,432 | - | - |
| (Decrease) / increase in payables | | 4,129,278 | 584,363 | 119,860 | 2,513 |
| Interest received from banks | | - | 1 | - | - |
| Interest paid on overdraft | | (17,978) | (5,590) | - | - |
| Taxation paid | 12 | (781,519) | (18,800) | (840,140) | (821,728) |
| Taxation refunded | 12 | (294,247) | 294,247 | 1,703,674 | 294,247 |
| Net cash generated from operating activities | | 12,019,645 | 8,553,124 | (58,937,467) | (555,635) |

The notes on page 38–98 form part of these financial statements.

Stivala Group Finance p.l.c.

Consolidated Statement of Cash Flows for the year ended 31 December 2021

| | Note | The Group | | The Company | |
|--|--------|--------------------|---------------------|-------------------|----------------|
| | | 2021 € | 2020 € | 2021 € | 2020 € |
| Cash flows from investing activities | | | | | |
| Payments to acquire property, plant and equipment | 13 | (5,246,407) | (7,895,155) | - | - |
| Payments to acquire investment property | 17 | (3,009,870) | (3,628,977) | - | - |
| Payments to acquire investment in associate | | - | (500) | - | - |
| Receipts from disposal of non-current financial assets | 18 | - | - | 23 | - |
| Advances to other parties | | - | (250,000) | - | - |
| Advances from directors | | (532,845) | (528,951) | - | - |
| Net cash used in investing activities | | (8,789,122) | (12,303,583) | 23 | - |
| Cash flows from financing activities | | | | | |
| Issuance of share capital | 27 | 30,000 | - | (45,000) | - |
| Advances from banks loans | | 2,179,941 | 4,993,623 | - | - |
| Advances from subsidiary company | | - | - | 61,332,141 | 2,899,495 |
| Advances from/(to) other related companies | | (4,753) | 314 | - | - |
| Advances to associates | | (111,413) | (45,269) | - | - |
| Repayment of lease liabilities | 16, 25 | (239,813) | (191,913) | - | - |
| Interest paid on other undertakings | | - | (13,795) | - | - |
| Interest paid on bonds | 10 | (2,347,500) | (2,347,500) | (2,347,500) | (2,347,500) |
| Interest paid on bank loans | | (2,687,345) | (441,157) | - | - |
| Net cash (used in)/from financing activities | | (3,180,883) | 1,954,303 | 58,939,641 | 551,995 |
| Movement of ECL on cash in banks | | (3,237) | 3,093 | - | - |
| Net movement in cash and cash equivalents | | 49,640 | (1,796,156) | 2,197 | (3,640) |
| Cash and cash equivalents at beginning of year | | (1,386,556) | 406,507 | 2,400 | 6,040 |
| Cash and cash equivalents at end of year | 31 | (1,340,153) | (1,386,556) | 4,597 | 2,400 |

The notes on page 38–98 form part of these financial statements.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

1. Corporate information

The consolidated financial statements of Stivala Group Finance p.l.c. and its subsidiaries ("the Group") for the year ended 31 December 2021 were authorized for issue in accordance with a resolution of the Directors on 28 April 2022.

Stivala Group Finance p.l.c. ("the Company") with registration no. of C 82218 is a limited liability company listed on the Malta Stock Exchange and is incorporated in Malta, under the Companies Act, Cap. 386 of the Laws of Malta. The Company is a holding company of the Carmelo Stivala Group Limited, which is mainly involved to act as a holding company and to rent out properties to its subsidiaries for hospitality and property development/letting purposes. Its registered office is at 143, The Strand, Gzira, Malta.

2. Significant accounting policies

2.1 Basis of preparation and consolidation

Basis of preparation

These financial statements are prepared under the historical cost convention, as modified by the measurement of investment properties and buildings under property, plant and equipment in accordance with the requirements of the International Financial Reporting Standards (IFRS) as adopted by the European Union and in compliance with the Companies Act, Cap. 386 of the Laws of Malta. The consolidated financial statements are presented in Euro (€), which is the functional currency of the Group.

Further information concerning fair value, fair value hierarchy and transfers therein are outlined in detail in notes 2.21 and 32 to the financial statements.

Assessment of the Appropriateness of the Going Concern Assumption

After the principal divestiture of the major shareholder 'Mr. Carlo Stivala' as laid out in detail in note 22, the financial impact on the Group and the Company were summarized as per below.

As at 31 December 2021, the Group's current liabilities exceeded its current assets by €1,108,077 (2020: current assets exceeded its current liabilities by €66,461,895) whereas the Group's total assets exceeded its total liabilities by €235,391,856 (2020: €231,436,832). The current liabilities position as at 31 December 2021 include a balance of €2,734,894 (2020: €1,184,961) that represents deferred income which does not have an impact on the Group's liquidity.

As at 31 December 2021, the Company's current liabilities exceeded its current assets by €19,377,529 (2020: current assets exceeding current liabilities of €967,983). Given the nature of the Company and its function within the Group of which it is the ultimate parent company ("the Company" or "the ultimate parent"), the Company is dependent on the Group for financial support. See succeeding paragraphs for information regarding cash flow forecasts.

Management has concluded that as a result of the strength of the Group's financial position and the measures being taken by management to address and mitigate the impact of the covid-19 pandemic, the Group will be able to sustain its operations over the foreseeable future in a manner that is cash flow positive. Accordingly, based on information available at the time of approving these financial statements management has reasonable expectation that the Group will meet all its obligations as and when they fall due over the foreseeable future and therefore, that the going concern basis adopted for the preparation of these financial statements is appropriate.

Stivala Group Finance p.l.c.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Business update

2021 was a challenging journey for Stivala Group, traversing still the uncertainty of the covid-19 pandemic. One of the group's main revenue stream, the hospitality sector, has continued to be unevenly affected by the covid-19. In the early part of 2021, operations of the hospitality sector have curtailed due to rules imposed by the government such as temporary closure of restaurants and non-essential shop. In the second and third quarter of 2021 especially the summer months, however, there was a noticeable increase in hospitality revenue due to gradual easing of restrictions following the success resulting from the roll out of vaccines in Malta and across the world. This track continued not until the new omicron variant of covid-19 came into picture approaching the end of 2021, which to some degree, contributed to the decline of hospitality sector at the end of the year. Nevertheless, ultimately, the total of hospitality revenue in 2021 increased by 100% from 2020.

Major refurbishment of Bayview Hotel (one of the major operating hotel) of the Group was completed during 2021 with improved amenities just in time to welcome customers as restrictions on travel gradually eased. While the Group continues to diversify its business portfolio, the other main revenue stream 'property development and letting' continues operate in a normal operating cycle as there was no significant fluctuation noted compared with prior year. The Group has lots of other projects to refurbish and rebrand other properties within the Group. All of these are part of the Group's ultimate objective to focus on creating, acquiring and enhancing its operations to create shareholder value over the medium term to ensure the clients get the best possible service and value.

Liquidity

During the year under review, the Group secured €2.3 million loan to manage its working capital needs. The Group owns more than 60 properties in its portfolio which have countless opportunities to generate future economic benefit to the Group. In 2021 and 2020, the Group has availed itself of various bank loan repayment moratoriums with its' bankers. In order to finance various projects of the Group, the Group are considering a hybrid of bank financing and bond issuance which are expected to happen in 2022 or 2023.

Cash flow forecast

Management has prepared a forecast for the Group covering 11 years from the balance sheet date in order to assess the impact of the current situation on the business. The assumptions are based on the estimated potential impact of covid-19 restrictions and regulations, following a successful vaccine and booster roll-out and gradual easing of restrictions by the government. The base case scenario considered the benefits of measures taken by management to reduce the negative impact of covid-19 on its operations especially the hospitality sector, cash inflows from disposal of an immovable property and cash net inflows to be generated from revenue upon completion of various projects mentioned in the directors' report. In addition to these projects which will be financed through a hybrid of bank financing and bond issuance, the Group plans to continue with the development of other projects that are key to its long-term strategy. Management is also in advanced discussions with an interested third-party buyer and expects the asset to be realized through sale within the forecast period.

Management has cautiously planned the year when to start and target completions of aforementioned projects in order to facilitate its liquidity. Based on the 11 year forecast of the Group, the Group is expected to continue as a going concern, having sufficient liquidity with an approximate €64 million cash and cash equivalents (net of bank overdrafts) at the end of the forecast period, relative to the hybrid funding the Group intends to take.

Management has also identified a contingency plan should there be an unpredictable economic downturn. Certain capital investments that were not deemed critical will be postponed to future dates.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2.2 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting date; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

The Group classifies all other liabilities as non-current.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3 Investment in associate

An associate is an entity over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is also the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 Financial instruments

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets measured at amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.16 (Revenue from contracts with customers).

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets in these financial statements are classified in four categories:

- financial assets at amortised cost (debt instruments)
- financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- financial assets at FVTPL

Financial assets at amortised cost (debt instruments)

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

The Group's financial assets at amortised cost include cash in banks, trade and other receivables, and receivables from associates, directors and other related undertakings which are included under current financial assets.

Financial assets at FVOCI (debt instruments)

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

As at 31 December 2021 and 2020, the Group has no debt instruments at FVOCI.

Financial assets designated at FVOCI (equity instruments)

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

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

As at 31 December 2021 and 2020, the Group has no equity instruments at FVOCI.

Financial assets at FVTPL

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

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

As at 31 December 2021 and 2020, the Group has no debt instruments at FVTPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

Further disclosures relating to impairment of financial assets are also provided in notes 3 and 31 to the consolidated financial statements.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

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

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash in bank, other receivables, receivables from associates, directors and other related undertakings, the Group applies a general approach in calculating ECLs. Therefore, the Group tracks changes in credit risk, and recognises a loss allowance based on either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. This is being done by considering the change in the risk of default occurring over the remaining life of the financial instrument. The key elements in the calculation of ECLs are the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- financial liabilities at FVTPL
- financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

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

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability at FVTPL as at 31 December 2021 and 2020.

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 32 to the consolidated financial statements.

Derecognition

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

Offsetting of financial instruments

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

2.5 Property, plant and equipment

Commercial and residential properties included in buildings are stated in the statement of financial position at its revalued amount, being the fair value at the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from those that would be determined using fair values at each reporting date.

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

Property, plant and equipment, except for revalued buildings, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write off the cost of property, plant and equipment less any residual value over the expected useful lives.

The annual rates used for this purpose, which are consistent with those used in the previous year, are as follows:

| | |
|--|-----|
| Buildings | 1% |
| Motor vehicles | 20% |
| Kitchen equipment | 20% |
| Computer equipment | 20% |
| Plant and machinery | 20% |
| Furniture, fittings and office equipment | 20% |
| Electrical installations | 20% |
| Energy saving equipment | 20% |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Depreciation methods, useful life and residual values are reassessed at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised.

2.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category that is consistent with the function of the intangible assets. These costs are amortised using a straight line method as follows:

| | |
|-------------------|-----|
| Computer software | 25% |
|-------------------|-----|

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in statement of profit or loss and other comprehensive income when the asset is derecognised.

2.7 Investment property

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

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. After initial recognition, investment property is carried at fair value representing open market value determined periodically. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

These valuations are reviewed annually. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

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

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from its future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair value are recognised in profit or loss and transferred to "Revaluation reserve" under equity. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

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

If an item of property, plant and equipment and property held-for-sale becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in statement of comprehensive income to the extent that it reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus with equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to the profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through statement of comprehensive income.

2.8 Inventories

Inventories are valued at the lower of cost and net realisable value.

The cost of inventories comprises the invoiced value of goods sold and other direct costs and is determined by first-in first-out method.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.9 Property held-for-sale

Property held-for-sale is included in the financial statements at the lower of cost and net realisable value. Cost comprises the purchase price of acquiring the property and other costs incurred to develop the property. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand, which are subject to an insignificant risk of changes in value.

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For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand and banks as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

2.11 Share capital

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

2.12 Dividend distribution

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

2.13 Trade payables

Trade payables are 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. 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.

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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 the passage of time is recognised as interest expense.

2.15 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euro, which is the Company's functional and presentation currency.

Foreign currency translations 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. All foreign exchange gains and losses are presented in the income statement within 'Other income' or 'Other expenses'.

2.16 Revenue recognition

Revenue from contracts with customers (under IFRS 15)

Revenues include all revenues from the ordinary business activities of the group and are recorded net of value added tax. They are recognised in accordance with the provision for goods or services provided that collectability of the consideration is probable.

Revenue mainly represents income earned for accommodation, food and beverage and other services. The Group also sold property through barter during the year. The Group recognizes revenue when or as it satisfies a performance obligation by transferring control of a product or service to a customer.

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Sale/barter of property for resale

Revenue from sale/barter of real property is recognised at the point in time when control of asset is transferred to the customer, generally upon signing of deed of sale where the customer obtains legal title to the property. Total fund is paid in full on date of deed.

Revenue from accommodation

Revenue from accommodation is recognised over a period of time. The customers get the benefits (i.e. control over the promise) with every passing day of each year's stay at the Group's hotel rooms. The revenue stream therefore meets the conditions for revenue recognition over time (i.e. stage of completion), and revenue is accordingly recognised on a daily basis of accommodation or equally amortised over the period of stay of the customer.

The performance obligation is to provide accommodation services as and when customers make use of the services. The transaction price follows a fee structure which is known at the date of booking or consumption of service and thus no significant estimates are required in this respect.

Revenue from food and beverage, and other services

Revenue from services is generally recognized 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 from these activities is recognised when the service is performed and/or when the goods (primarily food and beverage relating to restaurant and/or bar sales) are supplied upon performance of the service.

Each of the services rendered is assessed to be a distinct performance obligation, and if applicable, the Group allocates the transaction price to each of the services rendered to the customer on a relative basis, based on their stand-alone selling price. Normally, the transaction price follows a fee structure which is known at the date of consumption of service and thus no significant estimates are required in this respect.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (if there is any).

In determining the transaction price, the Group considers the effects of variable consideration, existence of significant financing component, non-cash consideration, and consideration payable to the customer (if there is any).

i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer.

The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

As at 31 December 2021 and 2020, variable consideration would be the amount refunded to a customer if the customer cancels the booking within the window provided by the hotel. In this case, the Group uses the 'most likely amount' approach since it has only 2 possible outcome, which is if the customer will cancel the booking or not. The amount of variable consideration on refundable amounts to customer is not that significant as at year end. Should there have been discounts or concessions for goods and services, these have been already established with customer at the inception of the contract, thus are not considered contingent as the amounts agreed are fixed or unavoidable.

Overall, aside from the above mentioned, there are no other known factors or events that could make the consideration to be variable as at the current financial year end. The validity of this assessment is reassessed at each reporting date.

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ii) Significant financing component

The Company applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less. As at each year end, the contract liabilities (if there is any) were normally recognised as revenue within 1 year. The validity of this assessment is reassessed at each reporting date.

iii) Non-cash consideration

The Group does not receive non-cash considerations from customers for the sale of goods and services.

iv) Consideration payable to customer

There is no consideration payable to a customer that can be applied against amounts owed to the Group. As at 31 December 2021 and 2020, upfront fees and pre-production fees are not applicable.

Contract balances

Contract assets

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

It is very unlikely for the company to have contract assets since the collection of payment must be completed immediately after the company performs the service or goods/services and before the customer leaves the hotel's premises. This leaves no obligation on the part of the customer to pay further consideration.

Trade receivables

A receivable represents the company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the hotel has received consideration, or for which an amount of consideration is due from the customer. It is noted that in extremely rare situations, customers contracts contain a right to right to terminate for convenience, where amounts paid by the customer are refundable. In these situations, the customer has paid for future goods or services, but because of the termination clause an agreement does not exist and thus the Hotel does not have an obligation to transfer goods or services except as the customer requests (i.e. doesn't terminate).

Cost to obtain a contract

The Group applies the optional practical expedient to immediately expense costs to obtain a contract if the amortisation period of the asset that would have been recognised is one year or less. As such, payments of commissions to sales agencies which constitute relatively small amounts are immediately recognised as an expense in the consolidated statement of profit or loss and comprehensive income.

Other revenue sources (not within the scope of IFRS 15)

The following recognition criteria must also be met before revenue is recognised:

Rental income

This relates to the rental income from the rental of immovable property in the ordinary course of the Group's activities. For operating leases, it is recognised at profit or loss on a straight-line basis over the term of the lease and is stated net of value added tax.

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Dividend income

Revenue from dividend income is recognised on the date the Group's right to receive payment is established.

Interest income

Interest income is accounted for when it is probable that the economic benefits associated with the transaction will flow to the Group and these can be measured reliably. Interest income is recognised on an accrual or time proportion basis.

Other operating income

Other operating income are accounted for when it is probable that the economic benefits associated with the transaction will flow to the Group and these can be measured reliably.

2.17 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| | |
|-------------------------|--------------|
| Buildings | 5 - 11 years |
| Furnitures and Fittings | 5 years |

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.22 (Impairment of non-financial assets).

ii) Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see note 16).

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value (if there is any). Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss and other comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.18 Assets held for distribution to owner

In accordance with IFRS 5, a non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners.

For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification.

Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

Non-current assets and disposal groups classified as held for distribution to owner are measured at the lower of their carrying amount and fair value less costs to distribute. Costs to distribute are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

There are a number of asset categories that are excluded from measurement requirements of IFRS 5, although disclosure requirements still need to be complied with. Among these exclusions, the most relevant to the Company is "Non-current assets that are accounted for in accordance with the fair value model (IAS 40 Investment Property)" which will be subsequently measured under the same accounting policy as before the classification.

In prior year, assets classified as held for distribution to owner are presented separately as current items in the statement of financial position. Additional disclosures are provided in note 22.

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2.19 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity, in which case it is also dealt with in other comprehensive income or in equity, as appropriate.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax

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

Deferred tax liabilities are recognised for all temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Value Added Tax

Revenue, expenses and assets are recognised net of Value Added Tax, except:

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

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

2.20 Retirement benefits

The Group contributes towards the state pension fund in accordance with local legislation. The only obligation of the Group is to make the required contribution and carries no further legal or construction obligations to make further payments if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits. Costs are expensed in the year in which they are incurred.

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2.21 Fair value measurements and valuation processes

The Group measures non-financial assets such as buildings under property, plant and equipment and investment property at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability or (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure at fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Information about the valuation techniques and inputs used in determining the fair value of buildings and investment properties are disclosed in notes 13, 16, 17 and 32 respectively.

2.22 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

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For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.23 Government grants

Government grants are recognised where there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, the government grants related to assets, whose primary condition is that the Group should purchase, construct or otherwise acquire noncurrent assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

2.24 Borrowing costs

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

2.25 Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is the Group's chief operating decision-maker in accordance with the requirements of IFRS 8 'Operating Segments'.

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An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance executing the function of the chief operating decision-maker.

3. Critical accounting estimates and judgements

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

Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group does not include the renewal periods as part of the lease term for leases of assets with non-cancellable periods as these are not reasonably certain to be exercised. The effect of covid-19 pandemic also contributes to this uncertainty. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Property lease classification – Group as lessor

The Group has entered into commercial and residential property leases on its investment property and property, plant and equipment portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the properties and the present value of the minimum lease payments not amounting to substantially all of the fair value of the properties, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forward can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

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Assets held for distribution to owner

On 25 November 2020, the Board of Directors publicly announced that Mr. Carlo Stivala, one of the ultimate beneficial owners, will relinquish all of its ownership interest from the group. The Board considered the noncurrent assets that will be transferred to the owner are classified as 'Assets held for distribution to owner' as such assets met the criteria for the following reasons:

- The selected assets are available for immediate distribution in their present condition.
- The actions to complete the distribution were initiated such as the Public announcement, Board resolutions, Framework agreement and Promise of sale agreement. This is expected to be completed within 3 months from the date of initial classification.

For more details on the assets held for distribution to owner, refer to note 22.

Estimates and assumptions

Fair value of investment property and property, plant and equipment

The Group carries its investment property at fair value, with changes being recognised in profit or loss, while it carries its buildings within property, plant and equipment at fair value, with changes being recognised in other comprehensive income. These are based on market valuations performed by independent professional architect at least every three years. In a year when market valuations are not performed by the independent professional architect, an internal assessment of the fair value of investment property and property, plant and equipment are performed to reflect market conditions at the year-end date by the management. The Management has assessed the valuation of properties as at 31 December 2021 by reference to value of similar properties in the market as well as the management's expert knowledge of the industry being in property sector for more than 20 years.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill recognised by the Group.

Provision for ECL on trade receivables

Upon adoption of IFRS 9, provision for ECL is maintained at a level considered adequate to provide for potentially uncollectible receivables. For trade receivables, the Company applies the Simplified Approach designed to identify potential charges to the allowance and is performed on a continuous basis throughout the period. For the year ended 31 December 2021, the increase in provision for ECL on trade receivables amounted to €21,810 (2020: decrease of €32,483) (note 21).

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in notes 21 and 32.

Provision for ECL on other financial assets

The measurement of the Group's ECL on cash in banks, receivables from associates and other related undertakings is a function of the PD, LGD and the EAD. These financial assets are measured under Stage 1 of the impairment model, and therefore ECLs are calculated on 12-month basis.

Elements of the ECL model which are considered accounting judgments and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances should be measured on a lifetime ECL basis and the qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It is the Group's policy to regularly review its model in the context of actual loss experience and adjust when necessary.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates or rates from bank sanction letters) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

4. Application of New and Revised IFRS

4.1 New and Revised IFRS effective for current year

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. Several other amendments and interpretations apply for the first time in 2021, but do not have an impact on the financial statements of the group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each new standard and amendment is described below:

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. These amendments had no impact on the financial statements of the Company, but may impact future periods should the Company enter into any leases.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

4.2 New and Revised IFRS in issue but not effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

| <i>Description</i> | <i>Effective for annual periods beginning on or after</i> |
|---|---|
| <i>Reference to the Conceptual Framework – Amendments to IFRS 3</i> | 1 January 2022 |
| <i>Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16</i> | 1 January 2022 |
| <i>Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37</i> | 1 January 2022 |
| <i>IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter</i> | 1 January 2022 |
| <i>IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities</i> | 1 January 2022 |
| <i>IAS 41 Agriculture – Taxation in fair value measurements</i> | 1 January 2022 |
| <i>IFRS 17 Insurance Contracts</i> | 1 January 2023 |
| <i>Amendments to IAS 1: Classification of Liabilities as Current or Non-current</i> | 1 January 2023 |
| <i>Definition of Accounting Estimates – Amendments to IAS 8</i> | 1 January 2023 |
| <i>Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2</i> | 1 January 2023 |

5. Segment information

For management purposes, the Group is organised into business units based on its products and services and has two reportable segments, as follows:

| | |
|--|---|
| <i> Holding</i> | This serves as the finance arm of the Group and the principal vehicle for further expansion of the Group's hospitality business and mixed-use developments. |
| <i> Property development and letting</i> | This segment carries works such as construction, plumbing, electrical and others to bring various properties in a state that can be leased to third parties. In relation to this, the Group leases out various freehold commercial and residential properties to third parties. |
| <i> Hospitality and Entertainment</i> | This segment includes hotel operations such as accommodation, food and beverage and other related services. The Group owns various hotels and apartment suites namely Bayview Hotel, Blubay Apartments, Blubay Suites, Sliema Hotel and Azur Hotel. |

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

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Notes to the Financial Statements for the year ended 31 December 2021

5. Segment information (continued)

Inter-segment transactions, assets and liabilities are eliminated upon consolidation and reflected in the 'eliminations' column.

| Year ended 31 December 2021 | Holding | Property development and letting | Hospitality and Entertainment | Total segments | Eliminations | Consolidated |
|---|---------------------|----------------------------------|-------------------------------|--------------------|----------------------|--------------------|
| | € | € | € | € | € | € |
| External customers | - | 8,563,835 | 6,501,458 | 15,065,293 | - | 15,065,293 |
| Inter-segment | 41,142,087 | 8,286,226 | - | 49,428,313 | (49,428,313) | - |
| Total revenue | 41,142,087 | 16,850,061 | 6,501,458 | 64,493,606 | (49,428,313) | 15,065,293 |
| Income/(expenses) | | | | | | |
| Finance and similar income | - | 344,702 | - | 344,702 | (344,702) | - |
| Finance cost | (2,407,500) | (344,945) | (2,327,128) | (5,079,573) | 1,864,152 | (3,215,421) |
| Depreciation and amortisation | - | (346) | (5,916,616) | (5,916,962) | 2,209,043 | (3,707,919) |
| Share in loss of associates | - | - | (47,300) | (47,300) | - | (47,300) |
| Income tax expense | 801,809 | 1,412,454 | 2,432,065 | 4,646,328 | 3,345,197 | 7,991,525 |
| Segment profit/(loss) before tax | (21,182,263) | 105,259,964 | (4,347,608) | 79,730,093 | (75,334,916) | 4,395,177 |
| Total assets | 60,322,974 | 369,883,134 | 65,204,115 | 495,410,223 | (132,456,341) | 362,953,882 |
| Total liabilities | 79,074,221 | 50,213,122 | 72,252,084 | 201,539,427 | (73,977,401) | 127,562,026 |
| Other disclosures | | | | | | |
| Capital expenditure | - | 8,256,277 | - | 8,256,277 | - | 8,256,277 |

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Notes to the Financial Statements for the year ended 31 December 2021

5. Segment information (continued)

| Year ended 31 December 2020 | Holding | Property development and letting | Hospitality and Entertainment | Total segments | Eliminations | Consolidated |
|----------------------------------|-------------------|----------------------------------|-------------------------------|--------------------|----------------------|--------------------|
| | € | € | € | € | € | € |
| External customers | - | 8,395,831 | 3,352,671 | 11,748,502 | - | 11,748,502 |
| Inter-segment | 3,458,801 | 7,975,098 | - | 11,433,899 | (11,433,899) | - |
| Total revenue | 3,458,801 | 16,370,929 | 3,352,671 | 23,182,401 | (11,433,899) | 11,748,502 |
| Income/(expenses) | | | | | | |
| Finance and similar income | | 347,922 | 1 | 347,923 | (347,922) | 1 |
| Finance cost | (2,407,500) | (348,425) | (2,216,529) | (4,972,454) | 1,812,347 | (3,160,107) |
| Depreciation and amortisation | - | (346) | (5,724,279) | (5,724,625) | (270,597) | (5,995,222) |
| Share in profit of associates | - | 353,844 | - | 353,844 | - | 353,844 |
| Income tax expense | (820,427) | (10,182,681) | 3,720,750 | (7,282,358) | 6,802,635 | (479,723) |
| Segment profit before tax | 1,020,427 | 131,550,006 | (6,883,928) | 125,686,505 | (98,214,417) | 27,472,088 |
| Total assets | 62,000,705 | 343,589,531 | 62,114,376 | 467,704,612 | (113,635,374) | 354,069,238 |
| Total liabilities | 60,326,498 | 46,262,553 | 67,246,802 | 173,835,853 | (51,203,447) | 122,632,406 |
| Other disclosures | | | | | | |
| Capital expenditure | - | 11,524,132 | - | 11,524,132 | - | 11,524,132 |

Capital expenditure consists of additions to property, plant and equipment, and investment properties.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

6. Revenue from contracts with customers

The Group's hospitality revenue is derived locally from the operations of the hotels in Malta.

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

| | 2021 | 2020 |
|--|------------------|------------------|
| | € | € |
| Type of goods or service | | |
| <i>Hospitality and Entertainment (note 5)</i> | | |
| Accommodation | 5,652,238 | 2,867,939 |
| Food and beverage | 616,423 | 347,321 |
| Other services | 232,797 | 137,411 |
| | <u>6,501,458</u> | <u>3,352,671</u> |
| <i>Property development and letting (note 5)</i> | | |
| Sale/barter of property for resale (note 20) | 196,784 | 119,605 |
| | <u>6,698,242</u> | <u>3,472,276</u> |
| Timing of revenue recognition | | |
| Services/goods transferred at a point in time | 1,046,004 | 604,337 |
| Services transferred over time | 5,652,238 | 2,867,939 |
| | <u>6,698,242</u> | <u>3,472,276</u> |

Performance obligations

Information about the Group's performance obligations are summarised below:

Accommodation

The performance obligation is satisfied upon rendering the service over time as the hotel's customers consume and receive the benefit from these services on each day/throughout their stay until checkout. The payment (which is equal to the transaction price established at the time of booking) is generally due immediately on the day of checkout before the customer leaves the hotel's premises.

Food, beverage and other services

The performance obligation is satisfied at a point in time upon availment of service by the customer. The payment (which is equal to the transaction price established at the time of availment) is generally due immediately upon completion of services before the customer leaves the hotel's premises.

The Group assesses that there are no other premises in the contract of sale that are separate performance obligations to which a portion of transaction price needs to be allocated. The transaction price, which is equal to the cash selling price indicated in the sales invoices issued, is therefore allocated to only one performance obligation.

Sale/barter of property for resale

The performance obligation is satisfied at the point in time when control of the asset is transferred to the customer, generally upon signing of deed of sale where the customer obtains legal title to the property. The normal credit term is 30 to 90 days from date of deed.

The Group assesses that there are no other promises in the contract of sale/barter of properties held-for-sale that are separate performance obligations to which a portion of the transaction price needs to be allocated. The transaction price, which is equal to the selling price indicated in the deed of sale/barter signed by both parties, is therefore allocated to only one performance obligation. The Group assesses that there exist no variable considerations and consideration payable to the customer relating to the sale/barter of properties held-for-sale.

There are no contract liabilities or remaining performance obligations as at 31 December 2021 and 2020.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

7. Expenses by nature

| | The Group | | The Company | |
|---|-------------------|------------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Cost of sales | | | | |
| Direct wages (note 11) | 526,627 | 670,174 | - | - |
| Social security contributions (note 11) | 113,806 | 112,752 | - | - |
| Commissions | 712,850 | 519,590 | - | - |
| Repairs and maintenance | 726,058 | 911,255 | - | - |
| Cost of goods sold (note 19) | 469,478 | 467,083 | - | - |
| Licenses and permits | 270,593 | 319,078 | - | - |
| Utilities | 755,731 | 747,371 | - | - |
| Transport | 26,329 | 76,558 | - | - |
| Fuel | 111,701 | 88,155 | - | - |
| Other direct costs | - | 6,082 | - | - |
| | <u>3,713,173</u> | <u>3,918,098</u> | <u>-</u> | <u>-</u> |
| Distribution and selling costs | | | | |
| Advertising and promotions | 46,382 | 31,410 | - | - |
| | <u>46,382</u> | <u>31,410</u> | <u>-</u> | <u>-</u> |
| Administrative expenses | | | | |
| Depreciation (notes 13 and 24) | 3,687,024 | 5,953,883 | - | - |
| Amortisation | 20,895 | 41,339 | - | - |
| Directors' remuneration (note 11) | 184,359 | 199,477 | 26,385 | 18,000 |
| Office salaries (note 11) | 497,957 | 236,162 | 8,511 | - |
| Social security contributions (note 11) | 30,900 | 22,564 | - | - |
| Auditors' remuneration | 20,500 | 20,500 | 8,500 | 8,500 |
| Provision for ECL (notes 16, 21 and 32) | 7,920,416 | - | - | 207 |
| Legal and professional fees | 338,947 | 615,033 | 3,450 | 2,995 |
| Rent (note 25) | 40,346 | 2,200 | - | - |
| Computer maintenance | 97,073 | 45,098 | - | - |
| Bank charges | 133,915 | 67,288 | 408 | 313 |
| Insurance | 53,821 | 103,827 | - | - |
| Motor vehicle expenses | 91,808 | 65,249 | - | - |
| Other administrative expenses | 433,186 | 390,647 | 871 | 859 |
| | <u>13,551,147</u> | <u>7,763,267</u> | <u>48,125</u> | <u>30,874</u> |
| Other operating charges | | | | |
| Exchange fluctuations | 2,233 | 3,909 | - | - |
| | <u>2,233</u> | <u>3,909</u> | <u>-</u> | <u>-</u> |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2021 and 2020 relate to the following:

| | The Group | | The Company | |
|------------------------|-----------|--------|-------------|--------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Annual statutory audit | 20,500 | 20,500 | 10,030 | 10,030 |

8. Other operating income

| | The Group | | The Company | |
|---|-----------|-----------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Recharge of utilities to tenants | 322,506 | 368,519 | - | - |
| Charges to tenants for damages | - | 2,349 | - | - |
| Condominium fees & other charges | 284,897 | 196,641 | - | - |
| Recharge of expenses to other parties | 210,395 | 226,989 | - | - |
| Decrease in provision for estimated credit losses (notes 16, 21 and 32) | - | 16,026 | 4,011 | - |
| Litigation settlement | - | 62,500 | - | - |
| Management fees | 135,634 | 100,118 | - | - |
| Gain on lease modification / rent concession | 6,796 | 9,000 | - | - |
| Government grant | 3,296 | - | - | - |
| Miscellaneous income | 105,134 | 188,057 | - | - |
| Reversal of payable | - | 55,407 | - | - |
| | 1,068,658 | 1,225,606 | 4,011 | - |

9. Finance and similar income

| | The Group | | The Company | |
|---------------------|-----------|------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Interest from banks | - | 1 | - | - |

10. Finance costs

| | The Group | | The Company | |
|---|-----------|-----------|-------------|-----------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Interest on bank overdrafts | 17,978 | 5,590 | - | - |
| Interest on bonds and amortisation of bond issue cost | 2,407,500 | 2,407,500 | 2,407,500 | 2,407,500 |
| Interest on bank loans | 761,925 | 700,550 | - | - |
| Interest on lease liability (note 25) | 28,018 | 32,672 | - | - |
| Other interest | - | 13,795 | - | - |
| | 3,215,421 | 3,160,107 | 2,407,500 | 2,407,500 |

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The Maltese government announced a number of measures to financially support businesses whose operation was financially affected by the Covid-19 pandemic. ST Hotels Ltd. was able to benefit from MDB covid-19 interest rate subsidy scheme where the Company received €101,048 in the form of government grant during 2021. These amounts were deducted from the line item 'Interest on bank loans' as disclosed above.

11. Staff costs and employee information

Staff costs for the year comprised the following:

| | The Group | | The Company | |
|---|------------------|------------------|---------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Wages and salaries (including Directors' remuneration) (note 7) | 1,208,943 | 1,105,813 | 34,896 | 18,000 |
| Social security contributions (note 7) | 144,706 | 135,316 | - | - |
| | <u>1,353,649</u> | <u>1,241,129</u> | <u>34,896</u> | <u>18,000</u> |

The Maltese government announced a number of measures to financially support businesses whose operation was financially affected by the Covid-19 pandemic. The Group was able to benefit from the covid wage supplement, receiving €800 on a monthly basis per full-time employee commencing on March 2020. During the current year ended 31 December 2021, the Group had €1,139,219 (2020: €813,428) in the form of government grants under the covid wage supplement. These amounts were deducted from the line item 'direct wages and office salaries' as disclosed in note 7.

The average number of persons (including Directors) employed by the company during the year was as follows:

| | The Group | | The Company | |
|----------------|------------|------------|-------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| | No. | No. | No. | No. |
| Operational | 121 | 120 | - | - |
| Administration | 15 | 15 | - | - |
| | <u>136</u> | <u>135</u> | <u>-</u> | <u>-</u> |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

12. Income tax

Tax expense on profit on ordinary activities

Provision for income tax has been made at the rate of 35% on the chargeable income for the year except for investment income which is charged at the rates of 15% and 35% and for proceeds from sale of property taxable at 8% final withholding tax.

| | The Group | | The Company | |
|--|------------------|--------------------|----------------|------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| <i>Income tax expense:</i> | | | | |
| Tax at source | - | - | - | (821,728) |
| Current tax charge | - | (803,299) | - | - |
| Final withholding tax at 15% | (1,248,657) | (918,185) | - | - |
| Final withholding tax at 8% | - | (18,800) | - | - |
| Final withholding tax at 5% | (12,750) | - | - | - |
| Over/(Under) provision of tax in prior years | 631,785 | (731) | 821,728 | - |
| Total current tax expense | (629,622) | (1,741,015) | 821,728 | (821,728) |
| Deferred taxation (note 26): | | | | |
| Credit for the year | 8,621,147 | 1,261,292 | (19,919) | 1,301 |
| Income tax credit/(expense) for the year | 7,991,525 | (479,723) | 801,809 | (820,427) |

12. Income tax (continued)

Tax reconciliation

| | The Group | | The Company | |
|--|--------------|--------------|--------------|-------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Profit before tax | 4,395,177 | 27,472,088 | (21,182,263) | 1,020,427 |
| Taxation charge thereon | 1,538,311 | 9,615,230 | (7,413,792) | 357,149 |
| <i>Tax effect of:</i> | | | | |
| - excess of carrying amount of property, plant and equipment over tax base | (556,319) | (529,744) | - | - |
| - expenses not allowed for tax purposes | 24,699,665 | 2,671,942 | 21,814,926 | 853,431 |
| - income not allowed for tax purposes | (26,936,483) | (12,294,924) | (14,401,134) | (1,210,580) |
| - income taxed at different rates | 1,261,407 | 1,740,284 | - | 821,728 |
| - unabsorbed capital allowances | (834,843) | (742,749) | - | - |
| - investment tax credit | (52,860) | (1,330,676) | - | - |
| - unabsorbed tax losses | (709,828) | (923,689) | 18,515 | 103 |
| - change in the fair value of investment property | (3,006,588) | 2,321,674 | - | - |
| - effect of adoption of IFRS 16 | 1,854 | (5,492) | - | - |
| - provision for estimated credit losses | (2,764,056) | (42,864) | 1,404 | (1,404) |
| - under provision of prior year tax charge | (631,785) | 731 | (821,728) | - |
| Income tax (credit)/expense for the year | (7,991,525) | 479,723 | (801,809) | 820,427 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Current taxation

Taxation due/recoverable is made up as follows:

| | The Group | | The Company | |
|---|-----------|-------------|-------------|-------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| As at 1 January | 2,982,619 | 2,158,705 | (904,041) | (1,198,288) |
| Underprovision of tax in prior years | (631,785) | 731 | (821,728) | - |
| Income tax expense | 1,261,407 | 1,740,284 | - | 821,728 |
| Tax refund/(excess) tax refund in prior year | (294,247) | 294,247 | 2,543,814 | 294,247 |
| | 3,317,994 | 4,193,967 | 818,045 | (82,313) |
| Payments: | | | | |
| Settlement tax | (768,769) | - | - | - |
| Final withholding tax at 5% and 8% | (12,750) | (18,800) | - | - |
| Tax at source | - | - | (840,140) | (821,728) |
| | (781,519) | (18,800) | (840,140) | (821,728) |
| Reclassification to accrual: | | | | |
| Final withholding tax at 15% | 918,185 | (1,192,548) | - | - |
| As at 31 December | 3,454,660 | 2,982,619 | (22,095) | (904,041) |

13. Property, plant and equipment

The Group

Fair value

The fair value of the freehold buildings is based on a valuation assessed by the directors on 31 December 2021 for all existing properties as at year end, which includes the consideration of wear and tear. The last independent architect's valuation of the Company's properties was performed on 31 May 2020, by independent external valuers having experience in the location and type of property. The costs of additions after 31 May 2020 are being considered by the directors as being equivalent to its fair value. As at 31 December 2021, management assessed whether there are any significant changes to the significant inputs of the valuation. The fair value movement were credited to other comprehensive income and subsequently transferred to revaluation reserve under equity.

Owner-occupied property is disclosed in property, plant and equipment as Buildings.

These consist mainly of residential and commercial buildings with a carrying amount of €24,825,898 (2020: €61,988,419), had these assets been carried at cost less accumulated depreciation. As at 31 December 2021 and 2020, these properties have been categorised to fall within level 2 of the fair value hierarchy. The different levels in the fair value hierarchy have been defined in note 32. The Group policy is to recognise transfers into and out of fair value hierarchy levels as of date of the event of change in circumstances that caused the transfer. There were no transfers between levels during the year. For all properties, their current use equates to the highest and best use.

Fair value hierarchy disclosures for these buildings are in note 32.

For properties categorised under Level 2 of the fair value hierarchy as at 31 December 2021 and 2020, the following techniques and inputs were used:

| Type of property | Technique | Inputs |
|------------------------|-----------------|--|
| Commercial properties | Market approach | Value of the properties are based on the selling price of similar types of properties. |
| Residential properties | Market approach | |

Stivala Group Finance p.l.c.

Notes to the Financial Statements for the year ended 31 December 2021

13. Property, plant and equipment (continued)

| | The Group | | | | | | | | | |
|---|---------------|----------------|-------------------|--------------------|---------------------|--|--------------------------|-------------------------|---------------|---|
| | Buildings | Motor Vehicles | Kitchen equipment | Computer equipment | Plant and machinery | Furniture, fittings and office equipment | Electrical installations | Energy saving equipment | Total | |
| Cost/ Valuation | € | € | € | € | € | € | € | € | € | € |
| As at 1 January 2020 | 78,592,613 | 424,226 | 67,043 | 308,446 | 526,427 | 6,137,756 | 3,915,405 | 1,031,359 | 91,003,275 | |
| Additions | 6,080,690 | 39,615 | - | 18,580 | 18,559 | 735,663 | 994,446 | 7,602 | 7,895,155 | |
| Transfer from investment property (note 17) | 55,561,976 | - | - | - | - | - | - | - | 55,561,976 | |
| Revaluation surplus (note 29) | 86,945,920 | - | - | - | - | - | - | - | 86,945,920 | |
| As at 31 December 2020 | 227,181,199 | 463,841 | 67,043 | 327,026 | 544,986 | 6,873,419 | 4,909,851 | 1,038,961 | 241,406,326 | |
| Additions | 3,377,383 | 37,713 | 55,704 | 5,401 | 357,488 | 630,219 | 739,414 | 43,085 | 5,246,407 | |
| Transfer to investment property (note 17) | (112,897,902) | - | - | - | - | - | - | - | (112,897,902) | |
| Revaluation surplus (note 29) | 30,676,399 | - | - | - | - | - | - | - | 30,676,399 | |
| As at 31 December 2021 | 148,337,079 | 501,554 | 122,747 | 332,427 | 902,474 | 7,503,638 | 5,649,265 | 1,082,046 | 164,431,230 | |
| Depreciation | | | | | | | | | | |
| As at 1 January 2020 | 1,464,574 | 182,825 | 18,531 | 81,346 | 243,404 | 2,885,940 | 1,243,935 | 344,647 | 6,465,202 | |
| Charge for the year | 2,318,176 | 101,104 | 13,416 | 77,526 | 126,720 | 1,693,420 | 1,024,869 | 429,184 | 5,784,415 | |
| Revaluation surplus (note 29) | (1,464,574) | - | - | - | - | - | - | - | (1,464,574) | |
| As at 31 December 2020 | 2,318,176 | 283,929 | 31,947 | 158,872 | 370,124 | 4,579,360 | 2,268,804 | 773,831 | 10,785,043 | |
| Charge for the year | - | 101,205 | 21,424 | 69,528 | 198,215 | 1,694,925 | 1,121,236 | 267,195 | 3,473,728 | |
| Revaluation surplus (note 29) | (2,318,176) | - | - | - | - | - | - | - | (2,318,176) | |
| As at 31 December 2021 | - | 385,134 | 53,371 | 228,400 | 568,339 | 6,274,285 | 3,390,040 | 1,041,026 | 11,940,595 | |
| Net book amount | | | | | | | | | | |
| As at 31 December 2020 | 224,863,023 | 179,912 | 35,096 | 168,154 | 174,862 | 2,294,059 | 2,641,047 | 265,130 | 230,621,283 | |
| As at 31 December 2021 | 148,337,079 | 116,420 | 69,376 | 104,027 | 334,135 | 1,229,353 | 2,259,225 | 41,020 | 152,490,635 | |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

14. Investment in subsidiaries

The Company

| | 2021 | 2020 |
|--|-------------------|-------------------|
| | € | € |
| Cost | | |
| As at 1 January | 60,004,895 | 60,004,895 |
| Reduction due to major shareholder's divestiture (see note 22) | (23) | |
| As at 31 December | <u>60,004,872</u> | <u>60,004,895</u> |

As at 31 December 2021, the Company held the following equity interests:

| Undertaking / Registered Office | Number, class and nominal value of shares held | Percentage of issued shares held |
|---|--|--|
| <i>Subsidiary</i> | | |
| Carmelo Stivala Group Limited | 4,872 Ordinary shares, | 100% |
| | 60,000,000 Redeemable | |
| 143, The Strand, Gzira | Preference Shares, of €1 each fully paid up | 100% |
| The subsidiary was engaged in renting out properties to related parties. It is a holding company. The Company also acts as a guarantor to the bonds issued by Stivala Group Finance p.l.c.. | | |
| <i>Sub-subsidiaries</i> | | |
| ST Hotels Ltd. | 500,000 Ordinary shares, | 100% |
| 143, The Strand, Gzira | of €1 each fully paid up | |
| The subsidiary was engaged in operating hotels and hostels. It also rents out properties. | | |
| ST Properties Ltd | 1,200 Ordinary shares, | 100% |
| 143, The Strand, Gzira | of €1 each fully paid up | |
| The subsidiary is principally engaged in renting out properties. | | |
| Stivala Operators Limited | 996 Ordinary shares, | 100% |
| 143, The Strand, Gzira GZR1026 | of €2.329373 each fully paid up | |
| The subsidiary used to be engaged in operating hotels and hostels. | | |
| Stivala Properties Ltd | 1,200 Ordinary shares, | 100% |
| 143, The Strand, Gzira | of €1 each fully paid up | |
| The subsidiary used to be engaged in renting residential and commercial properties to third parties. | | |

Stivala Group Finance p.l.c.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

15. Investment in associates

| | The Group | | The Company | |
|------------------------|-----------|---------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Cost | | | | |
| As at 1 January | 354,844 | 500 | - | - |
| Additions | - | 500 | - | - |
| Share in (loss)/profit | (47,300) | 353,844 | - | - |
| As at 31 December | 307,544 | 354,844 | - | - |

As at 31 December 2021, the Company (through its subsidiary) held the following equity interests:

| Undertaking / Registered Office | Number, class and nominal value of shares held | Percentage of issued shares held |
|---------------------------------|--|----------------------------------|
|---------------------------------|--|----------------------------------|

Associates

| | | |
|---|---|-----|
| Civala Limited Vincenti Buildings, 25/25 Strait Street Valletta VLT 1432 | 600 Ordinary shares, of €1 each 20% paid up | 50% |
|---|---|-----|

The associate has been engaged to acquire and hold assets of whatsoever nature, whether movable or immovable, corporal or incorporeal, whether by way of title, real or personal, or on behalf of others.

| | | |
|--|---|-----|
| Platinum Developments Ltd 143, The Strand, Gzira GZR 1026 | 600 Ordinary shares, of €1 each 20% paid up | 50% |
|--|---|-----|

The associate is principally engaged to act as building developers, contractors, designers and ancillary services to building industry.

| | | |
|--|---|-----|
| Sliema Creek Lido Limited Number 2, Geraldus Farrugia Street, Zebbug ZBG 4351 | 500 'B' Ordinary shares, of €1 each fully paid up | 33% |
|--|---|-----|

The associate was engaged in operation of a lido.

| | | |
|---|---|-----|
| Aqualuna Lido Ltd No. 2, Geraldus Farrugia Street, Zebbug ZBG 4351 | 500 'B' Ordinary shares, of €1 each fully paid up | 33% |
|---|---|-----|

The associate will be engaged in operation of a lido.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Summarised financial information of the associates, based on their latest audited financial statements, and reconciliation with the carrying amount of the investments in the consolidated financial statements are set out below. The amounts presented are extracted from the most updated and available financial statements of the associates as at and for the year ended:

| Undertaking | Accounting period |
|---------------------------|--------------------------|
| Civala Limited | 31 December 2021 |
| Platinum Developments Ltd | 31 December 2021 |
| Sliema Creek Lido Limited | 31 December 2021 |
| Aqualuna Lido Ltd | 31 December 2021 |

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Notes to the Financial Statements for the year ended 31 December 2021

15. Investment in associates (continued)

The aggregate capital and reserves as at the end of the under mentioned accounting period and the results for the said period of the Company were as follows:

| | Platinum Developments Limited | | | | | | Quisisana Boutique Co. Ltd | | Sliema Creek Lido Ltd | | Aqualuna Lido Ltd | | Total | |
|---|-------------------------------|---------|-------------|-------------|------|------|----------------------------|------|-----------------------|-----------|-------------------|------|-------------|-------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Percentage ownership interest | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 33% | 33% | 33% | 33% | | |
| Non-current assets | | | 7,860,160 | 6,036,569 | | | | | 590 | 65,331 | | | 7,926,081 | 6,036,569 |
| Current asset | 240 | 240 | 399,821 | 444,222 | | | | | 230,276 | 156,524 | | | 1,148,806 | 604,081 |
| Non-current liabilities | | | (7,060,729) | (5,616,107) | | | | | | | | | (7,060,729) | (5,616,107) |
| Current liabilities | (8,696) | (7,125) | (586,403) | (157,236) | | | | | (237,717) | (155,023) | | | (1,501,983) | (321,829) |
| Net Asset (Liability) (100%) | (8,456) | (6,885) | 612,849 | 707,448 | | | | | (6,851) | 1,501 | | | 512,175 | 702,714 |
| Group's share on net asset (liability)* | (4,228) | (3,443) | 306,424 | 353,724 | | | | | (2,283) | 500 | | | 271,742 | 350,856 |
| Adjustments | 4,228 | 3,443 | 120 | 120 | | | | | 2,783 | | | | 35,802 | 3,988 |
| Group's carrying amount of the investment | - | - | 306,544 | 353,844 | | | | | 500 | 500 | | | 307,544 | 354,844 |
| Net Asset (liabilities) include (100%): | | | | | | | | | | | | | | |
| Cash and cash equivalent | 240 | 240 | 7,558 | 79,033 | | | | | 16,544 | 48,698 | | | 24,342 | 127,971 |
| Non-current financial assets | - | - | - | - | | | | | - | - | | | - | - |
| Revenue and other income | - | - | 165,785 | 140,044 | | | | | 66,431 | 61,756 | | | 439,158 | 203,395 |
| Cost of sale | - | - | - | - | | | | | (63,699) | (50,137) | | | (246,234) | (50,137) |
| Interest expense | - | - | - | (150) | | | | | - | - | | | - | (150) |
| Other expense | (1,157) | (1,161) | (260,384) | (180,317) | | | | | (11,084) | (9,108) | | | (279,791) | (192,817) |
| Change in fair value of investment property | | | - | 1,707,297 | | | | | | | | | | |
| Loss before tax | (1,157) | (1,161) | (94,599) | 1,666,874 | | | | | (8,352) | 2,511 | | | (86,867) | (39,709) |
| Income tax expense | - | - | - | (621,007) | | | | | - | - | | | - | (621,007) |
| Other comprehensive loss | - | - | - | - | | | | | - | - | | | - | - |
| Total comprehensive loss (100%) | (1,157) | (1,161) | (94,599) | 1,045,867 | | | | | (8,352) | 2,511 | | | (86,867) | (660,716) |
| Group's share of (loss)/profit for the year | - | - | (47,300) | 522,934 | | | | | - | 837 | | | - | (47,300) |
| Prior year losses taken up this year | - | - | 353,844 | (169,090) | | | | | - | (837) | | | - | 353,844 |
| Group's share in profit at yearend | - | - | 306,544 | 353,844 | | | | | - | - | | | - | 306,544 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

16. Financial assets and financial liabilities

16.1 Financial assets

| | The Group | | The Company | |
|---|------------|------------|-------------|---------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Debt instruments at amortised cost: | | | | |
| <i>Current assets</i> | | | | |
| Trade receivables - net of ECL (note 21) | 479,265 | 281,315 | - | - |
| Other receivables - net of ECL (note 21) | 538,022 | 384,641 | - | - |
| Amounts owed by related parties - net of ECL (note 21) | 7,182,242 | 4,784,060 | - | - |
| <i>Total trade and other receivables</i> | 8,199,529 | 5,450,016 | - | - |
| <i>Other financial assets</i> | | | | |
| Loans to subsidiary undertakings - net of ECL | - | - | - | 778,040 |
| Loans to associates - net of ECL | 5,059,446 | 4,948,891 | - | - |
| Loans to other related undertakings - net of ECL | 2,696,718 | 10,555,572 | - | - |
| Loans to other party - net of ECL | 248,125 | 249,062 | - | - |
| <i>Total other financial assets</i> | 8,004,289 | 15,753,525 | - | 778,040 |
| Total debt instruments at amortised cost | 16,203,818 | 21,203,541 | - | 778,040 |

All of the above debt instruments at amortised cost are interest free, unsecured and repayable on demand. The Group's exposure to credit risk related to these financial assets is disclosed in note 32. As at the reporting date, these financial assets were fully performing and hence do not contain impaired assets. However, due to the implementation of IFRS 9, the assets are measured at amortised cost and estimated credit losses have to be calculated.

Allowance for ECL on loans to associates, other related undertakings and other parties amounted to €72,125, €7,924,119 and €1,875 (2020: €71,267, €60,512 and €938), respectively. Movement in the allowance forms part of the total provision for ECL reported in the statement of profit or loss and other comprehensive income.

Stivala Group Finance p.l.c.

Notes to the Financial Statements
for the year ended 31 December 2021

16. Financial assets and financial liabilities (continued)

16.2 Financial liabilities: Loans and borrowings

| | Interest rate | Maturity | The Group | | The Company | |
|---|---------------|-------------|------------|------------|-------------|------------|
| | | | 2021 | 2020 | 2021 | 2020 |
| | | | € | € | € | € |
| Current loans and borrowings | | | | | | |
| Bank overdrafts (notes 23 and 32) | 4% - 5% | on demand | 1,539,387 | 1,978,579 | - | - |
| Bank loans (notes 23 and 32) | 2.50% - 4% | 2025 - 2035 | 3,328,612 | 1,765,045 | - | - |
| Loans from subsidiary undertakings | no interest | on demand | - | - | 18,567,863 | - |
| Finance lease liability (note 25 and 32) | 4% | 2022 - 2029 | 232,626 | 194,992 | - | - |
| | | | 5,100,625 | 3,938,616 | 18,567,863 | - |
| Non-current loans and borrowings | | | | | | |
| 450,000 and 150,000 (€100 face value) secured bonds | 3.65% - 4% | 2027 - 2029 | 59,670,000 | 59,610,000 | 59,670,000 | 59,610,000 |
| Bank loans (notes 23 and 32) | 2.50% - 4% | 2025 - 2035 | 20,620,082 | 20,003,708 | - | - |
| Finance lease liability (note 25 and 32) | 4% | 2023 - 2029 | 394,949 | 646,088 | - | - |
| | | | 80,685,031 | 80,259,796 | 59,670,000 | 59,610,000 |
| Other Financial Liabilities at amortised cost, other than loans and borrowings | | | | | | |
| Trade and other payables (note 24) | | | 12,808,095 | 9,570,738 | 836,358 | 716,498 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

16. Financial assets and financial liabilities (*continued*)

16.2 Financial liabilities: Loans and borrowings (*continued*)

The Company

The secured bonds are measured at the amount of the net proceeds adjusted for the amortisation of the difference between the net proceeds and the redemption value of the bonds, using effective yield method as follows:

| | 2021 | 2020 |
|---------------------------------|-------------------|-------------------|
| | € | € |
| Face value of the secured bonds | 60,000,000 | 60,000,000 |
| Unamortised bond issue cost | (330,000) | (390,000) |
| Amortised cost | <u>59,670,000</u> | <u>59,610,000</u> |

By virtue of the prospectus dated 25 September 2017 and 18 July 2019, the Company issued 45,000,000 4% secured bonds with a face value of €100 each, redeemable at par on 18 October 2027 and 15,000,000 3.65% secured bonds with a face value of €100 each, redeemable at par on 29 July 2029, respectively. The amount is made up of the two bond issues of €45 million and €15 million respectively, net of the bond issue costs which are being amortised over the lifetime of the bonds. The bonds are secured by a first-ranking special hypothec over various guarantor's property, and pledge on various insurance proceeds (notes 13 and 17), pursuant to and subject to the terms and conditions in the prospectus.

The bond bear interest rate of 4.00% per annum on the nominal value payable annually in arrears every 18th of October with respect to the €45 million bond issue and 3.65% per annum on the nominal value payable annually in arrears every 18th of July with respect to the €15 million bond issue.

The secured bonds are listed on the Official Companies List of the Malta Stock Exchange and are guaranteed by Carmelo Stivala Group Limited, which has bound itself with the issuer, for the repayment of the bonds and interest thereon, pursuant to and subject to the terms and conditions in the offering memorandum.

The Group

The bank overdraft and bank loans bear interest ranging between 2.50% to 5% per annum (2020: 0.35% to 5%). These facilities are secured by a general hypothec over the Group's assets, special hypothec and guarantees over some of the Group's immovable properties, by joint and several personal guarantees and by pledge over the Group's insurance policies.

The bank overdrafts are repayable on demand. Information about the contractual terms of the Group's loans including interest are disclosed in note 32.

The loans from associate are unsecured, interest-free and repayable on demand.

Stivala Group Finance p.l.c.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

16. Financial assets and financial liabilities (*continued*)

16.2 Financial liabilities: Loans and borrowings (*continued*)

The interest rate exposures of borrowings are as follows:

| | The Group | | The Company | |
|--|---------------|---------------|-------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Total borrowings: | | | | |
| At fixed rates | 60,297,575 | 60,451,080 | 59,670,000 | 59,610,000 |
| <i>Effective interest rates:</i> | | | - | |
| 450,000 (€100 face value) secured bonds 2027 | 4.00% | 4.00% | 4.00% | 4.00% |
| 150,000 (€100 face value) secured bonds 2029 | 3.65% | 3.65% | 3.65% | 3.65% |
| Lease liability | 3.25% - 3.99% | 3.25% - 3.99% | - | - |

This note provides information about the Company's borrowings. For more information about the Company's exposure to interest rate and liquidity risk, see note 32.

17. Investment property

| | The Group | | The Company | |
|---|-------------|--------------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Valuation | | | | |
| As at 1 January | 34,337,699 | 116,469,022 | - | - |
| Additions | 3,009,870 | 3,628,977 | - | - |
| Transfer to property held-for-sale (note 20) | (1,500,000) | - | - | - |
| Change in fair value | 29,967,931 | 29,020,926 | - | - |
| Transfer to assets held for distribution to owner (note 22) | - | (59,219,250) | - | - |
| Transfer from/(to) property, plant and equipment (note 13) | 112,897,902 | (55,561,976) | - | - |
| As at 31 December | 178,713,402 | 34,337,699 | - | - |

Fair value

Market valuations are performed by independent professional architects every three years or earlier whenever their fair values differ materially from their carrying amounts. In the year when a market valuation is not performed, an assessment of the fair value is performed to reflect market conditions at the year-end date.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

17. Investment property (continued)

The fair value of the Group's investment properties as at 31 December 2021 is based on a valuation assessed by the directors at year end. The last independent architect's valuation of the Company's investment properties was performed on 31 May 2020, by an independent external valuers having experience in the location and type of property. The costs of additions after 31 May 2020 are being considered by the directors as being equivalent to its fair value. As at 31 December 2021, management also assessed whether there are any significant changes to the significant inputs of the valuation. The fair value movement were credited to profit or loss and subsequently transferred to revaluation reserve under equity.

As at 31 December 2021 and 2020, these properties have been categorised to fall within level 2 of the fair value hierarchy. The different levels in the fair value hierarchy have been defined in note 32. The Group policy is to recognise transfers into and out of fair value hierarchy levels as of date of the event of change in circumstances that caused the transfer. There were no transfers between levels during the year. For all properties, their current use equates to the highest and best use.

Reconciliation of fair value:

| | Office properties € | Commercial properties € | Residential properties € | Total € |
|---|---------------------------|-------------------------------|--------------------------------|--------------------|
| As at 1 January 2020 | 32,317,557 | 27,616,691 | 56,534,774 | 116,469,022 |
| Additions | 196,629 | 2,617,414 | 814,934 | 3,628,977 |
| Transfer to property, plant and equipment (note) | (27,422,719) | (14,078,990) | (14,060,267) | (55,561,976) |
| Fair value change recognised in profit or loss | 3,834,012 | 2,838,077 | 22,348,837 | 29,020,926 |
| Transfer to assets held for distribution to owner (note 17) | (1,600,000) | (3,200,000) | (54,419,250) | (59,219,250) |
| As at 31 December 2020 | 7,325,479 | 15,793,192 | 11,219,028 | 34,337,699 |
| Additions | 321,895 | 94,051 | 2,593,924 | 3,009,870 |
| Transfer to property held-for-sale (note 20) | - | - | (1,500,000) | (1,500,000) |
| Transfer from property, plant and equipment (note 13) | 46,310,296 | 28,575,159 | 38,012,447 | 112,897,902 |
| Fair value change recognised in profit or loss | 3,265,817 | 14,636,290 | 12,065,824 | 29,967,931 |
| As at 31 December 2021 | 57,223,487 | 59,098,692 | 62,391,223 | 178,713,402 |

For investment properties categorised under Level 2 of the fair value hierarchy as at 31 December 2021 and 2020, the following techniques and inputs were used:

| Type of property | Technique | Inputs |
|------------------------|-----------------|--|
| Commercial properties | Market approach | Value of the properties are based on the selling price of similar types of properties. |
| Residential properties | Market approach | |
| Office properties | Market approach | |

As at year end, the Company had preliminary agreements for contractual agreements for the acquisition of investment property amounting to €870,000 (2020: €17,503,268).

Stivala Group Finance p.l.c.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

As at year end, the Company had investment property with a carrying amount of €33,715,651 (2020: €25,880,826) pledged to secure borrowings.

18. Intangible assets

| | The Group | | The Company | |
|---------------------------------|-----------|---------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Cost - Computer Software | | | | |
| As at 1 January and 31 December | 124,797 | 124,797 | - | - |
| Amortisation | | | | |
| As at 1 January | 97,845 | 56,506 | - | - |
| Charge for the year | 20,895 | 41,339 | - | - |
| As at 31 December | 118,740 | 97,845 | - | - |
| Net book amount | | | | |
| As at 1 January | 26,952 | 68,291 | - | - |
| As at 31 December | 6,057 | 26,952 | - | - |

19. Inventories

| | The Group | | The Company | |
|-----------------------|-----------|-------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Goods held for resale | 11,657 | 8,558 | - | - |

During 2021, €469,478 (2020: €467,083) was recognised as an expense during the year and included in cost of sales (note 7).

20. Property held-for-sale

| | The Group | | The Company | |
|---|-----------|-----------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Cost | | | | |
| As at 1 January | - | 756,207 | - | - |
| Additions | 737,315 | 87,674 | - | - |
| Transfer from investment property (note 17) | 1,500,000 | - | - | - |
| Disposals | (58,216) | (115,395) | - | - |
| Transfer to assets held for distribution to owner (note 22) | - | (728,486) | - | - |
| As at 31 December | 2,179,099 | - | - | - |

In 2021, the Group sold properties for resale costing €58,216 and sale value consideration of €255,000. In 2020, the Group exchanged (through barter) a property for resale costing €115,395 with a new investment property, at an exchange value consideration of €235,000. The profit from these transactions were shown in the statement of profit or loss and other comprehensive income under revenue from contracts with customers (note 6).

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

21. Trade and other receivables

| | The Group | | The Company | |
|--|------------------|------------------|-------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Current | | | | |
| Trade receivables | 522,668 | 302,908 | - | - |
| Amounts owed by directors | 7,233,978 | 4,784,060 | - | - |
| Amounts owed by ultimate beneficial owners | 1,353 | - | - | - |
| Other receivables | 541,534 | 386,001 | - | - |
| Other advances | 1,505,978 | 969,241 | - | - |
| Indirect taxation | 124,356 | 216,658 | - | - |
| Prepayments and accrued income | 29,808 | 40,032 | - | - |
| | 9,959,675 | 6,698,900 | - | - |
| Allowance for ECL on (note 35): | | | | |
| Trade receivables | (43,403) | (21,593) | - | - |
| Amounts owed by directors | (51,736) | (23,921) | - | - |
| Other receivables | (3,512) | (1,360) | - | - |
| | (98,651) | (46,874) | - | - |
| Total trade and other receivables | 9,861,024 | 6,652,026 | - | - |

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The amounts owed by related parties are unsecured, interest free and repayable on demand. Other advances include advance deposits on purchase of properties.

Set out below is the movement in the allowance for ECL on trade and other receivables:

| | The Group | | The Company | |
|----------------------------|-----------|---------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| As at 1 January | 46,874 | 54,076 | - | - |
| Provision for ECL (note 7) | 51,777 | (7,202) | - | - |
| As at 31 December | 98,651 | 46,874 | - | - |

22. Assets held for distribution to owner

| | The Group | | The Company | |
|--|-----------|-------------------|-------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Investment property under fair value model | - | 59,219,250 | - | - |
| Property for resale | - | 728,486 | - | - |
| Total assets held for distribution to owner | - | 59,947,736 | - | - |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Principal divestment of major shareholder

Pursuant to the framework agreement and promise of sale agreement made last 20 November 2020, the relinquishment of ownership of Mr. Carlo Stivala from Stivala group has been formally concluded on 26 April 2021 and was formally announced by Stivala Group Finance p.l.c. ('the Company') the next day, 27 April 2021.

In view of this event, the result were as follows:

- (i) the share capital of each of the Company, Carmelo Stivala Group Limited and North Harbour Limited has been reduced pursuant to the cancellation of all shares held therein by Carlo Stivala and Carmelo Stivala Trustee Limited as trustee of the Seaside Trust, the beneficiaries of which are Carlo Stivala and his descendants;
- (ii) the final deed of transfer in respect of the properties that were agreed to in terms of a promise of sale agreement as consideration due to Carlo Stivala and Carmelo Stivala Trustee Limited as trustee of the Seaside Trust, the beneficiaries of which are Carlo Stivala and his descendants, for the aforesaid parties to relinquish all of their rights and interests in the share capital of the companies forming part of the Stivala group, has been duly executed; and
- (iii) Carlo Stivala has resigned from the board of directors of all companies forming part of Stivala group of which he is a director.

In terms of the clause (i) above, the share capital of the Company has been reduced by €75,000, made up of €75,000 ordinary shares of €1 each, equivalent to 25% of the issued share capital of the Company. As a result, the indirect shareholding in the Company of each of Martin Stivala, Ivan Stivala and Michael Stivala and their respective descendants (the "ultimate beneficial owners") has increased from 25% to 33.33% of the Company's issued share capital.

Furthermore, the resultant issued share capital amounting to €225,000 has been increased by €30,000 to amount to €255,000 in accordance with Listing Rule 3.17. The afore-stated €30,000 ordinary shares of €1 each have been subscribed to as fully paid-up shares by Carmelo Stivala Trustee Limited on behalf of each of the ultimate beneficial owners.

The issued ordinary share capital of Carmelo Stivala Group Limited (CSGL) and the corresponding investment of the Company in CSGL have also been reduced by €24, made up of €24 ordinary shares of €1 each.

In terms of the clause (ii) above, the immovable properties with the value of €59,947,736 as disclosed in prior year annual financial report as 'assets held for distribution to owner', were transferred from Carmelo Stivala Group Limited to CAST Holdings Ltd, a company that is ultimately owned by Trimer Services Ltd as trustee of CAST Trust, the beneficiaries of which are Carlo Stivala and his descendants. Such value were ultimately closed to the Company where it represents part of the consideration due to the Trustee Seaside Trust, and full consideration due to Carlo Stivala, for the said parties relinquishing all of their interests in the share capital of the companies forming part of Stivala group.

Such amount of transfer value of the properties amounting to €59,947,736 less Carlo Stivala's share capital amounting to €75,000 was presented as 'Loss on major shareholder's divestiture' disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Out of the transfer value of the properties mentioned previously, the amount of €38,741,687 represents fair value increments on such properties over the costs. Due to the divestiture, these were considered realised and presented as 'Gain on transfer of properties' in the Statement of Comprehensive Income of Carmelo Stivala Group Limited and were declared eventually as dividends to the Company for the same amount disclosed as 'Dividends receivable' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

In terms of the clause (iii) above for companies within Stivala group, duly filled forms were submitted to Malta Business Registry to effect his removal from the board of directors of all companies forming part of Stivala group of which he is a director.

Stivala Group Finance p.l.c.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Further information on the effect on other companies outside Stivala Group namely North Harbour Ltd and Carmelo Stivala Trustee Limited, are found on the individual financial statements of the aforementioned companies.

23. Borrowings

| | The Group | | The Company | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Current | | | | |
| Bank overdrafts (note 31) | 1,539,387 | 1,978,579 | - | - |
| Bank loans | 3,328,612 | 1,765,045 | - | - |
| Loans from subsidiary undertakings | - | - | 18,567,863 | - |
| Total current borrowings | 4,867,999 | 3,743,624 | 18,567,863 | - |
| Non-current | | | | |
| 4% secured bonds | 44,775,000 | 44,730,000 | 44,775,000 | 44,730,000 |
| 3.65 % secured bonds | 14,895,000 | 14,880,000 | 14,895,000 | 14,880,000 |
| Bank loans | 20,620,082 | 20,003,708 | - | - |
| Total non-current borrowings | 80,290,082 | 79,613,708 | 59,670,000 | 59,610,000 |
| Total borrowings | 85,158,081 | 83,357,332 | 78,237,863 | 59,610,000 |

Loans from associate is unsecured, non-interest bearing and repayable on demand.

24. Trade and other payables

| | The Group | | The Company | |
|---------------------------------------|-------------------|------------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Current | | | | |
| Amount received in advance | 470,492 | 392,729 | - | - |
| Trade payables | 4,955,875 | 3,711,913 | - | 1,770 |
| Other payables | 1,895,243 | 689,031 | 6,814 | 5,273 |
| Indirect taxes and Social Security | | | | |
| Contributions | 1,708,971 | 1,201,119 | - | - |
| Accruals | 1,042,620 | 2,390,985 | 829,544 | 709,455 |
| Deferred rental income | 2,734,894 | 1,184,961 | - | - |
| Total trade and other payables | 12,808,095 | 9,570,738 | 836,358 | 716,498 |

Trade payables are non-interest bearing and are normally settled between 30 to 90 days. Other payables which includes refundable security and other deposits to tenants.

Indirect taxes and social security contributions included due from prior years, which are being paid in installments in accordance with the agreements entered by the Group with Commission for Revenue.

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 32.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

25. Leases

25.1 The Group as a lessee

The Group has lease contracts for various buildings and furniture and fittings used in its operations. Leases of building has lease terms of 5 - 11 years, while furniture and fittings have lease terms of 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is not restricted from subleasing the leased assets (except when otherwise agreed with the lessor in special terms) and effecting major structural or layout alterations on the leased premises.

The Group has a lease contract which includes in-substance fixed payments. The Group has no lease contracts containing variable lease payments that depend on an index or a rate, residual value guarantees and sales and leaseback transactions.

The Group has leases of garage with lease term of 12 months or less. The Group applies the 'short-term lease' recognition exemption for this lease. There are no other leases qualifying for short term or low value asset recognition exemptions applicable to the Company.

Set out below are the carrying amounts of the Group's right-of-use assets recognised and the movements during the period:

| | Buildings € | Furnitures and Fittings € | Total € |
|-------------------------------|----------------|---------------------------------|----------------|
| As at 1 January 2020 | - | 516,745 | 516,745 |
| Additions | 468,235 | - | 468,235 |
| Depreciation expense (note 7) | (42,639) | (126,829) | (169,468) |
| As at 31 December 2020 | 425,596 | 389,916 | 815,512 |
| Lease modification | (76,181) | - | (76,181) |
| Additions | 81,267 | - | 81,267 |
| Depreciation expense | (84,110) | (129,186) | (213,296) |
| As at 31 December 2021 | 346,572 | 260,730 | 607,302 |

Set out below are the carrying amounts of lease liabilities included under interest-bearing loans and borrowings (note 16) and the movements during the period:

| | The Group | | The Company | |
|---------------------------------|----------------|----------------|-------------|-----------|
| | 2021 € | 2020 € | 2021 € | 2020 € |
| As at 1 January | 841,080 | 524,823 | - | - |
| Lease modification | (82,977) | - | - | - |
| Additions | 81,267 | 475,498 | - | - |
| Payments | (239,813) | (191,913) | - | - |
| Accretion of interest (note 10) | 28,018 | 32,672 | - | - |
| As at 31 December | 627,575 | 841,080 | - | - |
| Current | 232,626 | 194,992 | - | - |
| Non-current | 394,949 | 646,088 | - | - |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

25. Leases (*continued*)

25.1 The Group as a lessee (*continued*)

The maturity analysis of lease liabilities are disclosed in note 32.

The following are the amounts recognised in profit or loss:

| | The Group | | The Company | |
|---|-----------|---------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Depreciation expense of right-of-use assets | 213,296 | 169,468 | - | - |
| Interest expense on lease liabilities | 28,018 | 32,672 | - | - |
| Expense relating to short-term leases and leases of low-value assets (included in administrative expenses) (note 7) | 40,346 | 2,200 | - | - |
| Total amount recognised in profit or loss | 281,660 | 204,340 | - | - |

The Group had total cash outflows for leases of €239,813 in 2021 (€191,913 in 2020). In 2021, the Group also had non-cash additions to right-of-use assets and lease liabilities of €81,267 (2020: €468,235 and €475,498), respectively.

25.2 The Group as a lessor

The Group has entered into operating leases on its property portfolio consisting of certain commercial and residential buildings (see notes 13 and 17). These leases have terms of between 1 and 3 years for the non-cancellable portion, while up to 8 years for the cancellable portion thereafter. All leases include a clause to enable upward revision (usually 10%) of the rental charge at various intervals on a cumulative basis (in-substance fixed payments) as a precaution to prevailing market conditions throughout the whole lease term. The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in euro. Rental income recognised by the Group during the year is €8,367,051 (2020: €8,276,226).

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | The Group | | The Company | |
|---|-----------|-----------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Within one year | 2,744,507 | 1,452,506 | - | - |
| After one year but not more than five years | 2,326,705 | 276,479 | - | - |
| More than five years | 457,169 | - | - | - |
| | 5,528,381 | 1,728,985 | - | - |

Stivala Group Finance p.l.c.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

26. Deferred taxation

Deferred tax liability

| | The Group | | The Company | |
|---|--------------|--------------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| As at 1 January | (25,880,637) | (15,110,009) | - | - |
| Reclass to deferred tax asset (Charge)/Credit in profit or loss (note 12) | - | (1,376,114) | - | - |
| (Charge) in other comprehensive income | 3,006,588 | (2,321,674) | - | - |
| | (2,639,566) | (7,072,840) | - | - |
| As at 31 December | (25,513,615) | (25,880,637) | - | - |

The balance represents:

| | The Group | | The Company | |
|--|--------------|--------------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Tax effect of temporary differences relating to: | | | | |
| Asset revaluations | (25,513,615) | (25,880,637) | - | - |

Deferred tax asset

| | The Group | | The Company | |
|---|------------|-----------|-------------|---------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| As at 1 January | 4,959,080 | - | 311,329 | 310,028 |
| Reclass from deferred tax liability Credit in profit or loss (note 12) | - | 1,376,114 | - | - |
| | 5,614,559 | 3,582,966 | (19,919) | 1,301 |
| As at 31 December | 10,573,639 | 4,959,080 | 291,410 | 311,329 |

The balance represents:

| | The Group | | The Company | |
|---|------------|-----------|-------------|---------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Tax effect of temporary differences relating to: | | | | |
| Excess of capital allowances over depreciation | 1,730,655 | 1,174,336 | - | - |
| Unabsorbed capital allowances | 1,941,314 | 1,106,471 | - | - |
| Unrelieved tax losses | 2,640,649 | 1,233,717 | 291,410 | 310,028 |
| Allowance for estimated credit losses | 2,835,002 | 69,543 | - | 1,301 |
| Leases | 6,465 | 8,319 | - | - |
| Investment tax credit | 1,419,554 | 1,366,694 | - | - |
| | 10,573,639 | 4,959,080 | 291,410 | 311,329 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

26. Deferred taxation (*continued*)

Deferred tax asset (*continued*)

Deferred income taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realized 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 used is 35% (2020: 35%) with the exception of deferred taxation on the fair valuation of non-depreciable investment property which is computed on the basis applicable to disposals of immovable property that is tax effect of 8% (2020: 8%) of the transfer value.

The Group and the Company did not have unrecognised deferred income tax assets that could be carried forward against future taxable income as at 31 December 2021 and 31 December 2020.

27. Share capital

| | The Group | | The Company | |
|------------------------------------|-----------|---------|-------------|---------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Authorised: | | | | |
| 500,000 Ordinary shares of €1 each | 500,000 | 500,000 | 500,000 | 500,000 |
| Issued and fully paid up: | | | | |
| 300,000 Ordinary shares of €1 each | 255,000 | 300,000 | 255,000 | 300,000 |

Each ordinary share gives the right to one vote, participates equally in profits distributed by the company and carries equal rights upon distribution of assets by the company in the event of winding up. See note 22 for more information on the reduction of issued share capital of the Group and the Company.

28. Earnings per share

Earnings per share is based on the profit for the year attributable to the owners of the Group divided by the weighted average number of ordinary shares in issue during the year.

| | The Group | | The Company | |
|---|------------|------------|--------------|---------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Profit for the year attributable to shareholders: | | | | |
| - Basic profit for year attributable to ordinary equity holders of the parent | 12,386,702 | 26,992,365 | (20,380,454) | 200,000 |
| Weighted average number of ordinary shares in issue (note 27) | 255,000 | 300,000 | 255,000 | 300,000 |
| Earnings per share (cents) | | | | |
| - Basic profit for year attributable to ordinary equity holders of the parent | 48.58 | 89.97 | (79.92) | 0.67 |

There is no difference between the basic and diluted earnings per share as the Group and Company has no potential dilutive ordinary shares.

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29. Revaluation reserve

| | The Group | | The Company | |
|--|--------------|-------------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| As at 1 January | 200,672,324 | 89,123,934 | - | - |
| Reclassification of revaluation in prior years related to investment property, net of deferred tax | - | 3,511,484 | - | - |
| Reduction due to major shareholder's divestiture (see note 22) | (33,580,348) | - | - | - |
| Revaluation of property, plant and equipment, net of deferred tax (note 13 and 26) | 30,355,009 | 81,337,654 | - | - |
| Revaluation of investment property, net of deferred tax (note 17 and 26) | 27,570,497 | 26,699,252 | - | - |
| As at 31 December | 225,017,482 | 200,672,324 | - | - |

The revaluation reserve comprises the revaluation of property, plant and equipment and investment properties, net of deferred taxation due to change in fair market value which are unrealised at the reporting date. The change in fair value of investment properties are transferred from retained earnings to this reserve since these gains are not considered by the directors to be available for distribution. Upon disposal of the respective investment property, realised fair value gains are transferred back to retained earnings. This reserve is a non-distributable reserve.

30. Incentives and benefits reserves

| | The Group | | The Company | |
|---|-----------|-----------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| As at 1 January | 4,825,440 | - | - | - |
| Reclassification from retained earnings | - | 4,825,440 | - | - |
| As at 31 December | 4,825,440 | 4,825,440 | - | - |

The incentives and benefits reserve represents profits set aside for re-investment in terms of Section 6(1) and 36(2) of the Business Promotion Act. Amounts included in this reserve can only be distributed by way of capitalization of profits.

31. Cash and cash equivalents

The cash and cash equivalents comprise the following statement of financial position amount:

| | The Group | | The Company | |
|-------------------------------|-------------|-------------|-------------|-------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Cash at banks and in hand | 202,471 | 592,023 | 4,597 | 2,400 |
| Allowance for ECL | (3,237) | - | - | - |
| Bank overdrafts (note 16, 23) | (1,539,387) | (1,978,579) | - | - |
| As at 31 December | (1,340,153) | (1,386,556) | 4,597 | 2,400 |

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Set out below is the movement in the allowance for ECL on cash in banks:

| | The Group | | The Company | |
|----------------------------|-----------|---------|-------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| As at 1 January | - | 3,093 | - | - |
| Provision for ECL (note 7) | 3,237 | (3,093) | - | - |
| As at 31 December | 3,237 | - | - | - |

32. Financial risk management objectives and policies

The Group's principal financial assets comprise trade and other receivables, loans receivable and cash and cash equivalents. Its principal financial liabilities comprise trade and other payables, borrowings and lease liabilities.

The Group is exposed to market risk, credit risk, liquidity risk, fair value risk and capital risk management.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk. Financial instruments affected by market risk include borrowings. The Group is only exposed to interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Except as disclosed in note 16, 23, the Group's borrowings are non-interest bearing. Borrowings issued at fixed rates consist primarily of bank loans, 4% and 3.65% secured bonds which are carried at amortised cost, and therefore do not expose the Group to cash flow and fair value interest rate risk.

Exposure to cashflow interest rate risk arises in respect of interest payments relating to bank loans amounting to €2,687,345 (2020: €441,157).

The Company's exposure to interest rate risk is limited to the variable interest rates on bank overdraft and bank loans. Based on observations of current market conditions, the directors consider an upward or downward movement in interest of 1% to be reasonable possible. However, the potential impact of such movement is considered immaterial. As a result, the Company is not subject to significant amounts of risk due to fluctuations on the prevailing levels of market interest rates.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables and contract assets) and from its financing activities including deposits with banks and loans to related undertakings.

Customer credit risk is managed by the Group's management subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on each individual's credit limits. Outstanding customer receivables are regularly monitored. An impairment analysis is performed at the reporting date on an individual basis. The Group exercises a prudent credit control policy, and accordingly, it is not subject to any significant exposure or concentration of credit risk.

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Following the outbreak of covid-19, the Group has monitored information available on macroeconomic factors, affecting repayment ability, as well as the actual and projected impact of the pandemic on the business model of the customers serviced by the Group. Payment patterns attributable to the Group's customers post COVID-19 outbreak was thoroughly and regularly assessed to determine whether any deterioration in collection rates was being experienced. The Group determined that the expected credit losses have not materially changed taking cognisance of the projected impact on the repayment ability of the Group's customers, the repayment pattern actually experienced, and the estimated life of the receivables.

The Group banks only with local financial institutions with high quality standard or rating. The Group's operations are principally carried out in Malta and most of the Group's revenue originates from clients based in Malta.

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Notes to the Financial Statements for the year ended 31 December 2021

32. Financial risk management objectives and policies (continued)

Set out below is the information about the credit risk exposure on the Group and Company's financial assets and contract assets subject to ECL under IFRS 9.
31 December 2021

| | The Group | | | | | | | |
|--|--|--|---|--|--|---|---|-----------|
| | Trade receivables (notes 16 and 21) | Loans to other related undertakings (notes 16 and 21) | Loans to associates (notes 16 and 21) | Loans to other party (notes 16 and 21) | Other receivables (notes 16 and 21) | Amounts owed by directors (notes 16 and 21) | Cash and cash equivalents (note 31) | Total |
| Approach in measuring ECL | <i>Simplified</i> | <i>General</i> | <i>General</i> | <i>General</i> | <i>General</i> | <i>General</i> | <i>General</i> | |
| Probability of default | 1.49% - 42.32% | 0.57% - 75% | 1.34% - 100% | 1.00% | 0.70% - 1.00% | 1.00% | 0.06% - 1.34% | |
| Loss given default | N/A | 100% | 100% | 75% | 100% | 100% | 100% | |
| Estimated gross carrying amount at default | 288,825 | 10,620,837 | 5,131,571 | 250,000 | 389,229 | 7,233,978 | 1,179,965 | |
| Allowance for ECL | 43,403 | 7,924,119 | 72,125 | 1,875 | 3,512 | 51,736 | 3,237 | 8,100,007 |
| Increase / (decrease) in provision for ECL (note 8) | 21,810 | 7,863,607 | 858 | 937 | 2,152 | 27,815 | 3,237 | 7,920,416 |

31 December 2020

| | The Group | | | | | | | |
|--|--|--|---|--|--|---|---|----------|
| | Trade receivables (notes 16 and 21) | Loans to other related undertakings (notes 16 and 21) | Loans to associates (notes 16 and 21) | Loans to other party (notes 16 and 21) | Other receivables (notes 16 and 21) | Amounts owed by directors (notes 16 and 21) | Cash and cash equivalents (note 31) | Total |
| Approach in measuring ECL | <i>Simplified</i> | <i>General</i> | <i>General</i> | <i>General</i> | <i>General</i> | <i>General</i> | <i>General</i> | |
| Probability of default | 10.13% - 14.56% | 0.57% | 1.34% - 100% | 0.50% | 0.50% - 1.09% | 0.50% | 0.00% | |
| Loss given default | N/A | 100% | 100% | 75% | 75% - 100% | 100% | 0% | |
| Estimated gross carrying amount at default | 188,768 | 10,616,084 | 5,020,158 | 250,000 | 208,076 | 4,784,060 | - | |
| Allowance for ECL | 21,593 | 60,512 | 71,267 | 938 | 1,360 | 23,921 | - | 179,591 |
| Increase / (decrease) in provision for ECL (note 7) | (32,483) | (13,803) | 7,134 | 938 | 1,360 | 23,921 | (3,093) | (16,026) |

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Notes to the Financial Statements
for the year ended 31 December 2021

32. Financial risk management objectives and policies (continued)

| 31 December 2021 | The Company | 31 December 2020 | The Company |
|---|---------------------------------------|---|---------------------------------------|
| | Loans to subsidiary (notes 16 and 21) | | Loans to subsidiary (notes 16 and 21) |
| | <i>General</i> | | <i>General</i> |
| Approach in measuring ECL | | Approach in measuring ECL | |
| Probability of default | - | Probability of default | 0.0057 |
| Loss given default | - | Loss given default | 90% |
| Estimated gross carrying amount at default | - | Estimated gross carrying amount at default | 782,051 |
| Allowance for ECL | - | Allowance for ECL | 4,011 |
| Increase / (decrease) in provision for ECL (note 7) | (4,011) | Increase / (decrease) in provision for ECL (note 7) | 207 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

32. Financial risk management objectives and policies (*continued*)

Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at 31 December 2021

| | The Group | | | |
|----------------------------------|---------------------|-----------------|------------|-------------|
| | Less than 1 year | 1 to 5 years | > 5 years | Total |
| | € | € | € | € |
| Bank overdrafts | 1,539,387 | - | - | 1,539,387 |
| Bank loans | 3,722,539 | 13,184,304 | 11,303,042 | 28,209,885 |
| Finance lease liabilities | 252,714 | 330,607 | 99,230 | 682,551 |
| 4.00% secured bonds and interest | - | - | 44,775,000 | 44,775,000 |
| 3.65% secured bonds and interest | - | - | 14,895,000 | 14,895,000 |
| Trade and other payables | 12,808,095 | - | - | 12,808,095 |
| | 18,322,735 | 13,514,911 | 71,072,272 | 102,909,918 |

As at 31 December 2020

| | The Group | | | |
|----------------------------------|---------------------|-----------------|------------|------------|
| | Less than 1 year | 1 to 5 years | > 5 years | Total |
| | € | € | € | € |
| Bank overdrafts | 1,978,579 | - | - | 1,978,579 |
| Bank loans | 2,337,506 | 11,382,392 | 12,297,275 | 26,017,173 |
| Finance lease liabilities | 223,814 | 565,629 | 138,922 | 928,365 |
| 4.00% secured bonds and interest | - | - | 44,730,000 | 44,730,000 |
| 3.65% secured bonds and interest | - | - | 14,880,000 | 14,880,000 |
| Trade and other payables | 9,570,738 | - | - | 9,570,738 |
| | 14,110,637 | 11,948,021 | 72,046,197 | 98,104,855 |

The below table shows gross undiscounted cash flows for lease liabilities and bank loans. The following shows the corresponding reconciliation of those amounts to the carrying amount (net present value):

As at 31 December 2021

| | The Group | | | |
|-------------------------------------|---------------------|-----------------|-------------|-------------|
| | Less than 1 year | 1 to 5 years | > 5 years | Total |
| <i>Bank loans</i> | | | | |
| Gross payments | 3,722,539 | 13,184,304 | 11,303,042 | 28,209,885 |
| Finance charges | (726,256) | (2,165,919) | (1,369,016) | (4,261,191) |
| Carrying amount (net present value) | 2,996,283 | 11,018,385 | 9,934,026 | 23,948,694 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

| | The Group | | | |
|--|---------------------|-----------------|-----------|----------|
| | Less than 1 year | 1 to 5 years | > 5 years | Total |
| <i>Lease liabilities</i> | | | | |
| Gross payments | 252,714 | 330,607 | 99,230 | 682,551 |
| Finance charges | (20,088) | (29,889) | (4,999) | (54,976) |
| Carrying amount (net present value) | 232,626 | 300,718 | 94,231 | 627,575 |

As at 31 December 2020

| | The Group | | | |
|--|---------------------|-----------------|-------------|-------------|
| | Less than 1 year | 1 to 5 years | > 5 years | Total |
| <i>Bank loans</i> | | | | |
| Gross payments | 2,337,506 | 11,382,392 | 12,297,275 | 26,017,173 |
| Finance charges | (572,461) | (2,085,799) | (1,590,160) | (4,248,420) |
| Carrying amount (net present value) | 1,765,045 | 9,296,593 | 10,707,115 | 21,768,753 |

| | The Group | | | |
|--|---------------------|-----------------|-----------|----------|
| | Less than 1 year | 1 to 5 years | > 5 years | Total |
| <i>Lease liabilities</i> | | | | |
| Gross payments | 223,814 | 565,629 | 138,922 | 928,365 |
| Finance charges | (28,822) | (49,038) | (9,425) | (87,285) |
| Carrying amount (net present value) | 194,992 | 516,591 | 129,497 | 841,080 |

As at 31 December 2021

| | The Company | | | |
|----------------------------------|---------------------|--------------|------------|------------|
| | Less than 1 year | 1 to 5 years | > 5 years | Total |
| | € | € | € | € |
| 4.00% secured bonds and interest | - | - | 44,775,000 | 44,775,000 |
| 3.65% secured bonds and interest | - | - | 14,895,000 | 14,895,000 |
| Trade and other payables | 836,358 | - | - | 836,358 |
| | 836,358 | - | 59,670,000 | 60,506,358 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

32. Financial risk management objectives and policies (*continued*)

Liquidity risk (continued)

As at 31 December 2020

| | The Company | | | Total |
|----------------------------------|---------------------|--------------|------------|------------|
| | Less than 1 year | 1 to 5 years | > 5 years | |
| | € | € | € | € |
| 4.00% secured bonds and interest | - | - | 44,730,000 | 44,730,000 |
| 3.65% secured bonds and interest | - | - | 14,880,000 | 14,880,000 |
| Trade and other payables | 716,498 | - | - | 716,498 |
| | 716,498 | - | 59,610,000 | 60,326,498 |

Fair value risk

As at 31 December 2021 and 2020, the carrying amounts of trade and other receivables, other financial assets (loans and receivables), cash and cash equivalents, trade and other payables and current borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair values of non-current borrowings are not materially different from their carrying amounts in the statement of financial position.

The Group used the following hierarchy for determining and disclosing the fair value of investment property.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value measurement hierarchy:

| | The Group | | | Total |
|-------------------------------|-------------|---------|-----------|-------------|
| | Level 2 | Level 3 | Additions | |
| | € | € | € | € |
| As at 31 December 2021 | | | | |
| Investment property | | | | |
| <i>Commercial properties</i> | 59,004,641 | - | 94,051 | 59,098,692 |
| <i>Residential properties</i> | 59,797,299 | - | 2,593,924 | 62,391,223 |
| <i>Offices</i> | 56,901,592 | - | 321,895 | 57,223,487 |
| | 175,703,532 | - | 3,009,870 | 178,713,402 |
| Property, plant and equipment | | | | |
| <i>Commercial properties</i> | 105,317,714 | - | 682,760 | 106,000,474 |
| <i>Residential properties</i> | 39,641,983 | - | 2,694,622 | 42,336,605 |
| | 144,959,697 | - | 3,377,382 | 148,337,079 |

There were no transfers between level classifications of investment property and property, plant and equipment during 2021.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

As at 31 December 2020

| | | | | |
|-------------------------------|--------------------|----------|------------------|--------------------|
| Investment property | | | | |
| <i>Commercial properties</i> | 14,067,273 | - | 1,725,919 | 15,793,192 |
| <i>Residential properties</i> | 9,808,990 | - | 1,410,038 | 11,219,028 |
| <i>Offices</i> | 7,325,479 | - | - | 7,325,479 |
| | <u>31,201,742</u> | <u>-</u> | <u>3,135,957</u> | <u>34,337,699</u> |
| Property, plant and equipment | | | | |
| <i>Commercial properties</i> | 163,530,485 | - | 2,738,500 | 166,268,985 |
| <i>Residential properties</i> | 60,912,214 | - | - | 60,912,214 |
| | <u>224,442,699</u> | <u>-</u> | <u>2,738,500</u> | <u>227,181,199</u> |

As at 31 December 2021 and 2020, there are no properties owned by the Company.

Capital Risk management

Capital includes the equity attributable to the ultimate shareholders of the Group.

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

| | The Group | | The Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | € | € | € | € |
| Interest-bearing loans and other borrowings | 85,158,081 | 83,357,332 | 78,237,863 | 59,610,000 |
| Trade and other payables (note 23) | 12,808,095 | 9,570,738 | 836,358 | 716,498 |
| Finance lease liability (notes 23 and 25) | 627,575 | 841,080 | - | - |
| Less: cash and cash equivalents | (199,234) | (592,023) | (4,597) | (2,400) |
| Net debt | <u>98,394,517</u> | <u>93,177,127</u> | <u>79,069,624</u> | <u>60,324,098</u> |
| Equity | 235,391,856 | 231,436,832 | (18,751,247) | 1,674,207 |
| Net debt to equity ratio | <u>0.4:1</u> | <u>0.4:1</u> | <u>-4.22:1</u> | <u>36.03:1</u> |

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

33. Events after the reporting date

All events occurring after the balance sheet date until the date of authorisation for issue of these financial statements and that are relevant for valuation and measurement as at 31 December 2021 for the Group and the Company are included in these consolidated financial statements.

On another note, the geopolitical situation in Eastern Europe intensified on February 24, 2022, with Russia's invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed. In addition to the human toll and impact of the events on entities that have operations in Russia, Ukraine, or neighboring countries (e.g., Belarus) or that conduct business with their counterparties, the war is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption.

The Directors are closely monitoring the possible impact on its operations and financial performance and are committed to take all necessary steps to mitigate the impact. This has no impact on the financial statements of the Group and the Company as at date of approval.

34. Supplemental cash flow information

Changes in liabilities arising from financing activities

The Group

| | 1 January 2021 € | Cash flows € | Non-cash changes € | 31 December 2021 € |
|--|------------------------|------------------|--------------------------|--------------------------|
| Bank overdrafts | 1,978,579 | (439,192) | - | 1,539,387 |
| Bank loans | 21,768,753 | 2,179,941 | - | 23,948,694 |
| 4% and 3.65% secured bonds | 59,610,000 | - | 60,000 | 59,670,000 |
| Finance lease liability (notes 16, 25 and 32) | 841,080 | (239,813) | 26,308 | 627,575 |
| Total liabilities from financing activities | 84,198,412 | 1,500,936 | 86,308 | 85,785,656 |

The Group

| | 1 January 2020 € | Cash flows € | Non-cash changes € | 31 December 2020 € |
|--|------------------------|------------------|--------------------------|--------------------------|
| Bank overdrafts | 475,236 | 1,503,343 | - | 1,978,579 |
| Bank loans | 16,775,130 | 4,993,623 | - | 21,768,753 |
| 4% and 3.65% secured bonds | 59,550,000 | - | 60,000 | 59,610,000 |
| Loans from associate | 41,218 | (41,218) | - | - |
| Finance lease liability (notes 16, 25 and 32) | 524,823 | (191,913) | 508,170 | 841,080 |
| Total liabilities from financing activities | 77,366,407 | 6,263,835 | 568,170 | 84,198,412 |

Non-cash changes refer to accumulated amortization of bond issue cost, accretion of interest expense on finance lease liability, and additional lease liability recognised during the year.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

The Company

| | 1 January 2021 | Cash flows | Non-cash changes | 31 December 2021 |
|--|-------------------|--------------------|---------------------|---------------------|
| | € | € | € | € |
| Bank overdraft | - | - | - | - |
| 4% and 3.65% secured bonds | 59,610,000 | - | 60,000 | 59,670,000 |
| Loans from subsidiary undertakings | - | (1,077,902) | 19,645,765 | 18,567,863 |
| Total liabilities from financing activities | 59,610,000 | (1,077,902) | 19,705,765 | 78,237,863 |

| | 1 January 2020 | Cash flows | Non-cash changes | 31 December 2020 |
|--|-------------------|------------|---------------------|---------------------|
| | € | € | € | € |
| 4% and 3.65% secured bonds | 59,550,000 | - | 60,000 | 59,610,000 |
| Total liabilities from financing activities | 59,550,000 | - | 60,000 | 59,610,000 |

Non-cash changes refer to accumulated amortization of bond issue cost and loss incurred on owner's divestiture recognised during the year.

35. Contingent liabilities

Some of the companies within the group (where the Company forms part as an ultimate parent company) are engaged in various legal proceedings. As at approval date of these financial statements, it is difficult to predict exposures of the Group; hence no provision has been made in the consolidated financial statements accordingly.

36. Related party transactions

The Company

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

| | | Expenses recharge to (from) related parties | Dividend income | Interest income | Amount owed by (to) related parties |
|---|------|--|--------------------|--------------------|--|
| | | € | € | € | € |
| <i>Subsidiary of the Company:</i> | | | | | |
| Carmelo Stivala Group | 2021 | (59,947,736) | 41,142,087 | - | - |
| Limited | 2020 | - | 3,458,801 | - | - |
| <i>Sub-subsidiaries of the Company:</i> | | | | | |
| ST Hotels Ltd. | 2021 | (34,896) | - | - | - |
| | 2020 | (18,000) | - | - | - |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2021, the Group recorded impairment of receivables relating to amounts owed by other related undertakings disclosed in notes 16, 21 and 32, in compliance with IFRS 9. This assessment will be undertaken each financial year through examining the financial position of the related party and the market in which the related party operates together with other historical data on recovery of amounts due.

37. Ultimate controlling parties

Stivala Group Finance p.l.c., the ultimate parent company, is a public limited company incorporated in Malta.

The Company's registered office is 143, The Strand Gzira GZR 1026, Malta. The Company's share capital is fully owned by Carmelo Stivala Trustee Limited acting as a trustee, on behalf of the ultimate beneficial owners which are Mr. Michael Stivala, Mr. Ivan Stivala and Martin John Stivala.

