CORINTHIA
GROUP

COMPANY ANNOUNCEMENT

Information on audited financial statements of IHI Magyarország Zrt for 2019 as Guarantor

The audited financial statements for year ended 31 December 2019 of IHI Magyarország Zrt as guarantor of the International Hotel Investments p.l.c. secured bond (ISIN MT0000111303) are attached to this company announcement and are also available on https://www.corinthiagroup.com/investors/bond-issue-guarantor/.

Jean-Pierre Schembri
Company Secretary

Encl.

17 July 2020

Report and financial statements prepared in accordance with International Financial Reporting Standards

IHI Magyarország Zrt.

Year ended 31 December 2019

Contents

Directors' report

The directors present their report together with the audited financial statements of IHI Magyarorszag Zrt. (the 'Company') for the year ended 31 December 2019.

Mission and Strategy

The Company's mission is to maximise shareholders' wealth by owning and operating assets at the top end of the market within which it operates.

Principal activities

The Company operates the Corinthia Hotel Budapest, a landmark five-star deluxe hotel located in the heart of Budapest drawing on an unrivalled 111-year history of excellence and tradition. The Company also owns and operates the Royal Residence and the Royal Spa.

The Company's sole shareholder is IHI plc, a company domiciled in Malta.

Result for the year

The results for the year are set out in the statement of profit or loss and other comprehensive income on page 6 of the financial statements. During the year, the hotel's operating performance continued to be positive.

The profit for the year of €5,254 million (2018: €4.644 million) will be added to the retained earnings.

Future developments

Since the start of 2020, the world has suffered from a widespread COVID-19 pandemic, resulting in disruptions to businesses worldwide. Global border restrictions, local mobility restrictions, and the enforced closure of hotels, food and beverage outlets and other places of entertainment, have had a negative impact on the Company and the Group, the hospitality industry in general as well as most other economic sectors worldwide. Governments in many countries have responded with monetary and fiscal interventions to assist companies to overcome these unprecedented financial difficulties.

As a result of the pandemic and notwithstanding the measures taken by governments, the Company experienced a severe curtailment of its business since the second half of March 2020, resulting in the closure of the hotel on the 21st March 2020 for a period of over 3 months reopening on the 12th July 2020. The Company has taken significant measures to reduce its cost base and is also in receipt of various COVID-19 business assistance programmes aimed at mitigating against the adverse financial impact of this pandemic and to safeguard its future wellbeing, as well as that of its employees and all stakeholders. The Company took immediate action to curtail its payroll by shedding all-part-time workers and others on probation, whist also terminating all outside labour service providers. Many of the company's employees have also taken drastic cuts in their take home pay. Internal guidelines on operations and staff welfare have also been circulated and updated regularly, especially now, as the Company enters into a phase of re-opening the hotel.

The Directors are giving due consideration to the uncertainties and mitigating factors that have been taken across the board in order to ensure the going concern of the Company. The Directors continue to closely monitor the situation on an ongoing basis with a view to minimizing the impact of the COVID -19 pandemic on the Company, the more so now as various governments are lifting border restrictions and local mobility restrictions. The Company is also reviewing on an ongoing basis the right-sizing of its operating base, even more so now as the level of business generated in the second half of 2020 will, with the gradual opening of its hotel operations, be a fraction of that generated in the corresponding period in 2019.

Directors' report - *continued*

Equity
The statement of changes in equity is set out on page 8 of the financial statements.

Directors
The board of directors is made up as follows:

Frank Xerri de Caro
Joseph Galea
Joseph Pisani

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

Approved by the Board of Directors on 17 July 2020 and signed on its behalf by:

Frank Xerri de Caro
Chairperson

Joseph Pisani
Director
Erzsébet krt 43-49
1073 Budapest
Hungary

Independent auditor's report

To the Shareholders of IHI Magyarorszag Zrt.

Report on the audit of the financial statements

Our opinion

In our opinion:

- IHI Magyarorszag Zrt's financial statements give a true and fair view of the company's financial position as at 31 December 2019, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

IHI Magyarorszag Zrt's financial statements, set out on pages 7 to 42, comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with these Codes.

Independent auditor's report - *continued*

To the Shareholders of IHI Magyarorszag Zrt.

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

We draw attention to Note 4.1 to these financial statements, which describes the directors' assessment of the estimated impacts of COVID-19 on the company's projected financial results, cash flows and financial position, taking cognisance of the unprecedented nature of the adverse economic conditions currently being experienced. These events or conditions, along with other matters as set forth in the said Note, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

Our opinion on the financial statements does not cover the other information, including the directors' report.

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report 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 for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with those charged with governance 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.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Simon Flynn
Partner
17 July 2020

Statement of comprehensive income

	Notes	2019 €'000	2018 €'000
Revenue	6	28,054	26,360
Direct costs		(13,661)	(13,008)
Gross profit		**14,393**	**13,352**
Marketing costs		(1,734)	(1,624)
Administrative expenses		(4,478)	(4,221)
Depreciation		(1,648)	(1,432)
Results from operating activities	7	**6,533**	**6,075**
Finance income		35	195
Finance costs		(1,039)	(1,039)
Net finance costs	9	**(1,004)**	**(844)**
Profit before tax		**5,529**	**5,231**
Tax expense	10	(275)	(587)
Profit for the year – total comprehensive income		**5,254**	**4,644**

Statement of financial position

	Notes	2019 €'000	2018 €'000
Assets			
Non-current			
Property, plant and equipment	11	122,743	121,874
Right-of-use	11.6	580	-
		123,323	**121,874**
Current			
Inventories	12	1,049	1,061
Trade and other receivables	13	2,409	3,288
Cash and cash equivalents	14	1,082	1,181
		4,540	**5,530**
Total assets		**127,863**	**127,404**
Equity			
Called-up share capital	15	3,862	3,862
Capital reserve		6,106	6,106
Revaluation reserve	16	39,855	39,855
Retained earnings	17	20,531	18,732
Total equity		**70,354**	**68,555**
Liabilities			
Non-current			
Other loans	19	39,729	45,229
Lease liabilities	11.6	437	-
Deferred tax liabilities	20	5,734	5,819
		45,900	**51,048**
Current			
Other loans	19	124	603
Trade and other payables	21	10,867	6,688
Lease liabilities	11.6	145	-
Current taxation		473	510
		11,609	**7,801**
Total liabilities		**57,509**	**58,849**
Total equity and liabilities		**127,863**	**127,404**

The financial statements on pages 6 to 33 were authorised for issue by the board of directors on 17 July 2019 and signed on its behalf by:

Frank Xerri de Caro
Chairperson

Joseph Pisani
Director

Statement of changes in equity

	Share capital	Capital reserve	Revaluation reserve*	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2018	**3,862**	**15,038**	**39,855**	**5,156**	**63,911**
Reallocation		(8,932)		8,932	-
Profit for the year	-	-	-	4,644	4,644
Balance at 31 December 2018	**3,862**	**6,106**	**39,855**	**18,732**	**68,555**
Balance at 1 January 2019	**3,862**	**6,106**	**39,855**	**18,732**	**68,555**
Reallocation	-	-	-	-	-
Profit for the year	-	-	-	5,254	5,254
Dividend declared	-	-	-	(3,455)	(3,455)
Balance at 31 December 2019	**3,862**	**6,106**	**39,855**	**20,531**	**70,354**

* Not available for distribution

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On 31 December 2018, the Shareholders resolved to transfer €8,931,685 from the Company's capital reserve to the Company's retained earnings, in order to set-off the negative retained earnings. As a result of the transfer the amount of the capital reserve was modified to €6,106,432 and the retained earnings €14,087,582.

Statement of cash flows

	Notes	2019 €'000	2018 €'000
Profit before tax		**5,529**	5,231
Adjustments	22	1,589	1,361
Working capital changes:			
Inventories		13	(75)
Trade and other receivables		879	(1,003)
Trade and other payables		348	519
Cash from operating activities		**8,358**	6,033
Tax paid		(397)	(282)
Net cash from operating activities		**7,961**	5,751
Cash from investing activities			
Payments to acquire property, plant and equipment		(2,517)	(997)
Interest received		(2)	(2)
Net cash used in investing activities		**(2,519)**	(999)
Cash from financing activities			
Shareholding loan repayments*		(5,500)	(5,500)
Lease liability		(41)	-
Interest paid		-	-
Net cash used in financing activities		**(5,541)**	(5,500)
Net (decrease) / increase in cash and cash equivalents		**(99)**	(748)
Cash and cash equivalents at 1 January		1,181	1,929
Cash and cash equivalents at 31 December	14	**1,082**	1,181

*During the year the company repaid €5.5 million in shareholders loans. In the previous year €5.5 million was repaid.

Notes to the financial statements

1. Nature of operations

The Company's main business is connected with the ownership and operation of a hotel and adjacent apartments and spa in Budapest, Hungary.

2. General information

IHI Magyarország Zrt., (the 'Company'), is a limited liability company incorporated in Budapest, Hungary. The Company's registered address is Erzsébet krt. 43-49, 1073 Budapest, Hungary.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements are presented in thousands of euro (€'000) which is also the functional currency of the Company.

3. Change in accounting policies

3.1. Standards, interpretations and amendments to published standards effective in 2017

In 2019, the Group applied the following standards and amendments that are mandatory for the Group's accounting period beginning on 1 January 2019, comprising:

- IFRS 16 Leases
- Transfers to Investment Property – Amendments to IAS 40
- Annual Improvements 2015 – 2017 cycle
- Interpretation 23 Uncertainty over income tax treatment

The company had to change its accounting policies following the adoption of IFRS 16. The impact of this change in accounting policy is disclosed in Note 3.3. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

3.2. Standards, interpretations and amendments to published standards that are not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the company. these standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3.3. Leases

This note explains the impact of the adoption of IFRS 16 *Leases* on the Company's financial statements.

The Company has adopted IFRS 16 *Leases* retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 11.6.

3. Change in accounting policies

3.3. Leases

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The Company's weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was less than 1%.

i. Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

ii. Measurement of lease liabilities

	2019 €'000
Lease liability recognised as at 1 January 2019	**42**
Of which are:	
Current lease liabilities	14
Non-current lease liabilities	28
	42

iii. Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There was no impact on opening retained earnings as a result of the initial application of IFRS 16.

iv. Adjustments recognised in the statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

Company:

- right-of-use assets (plant and equipment, and motor vehicle) – increase by €0.6m
- lease liabilities – increase by €0.4m

3. Change in accounting policies

3.3. Leases

v. Lessor accounting

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

4. Summary of accounting policies

4.1. Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared using the measurement bases specified by IFRS as adopted by the EU for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable and reliable in the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS as adopted by the EU that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the following notes:

Note 11: Property, plant and equipment

The accounting policies have been consistently applied by Company and are consistent with those used in previous years.

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period

In view of the developments pertaining to the COVID-19 pandemic that occurred after the end of the reporting period, the Company's operations within the hospitality sector were principally closed for business or suspended for a period of time, in line with the directions given by the health authorities of the jurisdictions within which the Company, a subsidiary of IHI Group, operates.

For financial reporting purposes, events relating to the COVID-19 pandemic are deemed to be non-adjusting subsequent events, and accordingly the Company's financial results and financial position reported in the financial statements for the year ended 31 December 2019 have not been impacted by these events. However, these events have a significant impact on the Group's operations during the year ending 31 December 2020 and on the financial results expected to be registered during the year with material adverse impact on the Group's profitability, cash flows and financial position. The Board's views are that the situation is unprecedented and the directors and senior management remain committed to taking all

4. Summary of accounting policies - *continued*

4.1. Overall considerations – *continued*

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period - *continued*

necessary actions to mitigate the negative impact that COVID-19 could have on the Company and the IHI Group.

In a company announcement dated 28 March 2020, the Group stated that the global pandemic had a significant impact on the hospitality industry, with the Group's hotels, related commercial properties and catering activities being at best in partial operation with significantly reduced business at that point in time. As outlined previously, the Group ultimately curtailed its principal hospitality and catering businesses as events unfolded. Immediate measures have been adopted across the Group to reduce operating costs to the minimum required to secure and maintain the Group's properties, with the objective of preserving financial resources. The Group's most material remaining operating cost is payroll and accordingly the Group has taken immediate action to reduce its payroll related costs. The Group adopted a series of bold and far-reaching measures that have significantly reduced operating costs and payroll expenses. It is benefitting from varying schemes adopted by the respective Governments in all countries in which the Group operates, including Malta and the United Kingdom, which include outright salary subsidies, as well as the waiver or deferral of payroll taxes and social security contributions, together with waiver of property taxes for 2020.

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period - continued

The Group's senior management team has compiled Group financial projections for the years ending 31 December 2020 and 31 December 2021, comprising historical financial information up to the date of authorisation for issue of these financial statements and forecast financial information for the residual period, incorporating the estimated impact of the events referred to above on the projected financial results, cash flows and financial position of the Company and the Group. The projected financial information reflects the estimated impact of the stressed conditions currently experienced, under a scenario which encompasses a set of prudent and severe assumptions that capture the forecast business conditions until 31 December 2021. These assumptions centre around the expected timing of resumption of operations of the different hospitality and catering businesses, the expected pace of recovery to business as usual once operations resume, and expected level of activity and revenues post resumption. The Group is incorporating minimal forecast revenues for the residual period of the financial year ending 31 December 2020 within the projections and is assuming that forecast revenues for the subsequent year would amount to a fraction of the historical 2019 figures. Hence the Group is projecting that revenue levels will not revert to pre COVID-19 benchmarks before the financial year ending 31 December 2022. The projections referred to above contemplate the impact of the cost containment and management measures taken, together with government support in respect of operating expenditure until 31 December 2020. The cost containment measures adopted in 2020 are assumed to be lifted in relation to operating costs throughout 2021, but the Group may continue to apply certain measures should the need arise.

The IHI Group is assessing the resumption of business dates on a specific property and business basis. The Group intends to resume certain operations in the latter part of 2020 and others during 2021, but this plan is reviewed on an ongoing basis taking into account developments and events as these unfold.

The Group is in the process of applying for banking facilities with local banks under the Malta Development Bank COVID-19 Guarantee Scheme, with the requested facilities amounting to the maximum amount possible under the Scheme. At the date of authorisation for issue of these financial statements, the Group has submitted applications for a part of the aggregate amount. The entire amount of the facilities is included as liquidity inflows within the projections as the rest of the applications will be filed shortly.

4. Summary of accounting policies - *continued*

4.1. Overall considerations – *continued*

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period - *continued*

Also, the Group has engaged in an extensive dialogue with its funding banks in Malta and internationally, and has entered into ad hoc arrangements with some of its principal lending banks to defer capital and in some cases interest payments too, which deferrals are reflected within the projections.

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period - continued

Certain banking facilities include loan to value and debt service cover covenants which are tested on a periodical basis. On the basis of the projections made, the IHI Group is expected to breach specific covenants exclusively in view of COVID-19 impact on its business and financial results. Whilst waivers have been obtained in respect of breaches expected throughout a substantial part of 2020, waivers for the forecast breaches in the latter part of 2020 and in 2021 have not been obtained at the date of approval of the 31 December 2019 financial statements, as it is premature to apply for such waivers now. If waivers are not successfully negotiated, then the Group would be technically considered in default in respect of the related loan agreements and facilities would need to be repaid, which may mean that the Group may not be able to meet these liabilities at that point in time. However, the Group expects to secure these waivers and this is assumed within the financial projections.

IHI plc has secured a line of credit from its parent company, Corinthia Palace Hotel Company Limited, to ensure funding is available in case of any cashflow shortfalls. This line of credit would be partly utilised during 2020 according to the projections and a more significant part of the facility would be drawn down during 2021. At the date of approval of the financial statements, the IHI plc needs to formalise approval from its parent in respect of the amount expected to be utilised during 2021.

The Group will be reviewing other funding arrangements expected to mature throughout 2021. Interest payment obligations on all such funding arrangements are included within the projections.

The Group is not relying on asset disposals for cash flow purposes and accordingly did not reflect proceeds from disposal of any significant assets during the explicit period of the cash flow projections, although disposals are an option.

The combined effects of the actions effected are to safeguard the IHI Group's financial and liquidity positions to see the business through the period of the pandemic, taking into account the forecasted revenue levels expected to be generated by the Group's hotels and catering businesses within the explicit period of the projections. Under the cash flow projections, utilising a prudent scenario, the Company and IHI Group is expected to have sufficient liquidity and financial resources to meet its obligations and expected cash outflows taking into account the actual outcome of actions taken so far by the Group and also the expected outcome of other forecasted funding actions and related initiatives throughout the explicit period of the projections. Hence, the Company and IHI Group is likely to have sufficient resources and funds to meet all its payment obligations, including bond interest payments as they arise through the course of the explicit period, as the projections reveal a certain level of headroom in respect of liquidity available to the Company and Group throughout the period to 31 December 2021.

The impact of the expected reduction in revenues and deterioration of financial results during the years ending 31 December 2020 and 2021 on the fair valuation of the Group's properties is not expected to have a significant impact on the Statement of Financial Position on the basis of the information available at date of signing.

4. Summary of accounting policies - *continued*

4.1. Overall considerations – *continued*

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period - *continue*

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period - continued

The Directors are conscious that, in common with similar businesses operating in the same sectors, all judgements reached at this stage remain subject to a material degree of underlying uncertainty, however the following matters are considered to constitute a material uncertainty that may cast significant doubt about the Company's and IHI Group's ability to continue as a going concern:

- While the Group's analysis assumes a sharp downturn in the level of business activity during 2020, followed by a gradual recovery into 2021, limited to a fraction of the business generated in 2019, the eventual outcome of the pandemic remains subject to material uncertainty. A more prolonged outbreak, or a resurgence of the disease, would lead to more widespread economic disruption; which may in part be countered by further governmental measures that also cannot be foreseen at this stage.
- The political and economic uncertainties prevailing in Libya entail significant uncertainties and judgements surrounding the valuation of the Group's assets in Libya, which is influenced by the timing of a recovery in the country that in turn has a bearing on the projected cash flows from the relative operations. These projections remain subjective and difficult to predict due to the current market environment, also taking into account the COVID-19 related events subsequent to the end of the reporting period. Different plausible scenarios may impact the financial performance of the Libya operations and the valuation of related assets in a significant manner.
- At the date of approval of these financial statements, the Group has not yet obtained approval of the required banking facilities from local banks under the Malta Development Bank COVID-19 Guarantee Scheme and has not obtained waivers for the forecast covenant breaches in the latter part of 2020 and in 2021, attributable to certain banking facilities. At that date, IHI plc has not yet formally secured the approval of the amount expected to be utilised by the Group during 2021 under the line of credit made available by CPHCL. Also the outcome in respect of the Group's remaining funding arrangements, referred to above, is not yet within the control of the Group as at the date of the 2019 financial statements.

Should an adverse outcome emanate from the uncertainties surrounding any one individual item out of banking facilities under the Malta Development Bank COVID-19 Guarantee Scheme and the line of credit made available by CPHCL and the assumed refinancing of the other funding arrangements, the level of headroom in respect of liquidity available to the Company and the Group throughout the period to 31 December 2021 is impacted in a significant manner but not depleted.

Should adverse developments occur in respect of more than one factor referred to above or should waivers for the forecast covenant breaches attributable to certain banking facilities not be secured, the headroom of liquidity available to the Company and the Group would be depleted. However, should these latter unlikely events materialise, the Group would be able to deploy other mechanisms or funding options as highlighted previously.

4. Summary of accounting policies - *continued*

4.1. Overall considerations – *continued*

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period - *continue*

Assessment of the appropriateness of the going concern assumption taking cognisance of the COVID-19 related events that occurred subsequent to the end of the reporting period - continued

The Directors confirm that, after considering the matters set out above, they have a reasonable expectation that the Group will be successful in securing:

- the approval of the full amount of requested banking facilities from local banks under the Malta Development Bank COVID-19 Guarantee Scheme;
- continued support from its funding banks and waivers for the forecast covenant breaches in the latter part of 2020 and in 2021 together with refinancing of other funding arrangements; and
- continued support from the Company's ultimate parent, CPHCL, which is considered as willing and financially able to support the Group.

Accordingly, based on the outcome of the cash flow projections in a prudent scenario as referred to, the Directors and senior management consider the going concern assumption in the preparation of the Company's financial statements as appropriate as at the date of authorisation for issue of the 2019 financial statements.

The board of directors and senior management remain vigilant on developments and will be taking further measures as and when necessary to ensure the continued viability of the Company and to preserve the Company's liquid resources to enable it to manage the liquidity demands over the coming months in an agile and decisive manner as events unfold.

4.2. Interest-bearing loans

Borrowings, comprising intra-group loans, are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

4. Summary of accounting policies

4.3. Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in income statement.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

4.4. Revenue

Revenue includes revenue from accommodation, food and beverage services, and other ancillary services. The substantial majority of services are provided to customers during their stay at the hotel, and, depending on the type of booking, some services would generally be amalgamated into one 'contract' (for example, bed and breakfast).

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

4.5. Leases

As explained in note 3.3 above, the Company has changed its accounting policy for leases where the Company is the lessee. The Company accounting policy applicable as from 1 January 2019 is disclosed in Note 11.6 and the impact of the change is explained in Note 3.3.

4.5.1 Accounting policy where the Company is the lessee until 31 December 2018

Leases of plant and equipment, and motor vehicles where the Company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability of each period. The property, plant and equipment acquired under finance leases is depreciated over the assets' useful life or over the shorter of the assets' useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

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

4.6. Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

4.7. Retirement benefit costs

The Company is required to pay defined employer contributions to the State in accordance with local legislation. Pension costs are charged against profit in the period in which the contributions are payable.

4.8. Property, plant and equipment

Land and building held for use in production or administration are stated at revalued amounts. Revalued amounts are fair market values determined in appraisals by external professional valuer on a periodic basis.

Any revaluation surplus is recognised in other comprehensive income and credited to the 'revaluation reserve'. To the extent that any revaluation decrease or impairment loss has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase recognised in other comprehensive income. Downward revaluations are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and any remaining decrease recognised in profit or loss. Any revaluation surplus remaining in equity on disposal of the asset is transferred to retained earnings.

Items of plant and equipment comprising furniture and fittings, plant and equipment, are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets.
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Depreciation is recognised on a straight-line basis to write down the cost or valuation of assets less estimated residual value over their estimated useful lives. The periods generally applicable are:

		Years
-	Freehold buildings	50
-	Hotel plant and equipment	2-15
-	Furniture, fixture and fittings	3-10
-	Motor vehicles	5

Freehold land is not depreciated as it is deemed to have an indefinite life.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss for the year. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised directly in equity. Any loss is recognised immediately in profit or loss. However, to the extent the amount is included in the revaluation surplus for that property the decrease is recognised in other comprehensive income and reduces the revaluation surplus within the equity.

4. Summary of accounting policies – *continued*

4.9. Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from the said goodwill and represent the lowest level within the Company at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. Cash flows and discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.10. Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Financial liabilities

The Company's financial liabilities include borrowings, trade and other payables.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

4. Summary of accounting policies – *continued*

4.11. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

4.12. Income taxes

Tax expense recognised in profit or loss comprise the sum of deferred tax and current tax not recognised directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land), in which case the related deferred tax is also recognised in other comprehensive income.

4.13. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4. Summary of accounting policies – *continued*

4.14. Equity and reserves

Share capital represents the nominal value of shares that have been issued.

When share capital recognised as equity is purchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

The revaluation reserve within equity comprises gains and losses due to the revaluation of property, plant and equipment. Retained earnings include all current and prior period losses and retained profits.

4.15. Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination. In a business combination contingent liability are recognised in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognised, less any amortisation.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

5. Critical accounting estimates and judgements

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates, assumptions and management judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The fair value of property, plant and equipment and investment properties is determined by using valuation techniques. Further details of the judgements and assumption made are disclosed in Note 11.

This note highlights information about the fair value estimation of land and buildings and investment property, together with a sensitivity analysis of the effects of shifts in unobservable inputs used in determining these fair values.

5. Critical accounting estimates and judgements

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are, with the exception of the fair valuation of property, not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

6. Revenue

	2019 €'000	2018 €'000
Accommodation	18,588	17,206
Food and beverages	7,751	7,521
Other hotel revenue	1,715	1,633
	28,054	26,360

7. Results from operating activities

Results from operating activities are after the following charges:

	2019 €'000	2018 €'000
Operating lease costs	-	10
Depreciation of property, plant and equipment (Note 11)	1,648	1,432
Auditors' remuneration	27	36

8. Personnel expenses

	2019 €'000	2018 €'000
Wages and salaries	3,641	3,209
Casual workforce	2,128	1,918
Payroll related taxes	733	600
Other payroll related expenses	429	661
	6,931	6,388

8.2. Average number of employees

	2019	2018
Management and administrative	62	68
Operating	301	310
	363	378

9. Finance income and finance costs

	2019 €'000	2018 €'000
Interest receivable on:		
Other financial income	2	10
Exchange gain-net	(105)	48
Other income from Parent*	138	137
Finance income	**35**	195
Interest payable on:		
Interest on group balances	(1,037)	(1,038)
Other charges	(2)	(1)
Finance costs	**(1,039)**	(1,039)
Net finance costs	**(1,004)**	(844)

* The hotel building was pledged as collateral against a bond issued by the parent company amounting to €55 million. Interest receivable in relation to the collateral provided was accrued for at 0.25% or €137,500.

10. Tax expense

	2019 €'000	2018 €'000
Current taxation	(360)	(358)
Deferred taxation (note 20)	85	(229)
	(275)	(587)

In 2019 the corporate income tax rate in Hungary is 9% for taxable profit.

Refer to Note 20 for information on the entity's deferred tax assets and liabilities.

	2019 €'000	2018 €'000
Profit before tax	5,529	5,231
Income tax using the Company's domestic tax rate	498	471
Effect of non-deductible expenses	(223)	116
Tax expense	**275**	587

11. Property, plant and equipment

	Land and buildings €'000	Plant and equipment €'000	Furniture, fixtures and fittings €'000	Assets in the course of construction €'000	Total €'000
Cost/revalued amount					
Balance at 1 January 2018	**143,402**	**9,565**	**5,354**	**107**	**158,428**
Additions	-	-	-	1,689	1,689
Reallocations	1,283	285	15	(1,583)	-
Disposals	-	-	-	-	-
Revaluation surplus	-	-	-	-	-
Balance at 31 December 2018	**144,685**	**9,850**	**5,369**	**213**	**160,117**
Balance at 1 January 2019	**144,685**	**9,850**	**5,369**	**213**	**160,117**
Additions	582	-	-	2,524	3,106
Reallocations	1,985	277	206	(2,468)	-
Disposals	-	(197)	(30)	-	(227)
Revaluation surplus	-	-	-	-	-
Balance at 31 December 2019	**147,252**	**9,930**	**5,545**	**269**	**162,996**
Depreciation and impairment losses					
Balance at 1 January 2018	**23,381**	**8,789**	**4,641**	**-**	**36,811**
Depreciation for the year	1,211	161	60	-	1,432
Disposals	-	-	-	-	-
Balance at 31 December 2018	**24,592**	**8,950**	**4,701**	**-**	**38,243**
Balance at 1 January 2019	**24,592**	**8,950**	**4,701**	**-**	**38,243**
Depreciation for the year	1,244	302	102	-	1,648
Disposals	-	(190)	(28)	-	(218)
Balance at 31 December 2019	**25,836**	**9,062**	**4,775**	**-**	**39,673**
Carrying amounts					
At 1 January 2018	**120,021**	**776**	**713**	**107**	**121,617**
At 31 December 2018	**120,093**	**900**	**668**	**213**	**121,874**
At 1 January 2019	**120,093**	**900**	**668**	**213**	**121,874**
At 31 December 2019	**121,416**	**868**	**770**	**269**	**123,323**

11. Property, plant and equipment – *continued*

11.1. Fair valuation of property

The disclosure below, including the sensitivities to shifts in unobservable fair value inputs, reflects the events and circumstances existent as at 31 December 2019, and do not take into account the events after reporting period. Refer to Note 4.1 for information on how management believes that the fair values of hotel and other properties may be impacted as a result of the COVID-19 pandemic after the year end.

During 2019, management has carried out an assessment for those properties measured in accordance with the revaluation model under IAS 16, to determine whether a material shift in fair value had occurred.

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

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

The Company's land and buildings, within property, plant and equipment, consists principally of hotel property that is owned and managed by companies forming part of the Corinthia Group.

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

Valuation processes

Where management, through its assessment, concludes that the fair value of properties differs materially from its carrying amount, an independent valuation report prepared by third party qualified valuers, is performed. These reports are based on both:

• information provided by the Company which is derived from the Company's financial systems and is subject to the Company's overall control environment; and

• assumptions and valuation models used by the valuers, with assumptions being typically market related and based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by designated officers within the Company. This includes a review of fair value movements over the period. When the designated officers consider that the valuation report is appropriate, the valuation report is recommended to the Audit Committee and Board of directors. The Committee and Board then consider the valuation report as part of their overall responsibilities.

Valuation techniques

In view of a limited number of similar or comparable properties and property transactions, comprising sales or rentals in the respective market in which the properties are located, the valuations have been performed using unobservable inputs. The significant inputs to the approach used are generally those described below:

11. Property, plant and equipment – *continued*

11.1. Fair valuation of property – *continued*

Valuation techniques – *continued*

This property was last subject to an independent valuation exercise during the year ended 31 December 2016. The fair valuation as at 31 December 2016 of the Corinthia Hotel Budapest was determined on the basis of the adjusted sales comparison approach. The valuation technique considered by the external valuer to be the most appropriate for the respective property has been utilised to attain a more representative measurement at fair value.

- Adjusted sales comparison approach: a sales price per square metre or per room related to transactions in comparable properties located in proximity to the respective property, with adjustments for differences in size, age, exact location and condition of the property.

Information about fair value measurements using significant unobservable inputs (Level 3) as at 31 December 2019 and 2018.

Description by class highest and best use	Valuation technique	Fair value at 31 December		Significant unobservable inputs	
		31 December 2019 €'000	31 December 2018 €'000	31 December 2019	31 December 2018
	Adjusted sales comparison approach			Sales price per room	
		122,744	121,874	**€1,769**	€1,769

With respect to the adjusted sales comparison approach, the higher the sales price per square metre, the resultant fair valuation.

As evidenced in the tables above, the highest and best use of the Company properties is equivalent to their current use. This property was last subject to an independent valuation exercise during the year ended 31 December 2016; accordingly, the inputs disclosed in the above tables are those emanating from such valuations.

A shift in discount rate of +/- 0.5% and in EBITDA by 5% for both 2019 and 2018 would result in a shift in property valuation of +/- €720,000 and +/- €5.6 million respectively.

11. Property, plant and equipment – *continued*

11.2. Adjustments to carrying amount of property – *continued*

Revaluation surplus and impairment charges recognised on other comprehensive income (within revaluation reserve), gross of deferred tax:

	€'000
At 1 January 2018	46,096
Revaluation of hotel property carried out at year end	-
At 31 December 2018	**46,096**
Revaluation of hotel property carried out at year end	**-**
At 31 December 2019	**46,096**

11.3. Carrying amount of hotel property

Following adjustments the hotel property carrying amount to reflect the outcome of the fair valuation process referred to above at each reporting period, the carrying amount of the hotel property is €122,744 million (2018: €121,874 million).

11.4. Historic cost of hotel property

The carrying amounts of the land and buildings that would have been included in these financial statements had these assets been carried at cost less accumulated depreciation there on would be €122.453 million (2018: €73.997 million).

11.5. Use as collateral

The hotel property is pledged as collateral against a bond issued by the parent company.

11. Property, plant and equipment – *continued*

11.6. Leases

This note provides information for leases where the Company is a lessee.

i. Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	The Company	
	31 December 2019 €'000	1 January 2019* €'000
Right-of-use assets		
Plant & equipment	552	-
Motor vehicles	28	42
	580	42
Lease liabilities		
Current	145	-
Non-current	437	-
	582	-

* In the previous year, the Company did not recognise lease assets and lease liabilities in relation to leases, since all of the Company's leases were assessed as having been 'operating leases' under IAS 17 Leases.

Additions to the Company's right-of-use assets during the 2019 financial year were €580.

ii. Amounts recognised in the statement of profit or loss

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

	The Company	
	31 December 2019 €'000	1 January 2019 €'000
Depreciation charge of right-of-use assets		
Plant & equipment	**29**	-
Motor vehicles	**14**	-
	43	-

11. Property, plant and equipment – *continued*

11.7. Leases – *continued*

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

The Company leases equipment, and motor vehicles. Contracts are made for periods up to 6 years and may include extension options as described further below. The Company's leases pertain to equipment and motor vehicles, and are typically made for periods of up to 6 years.

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

Until 2018, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

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

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

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

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

To determine the incremental borrowing rate, the Company uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and for other items specific to the leased asset.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase

11. Property, plant and equipment – *continued*

11.8. Leases – *continued*

iv. The Company's leasing activities and how these are accounted for - *continued*

option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Company.

12. Inventories

	2019 €'000	2018 €'000
Food and beverages	181	146
Cleaning materials and consumables	137	144
Stationery and promotional material	42	36
Utensils, crockery, cutlery, chinaware and linen	689	735
	1,049	1,061

13. Trade and other receivables

	2019 €'000	2018 €'000
Trade receivables	1,774	2,305
Amounts owed to:		
Parent Company	12	-
Group company	20	35
Other related company	7	17
Other debtors	58	57
Financial assets	**1,871**	2,414
Advance payments to contractors for capital expenditure	394	732
Prepayments	144	142
Total receivables - current	**2,409**	3,288

13. Trade and other receivables - *continued*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2019 €'000	2018 €'000
Balance at 1 January	57	67
Amounts written off	(40)	-
Impairment losses recognised	40	3
Impairment losses reversals	11	(13)
Balance at 31 December	**68**	57

The impairment loss at 31 December 2019 relates to specific provision for doubtful debtors that have been overdue for more than one year. Such balances were unsecured.

The provision accounts in respect of trade receivables are used to record impairment losses unless the Company deems that no recovery of the amount owing is possible; at that point, the amounts are considered irrecoverable and are written off against the financial asset directly. The Company's impairment model for trade receivables is disclosed in note 25.1.

The carrying amount of trade and other receivables is considered to be a reasonable approximation of fair value.

14. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2019 €'000	2018 €'000
Bank accounts	974	1,007
Cash in hand	108	174
Cash and bank balances	**1,082**	1,181
Cash and cash equivalents in the statement of cash flows	**1,082**	1,181

15. Share capital

15.2. Authorised and issued share capital

	Note	Ordinary shares of €1 each 2019 €'000	2018 €'000
On issue at 1 January (100,000 ordinary shares)		3,862	3,862
On issue at 31 December - fully paid up (100,000 ordinary shares)		**3,862**	3,862

15.3. Shareholders rights

Shareholders are entitled to vote at meetings of the shareholders of the Company on the basis of one vote for each share held. They are entitled to receive dividends as declared from time to time. The shares in issue shall, at all times, rank *pari passu* with respect to any distribution whether of dividends or capital, in a winding up or otherwise.

16. Revaluation reserve

There is no change in the revaluation reserve.

17. Retained earnings

On 31 December 2018 the Shareholders resolved to transfer €8,931,685 from the Company's capital reserve to the Company's retained earnings, in order to restructure the Company's equity in the Company's statutory accounts in Hungarian Florint. As a result of the transfer the amount of the capital reserve was modified to €6,106,432 and the retained earnings to €14,087,582.

The gain of €5,253,602 has been transferred to retained earnings as set out in the statement of changes in equity for the year ended 31 December 2019.

18. Capital management policies and procedures

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the Company defines as the profit for the year divided by total equity.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Company seeks to maximise the return on shareholders' equity and to reduce the incidence of interest expense.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

19. Other loans

	2019 €'000	2018 €'000
Amounts owed to:		
Parent company (IHI PLC)	39,729	45,229
Group company	124	603
	39,853	45,832
Non-current liabilities		
Amounts owed to:		
Parent company	39,729	45,229
	39,729	45,229
Current liabilities		
Amounts owed to:		
Group company	124	603
	124	603

The terms of the amounts owed to the related parties are as follows:

	€'000	Interest	Terms Repayable by	Security
IHI PLC	25,869	4% (2018: 4%)	non-current	None
IHI PLC	13,861	0%	non-current	None
Group company	124	6M EURIBOR + 1%	current	None
	39,854			

20. Deferred tax asset and liability

	2019 €'000	2018 €'000
Excess of tax base over carrying amount of tangible fixed assets	(273)	(388)
Tax effect on revaluation of land and buildings	(5,619)	(5,619)
Provision for exchange differences	158	188
	(5,734)	(5,819)

The movement in the deferred tax can be analysed as follows:

	2019 €'000	2018 €'000
Recognised in profit or loss	85	(229)
	85	(229)

21. Trade and other payables

	2019 €'000	2018 €'000
Trade payables	770	805
Other payables		
Parent company (IHI Plc)	6,211	1,826
Other related companies	44	13
Other creditors	869	936
Accruals	2,509	2,033
Financial liabilities	**10,403**	5,613
Advance payments	464	1,075
Total payables - current	**10,867**	6,688

22. Cash flow adjustments

	2019 €'000	2018 €'000
Adjustments:		
Depreciation	1,648	1,432
Unrealized foreign exchange gain/loss net	(60)	(73)
Finance cost-net	1	2
	1,589	1,361

22.2. Reconciliation of financial liabilities

The Company	Liabilities from financing activities Other financial liabilities €'000	Total €'000
As at 1 Jan 2019		
- Principal	(45,229)	(45,229)
- Net	(45,229)	(45,229)
Cash flows	5,500	5,500
Other movements	-	-
As at 31 December 2019	**(39,729)**	(39,729)
Comprising:		
- Principal	(39,729)	(39,729)
- Accrued interest	-	-
As at 31 December 2019	**(39,729)**	(39,729)

23. Commitments

	2019 €'000	2018 €'000
Capital expenditure		
Contracted capital expenditure	686	2,574
Car lease	-	33
	686	2,607

24. Related parties

The Company's related parties include its associates, key management, fellow subsidiaries and shareholders of ultimate parent company. None of the transactions incorporates special terms and conditions and no guarantees were given or received. Transactions with related companies are generally effected on a cost plus basis or on the basis of pre agreed arrangements. Outstanding balances are usually settled by bank payment. Amounts owed by/to related parties are shown separately in Notes 13, 19 and 21.

	2019 €'000	2018 €'000
Revenue		
Services rendered to		
Ultimate parent company	(5)	(5)
Fellow subsidiaries	(320)	(82)
Other Related	(56)	-
	(381)	(87)
Expenses		
Charged by Corinthia Hotels Limited (CHL)	353	370
Charged by Corinthia group members	5	6
	358	376
Marketing costs		
Charged by CHL	316	344
Charged by Corinthia group members	55	40
	372	384
Administrative expenses		
Management fee charged by Parent company	277	260
Management & incentive fee charged by CHL	1,316	1,238
	1,593	1,498
	1,941	2,171
Financing		
Interest payable – Parent company	1,035	1,035
Interest payable – Fellow subsidiaries	2	3
Interest receivable – Parent company	(137)	(137)
	900	901

24. Related parties - *continued*

24.1. Transactions with key management personnel - *continued*

In addition to the remuneration paid to the directors, in the course of its operations, the Company has a number of arrangements in place with its officers, executives and other related parties whereby concessions are made available for hospitality services rendered to them according to accepted industry norms.

25. Risk management objectives and policies

The Company is exposed to various risks through its use of financial instruments. The main types of risks are market risk, credit risk and liquidity risk, which result from both its operating and investing activities. The Company's risk management is coordinated at its head office, in close co-operation with the board of directors and the audit committee and focuses on actively securing the Company's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The most significant financial risks to which the Company is exposed to are described below. See also 25.4 for a summary of the Company's financial assets and liabilities by category.

25.2. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2019 €'000	2018 €'000
Classes of financial assets – carrying amounts		
Trade and other receivables	1,871	2,414
Cash and cash equivalents	1,082	1,180
	2,953	3,594

The maximum exposure to credit risk at the end of the reporting period in respect of financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The Company does not hold any significant collateral in this respect.

25. Risk management objectives and policies – *continued*

25.1. Credit risk – *continued*

The Company has, over the years, conducted business with various corporates, tour operators and individuals located in different jurisdictions and, due to the spread of the Company's debtor base, there is no concentration of credit risk.

The Company has a credit policy in place under which new customers are analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and in some cases bank references. Customers that fail to meet the Company's benchmark creditworthiness may only transact with the Company only on a cash basis.

In monitoring customer credit risk, customers are individually assessed. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are only made on a prepayment basis.

The Company does not ask for any collateral in respect of trade and other receivables. The Company establishes an allowance for doubtful recoveries that represents its estimate of losses in respect of trade and other receivables. See Note 13 for further information on impairment of financial assets that are past due.

(ii) Impairment of financial assets

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

- trade receivables and contract assets relating to the provision of services;
- other financial assets at amortised cost, comprising loans receivable from related parties and, in the case of the Company, subsidiary undertakings; and
- cash and cash equivalents.

Trade receivables and contract assets

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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

The expected loss rates are based on the payment profiles of sales over a period of 3 to 4 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Based on the assessment carried out in accordance with the above methodology the company concluded trade receivables and contract assets are adequately provided for.

25. Risk management objectives and policies – *continued*

25.2. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Note 4.1 discloses the measures that the Group has taken and is currently taking to manage the impact of the economic situation pursuant to the outbreak of COVID-19 subsequent to year-end.

The Company actively manages its cash flow requirements. Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

At 31 December 2019, the Company has financial liabilities including estimated interest payments with contractual maturities which are summarised below:

31 December 2019	Current Within 1 year €'000	Non-current 2-5 years €'000	More than 5 years €'000
Parent company loan	1,028	4,139	40,324
Other interest bearing borrowings	124	-	-
Trade and other payables	10,403	-	-
Lease liability	582	-	-
	12,137	**4,139**	**40,324**

This compares to the maturity of the Company's financial liabilities in the previous reporting period as follows:

31 December 2018	Current Within 6 months €'000	6-12 months €'000	Non-current 2-5 years €'000	More than 5 years €'000
Parent Company loan	-	1,035	4,139	50,404
Other interest bearing borrowings	603	-	-	-
Trade and other payables	5,613	-	-	-
	6,216	1,035	4,139	50,404

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

25. Risk management objectives and policies – *continued*

25.3. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

25.3.1. Foreign currency risk

The Company operates internationally and is exposed to currency risk on sales and purchases that are denominated in a currency other than its functional currency which is the euro. The currency giving rise to the highest risk is the Hungarian Forint (HUF).

In respect of monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level.

The company's revenues, purchase and operating expenditure, financial assets and liabilities, are mainly denominated in euro except for financial assets amounting to €604,685 and financial liabilities amounting to €470,681 which are denominated in HUF.

At 31 December 2019, if the EUR had weakened/strengthened by 10% against the HUF with all other variables held constant, post-tax profit for the year would have been €13,430 lower/€13,430 higher as a result of foreign exchange losses/gains on translation of the EUR denominated borrowings.

25. Risk management objectives and policies - *continued*

25.4. Summary of financial assets and liabilities by category

The carrying amounts of the Company's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See Note 4.10 for explanations about how the category of financial instruments affects their subsequent measurement.

	2019 €'000	2018 €'000
Current assets		
Financial assets at amortised cost		
- Amounts due from related companies	39	52
- Trade receivables	1,774	2,305
- Other receivables	58	57
Cash and cash equivalents	1,082	1,181
	2,953	3,595
Non-current liabilities		
Financial liabilities measured at amortised cost		
- Parent company loan	39,730	45,229
	39,730	45,229
Current liabilities		
Financial liabilities measured at amortised cost		
- Other interest bearing borrowings	124	603
- Trade payables	770	805
- Amounts due to related companies	6,255	1,839
- Other payables	1,014	936
- Accruals	2,509	2,032
	10,672	6,215

26. Parent company

The Company is a subsidiary of International Hotel Investments plc (IHI), the registered office of which is situated at 22 Europa Centre, Floriana Malta. The Company's ultimate parent company is Corinthia Palace Hotel Company Limited, the registered office of which is the same as that of IHI.

The parent company prepares consolidated financial statements of which the Company forms part. These financial statements are filed and are available for public inspection at the Registry of Companies in Malta.

27. Directors

The Company has three directors, who received total remuneration of €20,000 for the current period compared to €20,000 the previous year.

28. Events after balance sheet date

As from mid-March 2020, the Company and the Group were negatively impacted by the adverse effects of the COVID-19, pandemic. Note 4.1 to the financial statements gives more detail about the consequences of COVID-19 on the appropriateness of preparing the company's financial statements on a going concern basis.

No other adjusting or significant non-adjusting events have occurred between the end of the reporting period and the date of authorisation by the board.

Approved by the Board of Directors on 17 July 2020 and signed on its behalf by:

Frank Xerri de Caro
Chairperson

Joseph Pisani
Director

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