



MERCURY TOWERS  
BY ZAHA HADID ARCHITECTS

## MERCURY PROJECTS FINANCE p.l.c.

1400, Block 14, Portomaso, St. Julians, Malta  
Co. Reg. No. C89117

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### COMPANY ANNOUNCEMENT

#### Audited Consolidated Financial Statements for 2019

At a meeting of the Board of Directors of Mercury Towers Ltd. (the "Guarantor"), the Board approved Audited Financial Statements for the financial year ended 31st December 2019.

Copies of the above-mentioned Audited Financial Statements for the financial year ended 31st December 2019, as approved, are attached to this Company Announcement and are also available for viewing at the registered office of the Issuer, Mercury Projects Finance p.l.c. (the "Company") and on the Company's website: [www.mercuryfinance.com.mt](http://www.mercuryfinance.com.mt)

By order of the Board

Joseph Saliba

Company Secretary

30<sup>th</sup> June 2020

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#### Directors

Joseph Portelli

Mario Vella

Peter Portelli

Stephen Muscat

**MERCURY TOWERS LTD**

**ANNUAL REPORT**

**31 DECEMBER 2019**

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**MERCURY TOWERS LTD  
GENERAL INFORMATION  
31 DECEMBER 2019**

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**Board of Directors:**

Mr. Joseph Portelli

**Company Secretary:**

Dr. Ian Stafrace

**Registered Office:**

J. Portelli Projects  
1400, Block 14  
Portomaso  
St Julians STJ4014  
Malta

**Bankers:**

Bank of Valletta plc  
102, Republic Street  
Victoria VCT1017  
Gozo

Lombard Bank plc  
67  
Merchants Street  
Valletta

**Legal Advisor:**

Saliba Stafrace Legal  
9/4, Britannia House  
Old Bakery Street  
Valletta VLT1450  
Malta

**Auditors:**

KPMG  
92  
Marina Street  
Pieta PTA9044

**MERCURY TOWERS LTD**  
**DIRECTOR'S REPORT**  
**31 DECEMBER 2019**

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The director presents herewith his annual report together with the financial statements of Mercury Towers Ltd (“the Company” and the “Group” Separate and Consolidated respectively) for the year ended 31 December 2019. The director has prepared the report in accordance with Article 177 of the Malta Companies Act (Cap 386, Laws of Malta) (the “Act”) including the further provisions as set out in the Sixth Schedule to the Act.

**Principal Activities**

The principal activity of Mercury Towers Ltd is the purchase and sale of property within the Mercury Tower Project in St Julian's. The Company owns the land and Mercury House, a 19<sup>th</sup> Century Grade 2 villa. The Company will also be retaining certain areas of the property for eventual operation by the Company or any subsidiary to be formed for that purpose.

The Group comprises the Company and its wholly owned subsidiary Mercury Projects Finance P.L.C. (“MPFP”). MPFP was set up on 16 January 2019, with its principal activities being those of acting as a finance and investment vehicle of the Group. The director does not envisage any changes to the Company's and the Group's principal activities in the foreseeable future.

**Review of Business**

During the current year, works on the development progressed well and within the scheduled time frames. The Group continued to sign new preliminary agreements at a steady pace whilst a good number of contracts were signed during the financial year under review as construction of the floors started to be completed. The parent Company's equity at the end of the year under review is €182,050 (2018: €832,069). The decrease in equity primarily relates to (i) the derecognition of expected credit losses in accordance with IFRS 9 on the adoption of IFRS as adopted by the EU as against GAPSME, which requires the recognition of credit losses when incurred; (ii) a one-off penalty incurred on the cancellation of a promise of sale agreement; and (iii) an increase in finance costs. Furthermore, from a Group perspective, additional interests were incurred as a result of the bond issue.

*Turnover and cost of sales*

Revenue is recognised once the deeds of sale are signed. During the year under review, revenue amounted to €9,047,280 (2018: €4,011,141). The increase mainly results from the fact that during the financial year, a higher number of floors were completed which in turn resulted in the execution of the deeds of sale.

Cost of sales for the year under review amounted to €7,427,557 (2018: €2,904,633).

*Bond Issue*

Pursuant to the prospectus published on the 4 March 2019, Mercury Projects Finance p.l.c. (the “Issuer” of “MPFP”), the finance and investment vehicle of Mercury towers Ltd (the “Guarantor”), issued €11,500,000 3.75% secured bonds maturing in 2027 (Series I Bonds) and €11,000,000 secured bonds maturing in 2031 (Series II Bonds). Both series were issued at a nominal value of €100 per bond. These bonds were admitted to the official list of the Malta Stock Exchange with effect from 29 March 2019 and trading in the bonds commenced on 5 April 2019.

In accordance with the provisions of the Prospectus dated 4 March 2019, the proceeds from the bond issue have been advanced by way of a loan facility to the Company, for the purpose of re-financing existing bank loans and for the construction and finishing of certain specific project elements at the Mercury site in St. Julian's, which project is owned by the Company.

**Review of Business (continued)**

*Project Update*

The Mercury House site consists of a plot of land measuring approximately seven thousand seven hundred and one square meters (7,701sqm). The site is located at one of the main gateways into Paceville. Paceville is Malta's main entertainment area, known for its diverse nightlife, restaurants, casinos and luxurious 5-star tourist accommodation and residential complexes.

This property includes two Grade 2 buildings, namely Mercury House, a 19th Century villa constructed on two floors and a basement, and the underground cold war vaults. Both structures are in the process of being restored and rehabilitated and will form an integral part of the development of the site.

The vision for the project is to create a high-quality landmark development through a combination of residential, retail, parking, hotel and substantial public open space that will upgrade the amenity and contribute to the public realm of Paceville.

World renowned architect Zaha Hadid had sketched this project herself, and was her last design before her untimely demise. Zaha Hadid Architects were thereafter entrusted with the design of the project. The approach provided by Zaha Hadid Architects is that of the provision of an iconic building to create a clear visual identity and sense of place for the site, thus bringing positive changes to the site and its surroundings.

Works on the development progressed well and, by the time of issue of these financial statements, the tower forming part of the Company's project was nearing completion of the construction phase. This tower consists of a 31-storey building above ground which twists on itself at levels 10, 11 and 12 and which was perhaps the most difficult engineering structure of the entire project. This has now been completed successfully.

The project has proceeded without any major interruptions during the most challenging months of the COVID-19 and is now entering the second stage which involves the finishing of the building. To date the funding of this project is mainly emanating from proceeds of sold units which stand at 90% of total units for sale. Property to be retained by the Company is funded from the bonds issued by MPFP and for which the Company is a Guarantor. Furthermore, the Company enjoys a number of bank relationships which provide bridge financing from time to time that supplement the funding from such bonds as and when required.

Given the progress of the project to date, the interest shown during the marketing phase and the continued support and interest of a number of investors, the director is very confident that the Company will manage to raise additional funding, if required, at each stage of this unique development to see the project to completion.

**Key Risks**

The key risks associated with the Company, being a parent and an operating company, and also the guarantor in relation to the Bonds issued by the subsidiary, Mercury Projects Finance p.l.c., are those associated with the exposure to real estate development market as well as to an array of competitive pressures in the operation and management of hospitality, accommodation and commercial rental markets in Malta. The full list of all the key risks listed in the Prospectus are still applicable to the Group.

**Key Risks (continued)**

Although the development works of the Mercury Towers Project is progressing steadily, the Company is still subject to elements of financial risk factors including the market, economic, counter-party, credit and liquidity risks amongst others that may affect project completion. Where possible, the director provides principles for the overall risk management as well as policies to mitigate these risks in the most prudent way.

**Post Balance Sheet events**

***Covid-19***

Subsequent to the reporting date, the outbreak of the COVID-19, which is a rapidly evolving situation, has adversely impacted global and local commercial activities. Even at this time, when the outbreak appears to have subsided, this situation precludes any prediction of its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global and local economic slowdown.

To date, the Group has continued to operate normally, even during the more challenging months of the pandemic. Construction has been limitedly impacted, if at all, and at this point in time, given the continuous lifting of the COVID-19 related restrictions, the director is confident that the Company and the Group can continue to manage the situation without any significant impact. The Group will continue monitoring developments in relation to the COVID-19 and is coordinating its operation response based on its business continuity plan and on guidance from health organisations, government, and general pandemic response best practices. The director is confident that, notwithstanding the current circumstances, the Company will be able to operate through the prevalent market conditions. On this basis, the Director does not believe that there is any significant financial impact on the Company that would otherwise require an adjustment to, or further disclosures in the financial statements as at 31 December 2019, as a result of this subsequent event.

**Results, Dividends and Reserves**

The results for the year, the state of affairs and the movement in reserves and cash are as set out on pages 7 and 9. No dividends are available for distribution.

**Director**

The director of the Company who held office during the year is Mr. Joseph Portelli. The Company's Articles of Association do not require the director to retire.

The Company's Secretary is Dr. Ian Stafrace.

**Statement of Director's Responsibilities for the Financial Statements**

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the directors to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

In preparing these financial statements, the director is required to:

- adopt the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable him to ensure that the financial statements comply with the Companies Act (Cap. 386) enacted in Malta. This responsibility includes designing, implementing and maintaining such internal control as the director determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. The director is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Director on 30 June 2020.



Joseph Portelli  
**Director**



**MERCURY TOWERS LTD**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	Group 2019 €	Company 2019 €	Company 2018 € Restated*
Revenue	5	9,047,280	9,047,280	4,011,141
Cost of sales		(7,427,557)	(7,427,557)	(2,904,633)
<b>Gross profit</b>		<b>1,619,723</b>	<b>1,619,723</b>	<b>1,106,508</b>
Other income		5,000	5,000	-
Administrative expenses	6	(375,633)	(319,230)	(141,840)
Selling expenses		(226,007)	(226,007)	(126,006)
Impairment loss on financial assets		(127,365)	(127,365)	(80,515)
Other expenses	7	(500,000)	(500,000)	-
<b>Operating profit</b>		<b>395,718</b>	<b>452,121</b>	<b>758,147</b>
Net finance costs	8	(1,095,637)	(406,178)	(173,635)
<b>Profit before tax</b>		<b>(699,919)</b>	<b>45,943</b>	<b>584,512</b>
<b>Tax expense</b>	9	<b>(740,789)</b>	<b>(696,399)</b>	<b>(265,139)</b>
<b>(Loss) / profit for the year</b>		<b>(1,440,708)</b>	<b>(650,456)</b>	<b>319,373</b>

\*See note 26

During 2019, the Company has adopted IFRS as adopted by the EU for the first time. This has resulted in the restatement of the 2018 financial statements.

*The accompanying notes form an integral part of these consolidated financial statements.*

**MERCURY TOWERS LTD**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT DECEMBER 2019**

		Group		Company	
		31 December	31 December	31 December	1 January
		2019	2019	2018	2018
Note		€	€	€	€
				Restated*	Restated*
<b>Non-current assets</b>					
Property	10	22,293,684	23,118,262	-	-
Investment property	11	400,594	400,594	16,593,385	9,373,708
Investment in subsidiary	12	-	250,000	-	-
Investment in associate	13	1,500	1,500	1,500	-
Other receivables	15	689,130	689,130	232,917	232,917
Restricted cash	16	20,682	20,682	20,682	-
Deferred tax assets	9	143,323	143,323	98,899	70,555
		<b>23,548,913</b>	<b>24,623,491</b>	<b>16,947,383</b>	<b>9,677,180</b>
<b>Current assets</b>					
Inventories	14	18,022,606	18,022,606	20,839,456	21,113,756
Trade and other receivables	15	20,380,558	20,380,036	1,447,017	1,098,498
Cash and cash equivalents	16	266,976	9,894	221,610	68,732
		<b>38,670,140</b>	<b>38,412,536</b>	<b>22,508,083</b>	<b>22,280,986</b>
<b>Total assets</b>		<b>62,219,053</b>	<b>63,036,027</b>	<b>39,455,466</b>	<b>31,958,166</b>
<b>Equity</b>					
Share capital	17	500,000	500,000	500,000	500,000
(Accumulated losses) / Retained earnings		(1,108,170)	(317,918)	332,538	(288,896)
<b>Total equity</b>		<b>(608,170)</b>	<b>182,082</b>	<b>832,538</b>	<b>211,104</b>
<b>Non-current liabilities</b>					
Borrowings	18	-	-	1,159,414	5,900,000
Loan payable to subsidiary	19	-	22,444,358	-	-
Bonds payable	20	22,500,000	-	-	-
		<b>22,500,000</b>	<b>22,444,358</b>	<b>1,159,414</b>	<b>5,900,000</b>
<b>Current liabilities</b>					
Borrowings	18	10,565,931	10,565,931	5,065,931	1,244,147
Trade and other payables	21	29,761,292	29,843,656	31,046,959	24,602,915
Loan payable to related party	22	-	-	1,350,624	-
		<b>40,327,223</b>	<b>40,409,587</b>	<b>37,463,514</b>	<b>25,847,062</b>
<b>Total liabilities</b>		<b>62,827,223</b>	<b>62,853,945</b>	<b>38,622,928</b>	<b>31,747,062</b>
<b>Total equity and liabilities</b>		<b>62,219,053</b>	<b>63,036,027</b>	<b>39,455,466</b>	<b>31,958,166</b>

\*See note 26

During 2019, the Company has adopted IFRS as adopted by the EU for the first time. This has resulted in the restatement of the 2018 financial statements.

*The accompanying notes form an integral part of these consolidated financial statements.*

The financial statements set out on page 6 to 42 were approved and authorised for issue on 30 June 2020.

  
Joseph Portelli  
Director

**SMERCURY TOWERS LTD**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**Company**

**For the Year Ended 31 December 2019**

	Note	Share capital	(Accumulated Losses) / Retained Earnings	Total equity
		€	€	€
Balance at 1 January 2018		500,000	(157,866)	342,134
Impact upon transition to IFRS	<b>26</b>	-	(131,030)	(131,030)
Restated balance at 1 January 2018		500,000	(288,896)	211,104
<b>Total comprehensive income for the year (restated)</b>				
Profit for the year		-	319,373	319,373
<b>Total comprehensive income for the year (restated)</b>		-	319,373	319,373
<b>Transactions with owners of the Company, recognised directly in equity</b>				
<i>Contributions by owners of the Company</i>				
Issued share capital		302,061	-	302,061
Transfer between reserves	<b>17.1</b>	(302,061)	302,061	-
Total transactions with owners of the Company		-	302,061	302,061
Balance at 31 December 2018		500,000	332,538	832,538
<b>Adjusted balance at 1 January 2019</b>		<b>500,000</b>	<b>332,538</b>	<b>832,538</b>
<b>Total comprehensive income for the year</b>				
Loss for the year		-	(650,456)	(650,456)
<b>Total comprehensive income for the year</b>		-	(650,456)	(650,456)
<b>Balance at 31 December 2019</b>		<b>500,000</b>	<b>(317,918)</b>	<b>182,082</b>

**MERCURY TOWERS LTD**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Group**

**For the Year Ended 31 December 2019**

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	<b>Share capital</b>	<b>Retained earnings / (Accumulated Losses)</b>	<b>Total equity</b>
	€	€	€
<b>Balance at 1 January 2019 – Retained Earnings pertaining to the Parent Company and brought into the Group</b>	<b>500,000</b>	<b>332,538</b>	<b>832,538</b>
	-----	-----	-----
<b>Total comprehensive income for the year</b>			
Loss for the year	-	(1,440,708)	(1,440,708)
	-----	-----	-----
<b>Total comprehensive income for the year</b>	-	(1,440,708)	(1,440,708)
	-----	-----	-----
<b>Balance at 31 December 2019</b>	<b>500,000</b>	<b>(1,108,170)</b>	<b>(608,170)</b>
	=====	=====	=====

**MERCURY TOWERS LTD**  
**STATEMENTS OF CASH FLOW POSITION**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
<b>Cash flows from operating activities</b>			
Operating (loss)/ profit for the year	(1,440,708)	(650,456)	319,373
<i>Adjustments for:</i>			
Net finance costs	1,095,637	406,178	173,857
Impairment loss on financial assets	127,365	127,365	80,515
	<b>(217,706)</b>	<b>(116,913)</b>	<b>573,745</b>
Changes in:			
Inventory	2,816,850	2,743,235	274,300
Trade and other receivables	(19,517,119)	(19,766,129)	(200,183)
Trade and other payables	(1,821,044)	(1,187,945)	7,256,652
Contract liability	136,080	136,080	-
	<b>(18,602,939)</b>	<b>(18,191,672)</b>	<b>7,904,514</b>
Taxes paid	(740,764)	(740,764)	(293,843)
<b>Net cash (used in)/from operating activities</b>	<b>(19,343,703)</b>	<b>(18,932,436)</b>	<b>7,610,671</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment property	-	-	(7,219,677)
Acquisition of property	(6,100,893)	(6,925,471)	-
Acquisition of subsidiary	-	-	(250,000)
Acquisition of other investments	-	-	(1,500)
<b>Net cash used in investing activities</b>	<b>(6,100,893)</b>	<b>(6,925,471)</b>	<b>(7,471,177)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	-	-	302,061
Net proceeds from borrowings	4,340,586	4,552,457	(1,639,302)
(Repayment of)/Proceeds from loans from related companies	(1,350,624)	(1,350,624)	1,350,624
Proceeds from loan from subsidiary	-	22,444,358	-
Proceeds from bond issued	22,500,000	-	-
<b>Net cash from financing activities</b>	<b>25,489,962</b>	<b>25,646,191</b>	<b>13,383</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>45,366</b>	<b>(211,716)</b>	<b>152,877</b>
Cash and cash equivalents at 1 January	221,610	221,610	68,732
<b>Cash and cash equivalents at 31 December</b>	<b>266,976</b>	<b>9,894</b>	<b>221,610</b>

During the year, non-cash transactions amounted to €80,000 (see note 24.4.2).

The accompanying notes are an integral part of these financial statements.

**1 Reporting entity**

Mercury Towers Limited (the “Company”) is a limited liability company domiciled and incorporated in Malta. The address of the Company’s registered office is J. Portelli Projects, 1400 Block 14 Portomaso, ST Julians STJ4014. The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2019 comprise the Company and its subsidiary (Mercury Projects Finance plc – hereinafter “the Subsidiary”) – collectively referred to as the “Group”.

**2 Basis of preparation**

**2.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU. They have also been drawn up in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta).

The Company, being the parent company of Mercury Projects Finance p.l.c (see note 12), prepares consolidated financial statements as required under IFRS 10 *Consolidated Financial Statements*. The Company set up the Subsidiary during the year, therefore, this is the first year for which consolidated financial statements apply at a Group level.

From a stand-alone parent Company perspective, these are also the first set of financial statements prepared in accordance with IFRS as adopted by the EU. The Company’s previous financial statements, for the year ended 31 December 2018, were prepared in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, 2015 and the Schedule accompanying and forming an integral part of those Regulations (“GAPSME”). The date of transition to IFRS as adopted by the EU is the beginning of the earliest period for which the Company presents full comparative information in accordance with IFRS in these financial statements, hence 1 January 2018.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company and the Group is provided in note 26.

**2.2 Going concern basis**

By the time of issue of these financial statements, phase 1 of the project was nearing completion of the construction phase, overcoming the most difficult engineering structure of the project and also uninterrupted during the most challenging months of the COVID-19. Whilst the funding of this project is partly emanating from proceeds of sold units, the director enjoys a number of bank relationships that supplement the funding from the bonds in issue. The project now enters the second stage of Phase 1, that involves the finishing of the building.

Given the progress of the project, the interest shown during the marketing phase, and the continuous support and interest of a number of financiers, the director is confident that the Group will manage to raise additional finance from its bankers and through public offerings at each stage of this unique development which is required to see the project to completion, in addition to the proceeds from the sale of units.

NOTES TO THE FINANCIAL STATEMENTS

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**2 Basis of preparation (continued)**

**2.3 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis.

**2.4 Functional and presentation currency**

These consolidated financial statements are presented in Euro (€), which is the Group's functional currency.

**2.5 Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 23.3 – ECL allowance for trade receivables

**3 Significant accounting policies**

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

**3.1 Basis of consolidation**

The Group consolidates its financial statements based on the following:

**3.1.1 Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

From a stand-alone perspective, in the Company's separate financial statements, investments in subsidiaries are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses.

**3 Significant accounting policies (continued)**

**3.1 Basis of consolidation (continued)**

**3.1.2 *Interests in equity-accounted investees***

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

From a stand-alone perspective, in the Company's separate financial statements, the investment in associate is accounted for on the basis of the direct equity interest and is stated at cost less impairment losses, if any.

**3.1.3 *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**3.2 Foreign currency transactions**

Transactions in foreign currencies are translated into the respective functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

**3.3 Financial instruments**

**3.3.1 *Recognition and initial measurement***

Trade and other receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A receivable without a significant financing component is initially measured at the transaction price.



**3 Significant accounting policies (continued)**

**3.3 Financial instruments (continued)**

**3.3.2 Classification and subsequent measurement**

**3.3.2.1 Financial assets**

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**3.3.2.2 Financial assets – Business model assessment**

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

**3 Significant accounting policies (continued)**

**3.3 Financial instruments (continued)**

**3.3.2 Classification and subsequent measurement (continued)**

**3.3.2.3 Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

**3.3.2.4 Financial assets – Subsequent measurement and gains and losses**

For financial assets at amortised cost, these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group’s financial assets comprise trade and other receivables and cash and cash equivalents.

**3.3.2.5 Financial liabilities**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

**3 Significant accounting policies (continued)**

**3.3 Financial instruments (continued)**

**3.3.2 Classification and subsequent measurement (continued)**

**3.3.2.5 Financial liabilities (continued)**

The Group's financial liabilities comprise trade and other payables, borrowings and loans payable.

**3.3.3 Derecognition**

*Financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

*Financial liabilities*

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**3.3.4 Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**3.4 Share capital**

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

**3.5 Property**

Items of property are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

**3 Significant accounting policies (continued)**

**3.5 Property (continued)**

Depreciation is calculated to write-off the cost of items of property less their estimated residual values using the straight-line method over their estimated useful lives of 50 years and is generally recognised in profit or loss. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**3.6 Investment property**

Investment property is property held to earn rentals or for capital appreciation or both, but not for sale in the ordinary course of business, or for use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost comprising its purchase price and any directly attributable costs including borrowing costs. Subsequently, investment property held by the Group is carried under the cost model, that is cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write down the carrying amount of investment property using the straight-line method over its expected life of 50 years and is charged to profit or loss. Land is not depreciated. Depreciation commences when the asset is available for use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

**3.7 Inventories**

Inventories comprising property held for resale, are stated at the lower of cost and net realisable value. Cost comprises all cost of purchase, cost of conversion and other costs incurred to bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the costs to be incurred in marketing, selling and distribution.

**3.8 Impairment**

**3.8.1 Financial assets**

The Group recognises loss allowances for Expected Credit Losses (ECLs) on financial assets at amortised cost, namely trade and other receivables and cash and cash equivalents.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

**3 Significant accounting policies (continued)**

**3.8 Impairment (continued)**

**3.8.1 Financial assets (continued)**

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB equivalent or higher rating as per the rating description of reputable credit rating agencies.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset. In the case of interest-free short-term financial assets, such as trade receivables, ECLs are not discounted.

*Credit-impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

**3 Significant accounting policies (continued)**

**3.8 Impairment (continued)**

**3.8.1 Financial assets (continued)**

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- 
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation;
- or
- the disappearance of an active market for a security because of financial difficulties.
- 

*Presentation of allowance for ECL in the statement of financial position*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables and cash and cash equivalents are presented separately in the statement of profit or loss.

*Write-off*

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off on its financial assets based on whether there is a reasonable expectation of recovery and with reference to its historical experience of recoveries. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

**3.8.2 Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**3 Significant accounting policies (continued)**

**3.9 Employee benefits**

*Defined contribution plans*

The Group contributes towards the state's defined contribution plan in accordance with local legislation. Such contributions are immediately recognised in profit or loss.

**3.10 Revenue from contracts with customers**

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

The Group's revenue is primarily derived from the sale of airspace and apartments in shell form in Mercury Towers in Saint Julians, Malta.

**3.10.1 Performance obligations and revenue recognition policies**

The following provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including the related revenue recognition policies.

*Revenue from the sale of airspace and shell apartments*

The Group enters into contracts with customers to sell property that are either airspace, shell or apartments in finished form.

*Satisfaction of performance obligation*

The sale of airspace and apartments in shell form constitutes a single performance obligation and the Group has determined that this is satisfied at the point in time when control transfers. For contracts for sale of airspace and shell, this generally occurs when registration of the definitive deed takes place and the legal title is transferred to the customer. An apartment is completed in shell form when it is roofed, and it is deemed roofed when the architect issues an instalment certificate. If apartments are sold in a finished state, this would comprise a separate performance obligation.

Payments are received in instalments as per the terms and conditions of the promise of sale agreement. Any payments received in cash are recognised as deposits and are classified within trade and other payables. Upon the satisfaction of the performance obligation as per contract, revenue is realised and the deposits are reversed accordingly.

*Other consideration related to the sale of property*

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

For some contracts involving the sale of property, the Group is entitled to receive an initial deposit. This is not considered a significant financing component because it is for reasons other than the provision of financing to the Group. The initial deposits are used to protect the Group from the other party failing to adequately complete some or all of its obligations under the contract where customers do not have an established credit history or have a history of late payments.

In addition, there is no non-cash consideration or consideration payable to customers.

**3 Significant accounting policies (continued)**

**3.11 Operating profit/(loss)**

Operating profit/(loss) is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities.

Operating profit/(loss) excludes net finance costs and income taxes.

**3.12 Finance income and finance costs**

Finance income comprises interest income. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on bonds issued, borrowings and other payables, as set out in the notes to these financial statements. Finance costs are recognised as an expense in profit and loss in the period in which they are incurred.

**3.12 Bond issue costs**

Bond issue costs representing fees incurred in connection with the issuance of the bonds by the subsidiary company were recharged to the parent Company as the beneficiary of the funding. Accordingly, the intra-group recharge costs are eliminated in accordance with the basis of consolidation per Note 3.1.3.

Bond issue costs at Group level are deferred over the term of the bond and annually amortised using the effective interest method.

**3.13 Income taxes**

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

**3.13.1 Current tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax payable also includes any tax liability arising from the declaration of dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

**3.13.2 Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences.



## NOTES TO THE FINANCIAL STATEMENTS

**3 Significant accounting policies (continued)****3.13 Income taxes (continued)****3.13.2 Deferred tax (continued)**

If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences are considered, based on the business plans of the Group. 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; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

**4 New standards and interpretations not yet adopted**

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform

**5 Revenue****5.1 Revenue streams**

The Group mainly generates revenue through the sale of real estate properties (see note 3.10).

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
Sale of airspace property	<b>7,808,599</b>	<b>7,808,599</b>	4,011,141
Sale of shell apartments	<b>1,238,681</b>	<b>1,238,681</b>	-
	<b>9,047,280</b>	<b>9,047,280</b>	4,011,141

NOTES TO THE FINANCIAL STATEMENTS

**5 Revenue (continued)**

**5.1 Revenue streams (continued)**

The revenue generated during 2019 and 2018 is recognised at the point in time when control transfers to the customer (see note 3.10.1)

**5.2 Contract balances**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer when that right is conditioned on something other than the passage of time, for example, billings require certification by the customer. Upon receipt of such certification from a customer, the amount recognised as contract assets is reclassified to trade receivables. Contract assets are subject to impairment assessment. During the year, Group contract assets amounted to nil.

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognised as revenue when the Group satisfies the performance obligation per contract (i.e. transfers control of the related goods or services to the customer).

As at the reporting date, the Group held a contract liability amounting to €136,080, recognised within trade and other payables (see note 21). The contract liability relates to the advance consideration received from customers for the finishing of two apartments, for which revenue will be recognised at a point in time when the apartments will be finished, which is expected to occur over the next year.

**6 Administrative expenses**

**6.1** The total audit fees (excluding VAT) charged to the Group and the Company by the respective auditors during the current financial year were as follows:

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
Remuneration of the Parent's auditor	<b>19,000</b>	<b>19,000</b>	23,236
Remuneration of the Subsidiary's auditor	<b>7,080</b>	-	-

**6.2** Personnel expenses incurred by the Group and the Company during the year are analysed as follows:

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
Wages and salaries	<b>88,503</b>	<b>88,503</b>	37,191
Social security costs	<b>4,220</b>	<b>4,220</b>	2,165
<b>Total</b>	<b>92,723</b>	<b>92,723</b>	39,356

## NOTES TO THE FINANCIAL STATEMENTS

**6 Administrative expenses (continued)**

- 6.3** The weekly average number of persons employed by the Group and the Company during the year was as follows:

	<b>Group 2019 No.</b>	<b>Company 2019 No.</b>	<b>2018 No.</b>
Administration	2	2	2

**7 Other expenses**

- 7.1** The €500,000 classified within other expenses pertain to a fee paid to a customer upon cancellation of their promise of sale agreement. Such cancellation also carries interest of 3% on the amount originally paid.

**8 Net finance costs**

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
<b>Finance income</b>			
Unrealised exchange difference	-	-	222
<b>Finance costs</b>			
Interest on bonds	(689,452)	-	-
Interest on bank borrowings	-	-	(154,569)
Other interest	(406,185)	(406,178)	(19,288)
	<b>(1,095,637)</b>	<b>(406,178)</b>	<b>(173,857)</b>
<b>Net finance costs</b>	<b>(1,095,637)</b>	<b>(406,178)</b>	<b>(173,635)</b>

**9 Tax expense****9.1 Tax recognised in profit or loss**

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
<b>Current tax expense</b>			
Final withholding tax at the rate of 8% on sale of property	(740,823)	(740,823)	(293,483)
Current tax – 35%	(44,390)	-	-
<b>Deferred tax income</b>			
Origination of temporary differences	44,424	44,424	28,344
<b>Tax expense</b>	<b>(740,789)</b>	<b>(696,399)</b>	<b>(265,139)</b>

## NOTES TO THE FINANCIAL STATEMENTS

**9 Tax expense (continued)****9.2 Reconciliation of effective tax rate**

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	2018 €
Profit/(Loss) before tax	<b>(699,919)</b>	<b>45,943</b>	584,512
Tax using the Group's domestic tax rate of 35%	<b>244,972</b>	<b>(16,080)</b>	(204,579)
<i>Tax effect of:</i>			
Non-deductible expenses	<b>(3,002,457)</b>	<b>(2,985,472)</b>	(1,051,054)
Different tax rates	<b>2,349,871</b>	<b>2,349,871</b>	990,494
Income recognised for tax purposes	<b>(33,677)</b>	<b>(33,832)</b>	-
Deferred tax element unrecognised	<b>(299,498)</b>	<b>(10,886)</b>	-
Tax expense	<b>(740,789)</b>	<b>(696,399)</b>	(265,139)

**9.3 Recognised deferred tax assets****9.3.1** Deferred tax assets are attributable to the following for the Group and the Company:

	<b>Balance at 1 January 2019 €</b>	<b>Recognised in profit or loss €</b>	<b>Balance at 31 December 2019 €</b>
Loss allowance on financial assets	<b>98,899</b>	<b>44,424</b>	<b>143,323</b>
	----- <b>98,899</b> =====	----- <b>44,424</b> =====	----- <b>143,323</b> =====
	<b>Balance at 1 January 2018 €</b>	<b>Recognised in profit or loss €</b>	<b>Balance at 31 December 2018 €</b>
Loss allowance on financial assets	70,555	28,344	98,899
	----- 70,555 =====	----- 28,344 =====	----- 98,899 =====

NOTES TO THE FINANCIAL STATEMENTS

**10 Property**

**10.1** The parent Company's property were as follows:

	<b>Land</b>	<b>Assets in the course of construction</b>	<b>Total</b>
	<b>€</b>	<b>€</b>	<b>€</b>
Balance at 1 January 2019	-	-	-
Reclassification from Investment Property	8,408,375	7,784,416	16,192,791
Additions	-	6,925,471	6,925,471
	-----	-----	-----
<b>Balance at 31 December 2019</b>	<b>8,408,375</b>	<b>14,709,887</b>	<b>23,118,262</b>
	=====	=====	=====
<b>Carrying amounts</b>			
At 1 January 2018	-	-	-
	=====	=====	=====
At 31 December 2018	-	-	-
	=====	=====	=====
<b>At 31 December 2019</b>	<b>8,408,375</b>	<b>14,709,887</b>	<b>23,118,262</b>
	=====	=====	=====

**10.2** The property relates to airspaces which will be retained by the Group to be used in the supply of services. As at 31 December 2019, the property is still under construction and hence is not yet available for use. As a result, the property has not been depreciated during the current year.

**10.3** Included within property are capitalised borrowing costs related to the acquisition of the land and the assets in the course of construction of €138,256, calculated using a capitalisation rate of 6% (see note 18.3) and €824,578, calculated using capitalised rates as referenced in note 19 emanating from the Company's loan with its Subsidiary. As a result, capitalised borrowing costs amounting to €824,578 are eliminated from the property value upon consolidation, in accordance with Note 3.1.3. As a result, the property balance at Group level amounted to €22,293,684 as at year-end.

**10.4** During the year, the Group changed its intention over the hotel and commercial property element and decided to operate such elements itself. As a result, such property element has been reclassified from investment property to property account (see Note 11.4). Reclassification has been effected on a prospective basis.

**10.5** Property owned by the Group is subject to special hypothecs in favour of creditors for funds borrowed (see notes 18 and 20).

## NOTES TO THE FINANCIAL STATEMENTS

**11 Investment property**

**11.1** The Group and the Company's investment property were as follows:

	2019	2018
	€	€
Balance at 1 January	<b>16,593,385</b>	9,373,708
Additions	-	7,219,677
Reclassification to property	<b>(16,192,791)</b>	-
	-----	-----
	<b>400,594</b>	16,593,385
	=====	=====

**11.2** The Group's investment property comprised airspace at level 30. As at year-end, such level was yet to be constructed. Therefore, the contracting works value and other development costs relating to investment property as at year-end stood at nil. Since the investment property is not yet available for use, it was not depreciated during the current year.

An independent architect has been appointed by the director so as to value the investment property. The architect is a registered valuer having the appropriate recognised professional qualifications.

The valuation of the investment property is based upon its market value under the highest and best use premise, taking into consideration its location, use, size and accessibility together with existing planning constraints. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

The significant unobservable input impacting this valuation relates to the market value per square metre. The estimated fair value would increase (decrease) depending on the market prices of similar property and the general economic trend of the country.

The fair value measurement for the Group's investment property amounts to €7,433,608 (2018: €7,084,000). The investment property was categorised as a Level 3 fair value based on the inputs to the valuation technique used.

**11.3** Investment property owned by the Group is subject to special hypothecs in favour of creditors for funds borrowed (see note 18 and 20).

**11.4** During the year, the Group changed its intention over the hotel and commercial property element and decided to operate such elements itself. As a result, such property element has been reclassified from investment property to property account (see Note 10.4). Reclassification has been effected on a prospective basis.

# MERCURY TOWERS LTD

## NOTES TO THE FINANCIAL STATEMENTS

### 12 Investment in subsidiary

#### 12.1

	2019	2018
	€	€
Investment at cost	<b>250,000</b>	-

- 12.2** During the reporting period, the parent Company of the Group took ownership of 99.99% of the shares of Mercury Projects Finance p.l.c., a company incorporated in Malta (2018: nil). Accordingly, as part of these consolidated financial statements preparation, the above-mentioned Subsidiary has been subject to a consolidation accounting exercise in accordance with the accounting policy disclosed in Note 3.1.1, with effect from 16 January 2019, being the date of incorporation of the Subsidiary. Therefore, the investment at cost at Group level is nil as it has been eliminated upon consolidation per Note 3.1.3.

### 13 Investment in associate

#### 13.1

	Group 2019	Company 2019	2018
	€	€	€
Investment at cost	<b>1,500</b>	<b>1,500</b>	-

- 13.2** At reporting date, the parent Company of the Group held directly the following investment in associate:

Name of entity	Ownership		Country
	2019	2018	
Mercury Car Park Limited	<b>25%</b>	25%	Malta

Accordingly, as part of the consolidated financial statements preparation, the above-mentioned Associate has been subject to equity-accounting exercise in accordance with accounting policy disclosed in Note 3.1.2. Mercury Car Park Limited (“the Associate”) has not been in operation as at year-end.

### 14 Inventories

- 14.1** The Group and the Company’s inventory stock were as follows:

	2019	2018
	€	€
Cost of land and direct expenses	<b>12,719,493</b>	18,326,796
Phase 1 - cost of construction and development	<b>3,785,738</b>	1,534,561
Phase 2 – work in progress	<b>1,517,375</b>	978,099
	<b>18,022,606</b>	20,839,456

# MERCURY TOWERS LTD

## NOTES TO THE FINANCIAL STATEMENTS

### 14 Inventories

**14.2** Included within inventories are capitalised borrowing costs related to the acquisition of the land of €73,615, calculated using a capitalisation rate of 6% (see note 18.3).

**14.3** Inventories owned by the Company are subject to special hypothecs in favour of creditors for funds borrowed (see note 18 and 20).

### 15 Trade and other receivables

#### 15.1 Group

	Note	2019 €
Amounts receivable from related parties	15.3	2,038,770
Advances and other prepayments	15.4	18,188,228
Deposits held by third parties		232,917
Other receivables	15.5	609,773
		<b>21,069,688</b>
Non-current		689,130
Current		20,380,558
		<b>21,069,688</b>

#### 15.2 Company

	Note	2019 €	2018 €	1 January 2018 (restated) €
Amounts receivable from related parties	15.3	2,040,018	1,048,842	1,098,498
Advances and other prepayments	15.4	18,188,228	344,397	-
Deposits held by third parties		232,917	232,917	232,917
Other receivables	15.5	608,003	53,778	-
		<b>21,069,166</b>	1,679,934	1,331,415
Non-current		689,130	232,917	232,917
Current		20,380,036	1,447,017	1,098,498
		<b>21,069,166</b>	1,679,934	1,331,415

**15.3** Amounts due from related parties are interest free, unsecured and repayable on demand.

**15.4** As at 31 December 2019, the advances and other prepayments include advance payments made by the Group to the associate of the Company (Mercury Contracting Projects Ltd – hereinafter “MCPL”) for contracting works which MCPL will be delivering to the Company in the foreseeable future. As at 31 December 2018, advances and other prepayments include an amount of €250,000 representing an advancement on the investment in a subsidiary which was registered on 16 January 2019 (see note 12).

**15.5** As at 31 December 2019, other receivables include deferred consultancy fees amounting to €507,272 recharged by the Subsidiary in connection with the Bond issue (see note 20).



## NOTES TO THE FINANCIAL STATEMENTS

**16 Cash and cash equivalents****16.1**

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
Bank balances	<b>266,976</b>	<b>9,894</b>	221,610
Restricted cash	<b>20,682</b>	<b>20,682</b>	20,682
<b>Cash and cash equivalents in the statement of financial position</b>	<b>287,658</b>	<b>30,576</b>	242,292
Restricted cash	<b>(20,682)</b>	<b>(20,682)</b>	(20,682)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>266,976</b>	<b>9,894</b>	221,610

**17 Capital and reserves****17.1 Share capital**

	<b>2019 No.</b>	<b>2018 No.</b>
In issue at 1 January and 31 December – fully paid	<b>500,000</b>	500,000

At 31 December 2019, the authorised share capital comprised 500,000 (2018: 500,000) ordinary shares having a par value of €1 each.

All shares in issue are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company and the Subsidiary.

During the year ended 31 December 2018, the shareholder resolved to reduce the share capital of the Company by € 302,061 with the sole purpose of offsetting losses incurred as prescribed by Article 83 (5) of the Companies Act 1995 (chapter 386, Laws of Malta) (the ‘Act’).

Subsequently, the shareholder resolved to issue 302,061 fully paid up ordinary shares of €1 each, bringing total share capital back to €500,000.

## NOTES TO THE FINANCIAL STATEMENTS

**18 Borrowings**

**18.1** Borrowings included under non-current and current liabilities comprise the following amounts:

	Note	Group 2019 €	Company 2019 €	2018 €
<b>Non-current liabilities</b>				
Bank loan	<b>18.2</b>	-	-	1,159,414
<b>Current liabilities</b>				
Bank loan	<b>18.3</b>	<b>10,000,000</b>	<b>10,000,000</b>	4,500,000
Other loans	<b>18.4</b>	<b>565,931</b>	<b>565,931</b>	565,931
		<b>10,565,931</b>	<b>10,565,931</b>	5,065,931

**18.2** On 27 June 2017, the Group obtained a bank loan amounting to €7,144,157. The bank loan was secured by a first special hypothec on the Group's property from level -2 upwards and a general hypothec on the Company's assets. The loan carried an interest rate of 7% and was fully repaid during the year.

**18.3** On 24 September 2019, the Company obtained another bank loan amounting to €10,000,000. The loan bears an interest rate of 6% per annum and is to be fully paid by latest 30 March 2021. The Company's intention is to settle the loan by 2020. First repayment was at the end of October 2019. The bank loan is secured by a special hypothec and a special privilege on the Company's immovable property, a general hypothec on the Company's assets, and general hypothecary guarantees over assets of the shareholder and a number of his entities, other guarantees given to the bank and other contractual undertakings. Subsequent to year-end, the Company replaced the outstanding balance on this facility of €3.5 million as at June 2020 with a new facility of €10.5 million.

**18.4** Other loans relate to a balance of €565,951 (2018: €565,951), comprising a deposit received from a customer against property under construction. As property under construction has not yet been designed and selected, and in order to retain the customer, the deposit has been converted to an interest bearing borrowing which carries a 4% interest per annum payable in arrears to the customer per contract. The Group management's intention as at year-end is to settle the loan in 2020.

**19 Loan payable to subsidiary****19.1**

	Group 2019 €	Company 2019 €	2018 €
Loan I advanced by subsidiary company	-	<b>11,500,000</b>	-
Loan II advanced by subsidiary company	-	<b>10,944,358</b>	-
	-	<b>22,444,358</b>	-

## NOTES TO THE FINANCIAL STATEMENTS

**19 Loan payable to subsidiary (continued)**

- 19.2** Loan I payable to its Subsidiary of €11,500,000 is subject to an annual interest rate of 4.75% and is repayable by 2027, whilst loan II of €10,944,358 is subject to interest at the annual rate of 5.25% and is repayable by 2031. Both loans are secured by immoveable property of the Company. The interest-bearing loan balances include costs amounting to €394,352 incurred by the Subsidiary in connection with the Bond Issues and re-charged to the parent Company, in view that the said costs being exclusively incurred to finance the operations of the parent Company itself.

Upon consolidation, this intra-group balance is eliminated in accordance with accounting policy per Note 3.1.3, leading to a Group balance of nil as at year-end.

**20 Bonds payable****20.1**

	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
<b>Non-current:</b>			
3.75% Series I Bonds 2027	11,500,000	-	-
4.25% Series I Bonds 2027	11,000,000	-	-
	<b>22,500,000</b>	<b>-</b>	<b>-</b>

- 20.2** Mercury Projects Finance plc (the Subsidiary company) has issued a two-series bond during the year. The bonds comprise Series I, which amounts to €11,500,000 repayable at a coupon rate of 3.75% per annum and matures in 2027; and Series II, which amounts to €11,000,000 repayable at a coupon rate of 4.25% per annum and matures in 2031. The Company acts as a guarantor for both bond series.

- 20.3** The bonds are secured by a first general hypothec on a number of specific areas within the Mercury tower project (managed by the Company), for an amount of €25,864,000.

**21 Trade and other payables****21.1**

	<b>Note</b>	<b>Group 2019 €</b>	<b>Company 2019 €</b>	<b>2018 €</b>
Trade payables	<b>21.2</b>	<b>4,531,410</b>	<b>4,482,938</b>	288,904
Amounts due to related parties	<b>21.3</b>	<b>3,265,265</b>	<b>3,265,265</b>	1,730,500
Deposits received	<b>21.4</b>	<b>20,263,468</b>	<b>20,263,348</b>	28,468,295
Contract liability	<b>21.5</b>	<b>136,080</b>	<b>136,080</b>	-
Accrued expenses		<b>1,565,069</b>	<b>1,696,025</b>	559,260
		<b>29,761,292</b>	<b>29,843,656</b>	31,046,959

- 21.2** Trade payables include a balance of €2,493,690 (2018: nil), comprising a liability in relation to cancellations of promise of sales and includes all respective costs as explained further in Note 7 to these financial statements. This is expected to be settled in full in 2020.

**21 Trade and other payables (continued)**

**21.3** Amounts due to related parties are interest free, unsecured and repayable on demand.

**21.4** Deposits received as at year-end includes an amount of €3 million (2018: €3 million) due to related parties.

**21.5** The contract liability comprises an advanced consideration received from customers for the finishing of two apartments, for which revenue will be recognised at the point in time when the apartments are finished (see note 5.2).

**22 Loan payable to a related party**

**22.1** On 1 August 2019, the parent Company entered into a loan agreement with its related party Mercury Exchange Limited effective from 2 August 2018 to convert deposits collected on its behalf, for the construction of a new complex consisting of a hotel, offices, retail outlets and residential units, into an interest free loan repayable by not later than 31 March 2031 or any other later date as agreed between both parties.

During the year, the Company assumed a number of liabilities pertaining to Mercury Exchange Limited and as a result the Company, as at year-end, has a receivable from Mercury Exchange Limited as per Note 15.

**23 Financial risk management**

**23.1 Introduction and overview**

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

**23.2 Risk management framework**

The director has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities.

**23.3 Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables and cash and cash equivalents.

The carrying amounts of financial assets represent the maximum credit exposure.

The Group and the Company's exposures to credit risk are analysed as follows:

## NOTES TO THE FINANCIAL STATEMENTS

## 23 Financial risk management (continued)

## 23.3 Credit risk (continued)

	Note	Gross carrying amount		
		Group 2019	Company 2019	2018
		€	€	€
Trade and other receivables	15	2,881,460	2,880,938	1,331,415
Cash and cash equivalents	16	266,976	9,894	221,610
		<b>3,148,436</b>	<b>2,890,832</b>	<b>1,553,025</b>

Impairment losses on financial assets recognised in profit or loss were as follows:

	Group 2019	Company 2019	2018
	€	€	€
Impairment loss on trade and other receivables	127,318	127,318	80,983
	<b>127,318</b>	<b>127,318</b>	<b>80,983</b>

The Group's credit risk on trade and other receivables arises from amounts receivable from related parties and a bank guarantee pledged in favour of third parties.

*Expected credit loss assessment for amounts receivable from related parties*

As at 31 December 2019, the gross carrying amount on the amounts receivable from related parties amounts to €2,166,087 (2018: €1,103,497). The Group measures the ECL of receivables from related entities based on an internally generated Altman Z-score rating, which includes but is not limited to reviews of country rating and other public and non-public available information. Based on this information, the rating can be subjected to post-model adjustment by a maximum of two notches. These internally generated rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the trade and other receivables.

The following table provides information about the Group's exposure to credit risk and loss allowance for amounts receivable from related parties as at 31 December 2019.

	Equivalent to external credit rating (S&P's)	Gross carrying amount €	Loss allowance €
Mercury Car Park Limited	CCC/C	1,023,031	100,249
Mercury Exchange Limited	B	1,143,056	27,070
		<b>2,166,087</b>	<b>127,319</b>

The following table provides information about the Group's exposure to credit risk and loss allowance for amounts receivable from related parties as at 31 December 2018.

## NOTES TO THE FINANCIAL STATEMENTS

## 23 Financial risk management (continued)

## 23.3 Credit risk (continued)

## 23.3.1 Trade and other receivables (continued)

	Equivalent to external credit rating (S&P's)	Gross carrying amount €	Loss allowance €
Mercury Car Park Limited	CCC/C	1,103,497	80,466
		-----	-----
		1,103,497	80,466
		=====	=====

The Group recognised an impairment allowance as at 1 January 2018 in the amount of €201,502 on amounts receivable from related parties. The movement between the impairment allowance recognised on 1 January 2018 and 31 December 2018 was recognised in profit or loss as “impairment loss on financial assets”.

*Expected credit loss assessment for bank guarantee pledged in favour of third parties*

The Group’s bank guarantees pledged in favour of third parties represent a bank guarantee pledged in favour of the relevant authority in connection with the construction project being undertaken by the Group. The guarantee shall be released to the Group after completion of the development and upon confirmation that the conditions imposed by the relevant authority have been duly observed by the Group.

The Group considers that the deposit pledged as a bank guarantee has a low credit risk based on the external credit ratings of the counterparty, a credit institution which is rated BBB- based on Standard and Poor’s ratings.

The following table provides information about the Group’s exposure to credit risk and loss allowance for the bank guarantee as at 31 December 2019.

External credit rating	€
BBB-	253,600
Gross Carrying amount	-----
	253,600
Loss allowance	(96)
	-----
Carrying amount	253,504
	=====

## NOTES TO THE FINANCIAL STATEMENTS

**23 Financial risk management (continued)****23.3 Credit risk (continued)****23.3.1 Trade and other receivables (continued)**

The following table provides information about the Group's exposure to credit risk and loss allowance for the bank guarantee as at 31 December 2018.

<b>External credit rating</b>	<b>€</b>
BBB-	253,600
Gross carrying amount	-----
	253,600
Loss allowance	(49)
	-----
<b>Carrying amount</b>	<b>253,551</b>
	=====

The Group recognised an impairment allowance as at 1 January 2018 in the amount of €83 on the bank guarantee. The movement between the impairment allowance recognised on 1 January 2018 and 31 December 2018 was recognised in profit or loss as "impairment loss on financial assets".

**23.3.2 Cash and cash equivalents**

The Group held cash and cash equivalents of €266,976 as at 31 December 2019 (Company's 2018: €221,610). The cash and cash equivalents are held with credit institutions, which are rated BBB- based on Standard and Poor's ratings.

The first €100,000 out of the year-end balance held by the Group is not exposed to credit risk as it is protected under the depositor compensation scheme, based on the EU Directive 2014/49/EU on deposits guarantee schemes. An impairment assessment on the remaining balance held by the Group of €166,976 (2018: €121,610) has been measured on a 12-month expected loss basis, reflecting the short maturity of the exposure. The Group considers that this remaining balance of cash and cash equivalents has low credit risk based on the external credit ratings of the counterparties.

Based on the above, the amount of impairment allowance on cash and cash equivalents at 31 December 2019 is nil (2018: nil).

**23.4 Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations in respect of its financial liabilities that are settled by delivering cash or another financial asset.

**23.4.1 Management of liquidity risk**

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

## NOTES TO THE FINANCIAL STATEMENTS

**23 Financial risk management (continued)****23.4 Liquidity risk (continued)****23.4.2 Exposure to liquidity risk**

The key measure used by the Group for managing liquidity risk is the availability of liquid funds to meet repayment obligations when these fall due.

From a parent Company stand-alone perspective, the following are the contractual maturities of the Company's financial liabilities:

		Contractual Cash flows		
	Carrying amount	Total	Less than 12 months	From 1 -10 years
	EUR	EUR	EUR	EUR
31 December 2019				
Non-derivative financial liabilities				
Trade and other payables	29,707,576	29,842,146	29,842,146	-
Borrowings	10,565,931	11,190,324	11,190,324	-
Loan from subsidiary	22,444,358	35,482,093	-	35,482,093
	-----	-----	-----	-----
	62,717,865	76,514,563	41,032,470	35,482,093
	=====	=====	=====	=====
31 December 2018				
Non-derivative financial liabilities				
Trade and other payables	31,612,890	31,630,560	31,630,560	-
Borrowings	5,668,041	6,271,980	4,988,840	1,283,140
Loan from a related party	1,350,624	1,350,624	1,350,624	-
	-----	-----	-----	-----
	38,631,555	39,253,164	37,970,024	1,283,140
	-----	=====	=====	=====



## NOTES TO THE FINANCIAL STATEMENTS

**23 Financial risk management (continued)****23.4.2 Exposure to liquidity risk**

From a Group perspective, the following are the contractual maturities of the Group's financial liabilities:

	Carrying amount	Contractual Cash flows			
		Total	Less than 12 months	From 1 -5 years	More than 5 years
	EUR	EUR	EUR	EUR	EUR
<b>31 December 2019</b>					
<b>Non-derivative financial liabilities</b>					
Bonds payable	21,500,000	31,560,000	898,750	3,595,000	27,066,250
Trade and other payables	29,625,212	29,759,782	29,759,782	-	-
Borrowings	10,565,931	11,190,324	11,190,324	-	-
	-----	-----	-----	-----	-----
	61,691,143	72,510,106	41,848,856	3,595,000	27,066,250
	=====	=====	=====	=====	=====

Trade and other payables include deposits on promise of sale agreements entered into with customers which will materialise into revenue upon signature of deed of sales.

Further to the above, balance of borrowings as at signing date of these financial statements stood at €3.3 million.

Interest on loan to subsidiary amounting to €1 million was paid by the 27 March 2020 as per the prospectus dated 4 March 2019.

**23.5 Market risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of 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.

**23.5.1 Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises on interest-bearing financial instruments recognised in the statement of financial position.

The Group's interest-bearing financial assets comprise cash at bank and the Group's interest-bearing financial liabilities comprises borrowings, loan payable to a subsidiary and other payables. The Group's interest-bearing financial liabilities are entered into at a fixed-rate. Thus, a 100 basis points increase or decrease in interest rates as at reporting date would not have a significant impact on the Group's profit or loss and equity as only the cash at bank is subject to a variable interest rate.

## NOTES TO THE FINANCIAL STATEMENTS

**23 Financial risk management (continued)****23.5 Market risk (continued)****23.5.1 Interest rate risk (continued)**

At the reporting date the interest rate profile of the Group and the Company's fixed and variable interest-bearing financial instruments were as follows:

	<b>Gross carrying amount</b>		
	<b>Group</b>	<b>Company</b>	
	<b>2019</b>	<b>2019</b>	<b>2018</b>
	<b>€</b>	<b>€</b>	<b>€</b>
<b>Fixed-rate instruments</b>			
Bonds payable	(22,500,000)	-	-
Bank borrowings	(10,000,000)	(10,000,000)	(5,659,414)
Loans payable to subsidiary	-	(22,444,358)	-
Loan payable to related party	-	-	(1,350,624)
Other borrowings	(565,951)	(565,951)	(565,951)
<b>Variable-rate instruments</b>			
Cash at bank	266,976	9,894	221,610

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased the Group equity and profit or loss by €2,669. A decrease of 100 basis points in interest rates would have had the equal but opposite effect on equity and profit or loss. This analysis assumes that all other variables remain constant.

**23.5.2 Fair values versus carrying amounts**

The carrying amount of financial assets and liabilities that are measured at amortised cost approximates the fair value at the reporting date. The director believes that the Group's own credit risk and that of its borrowers has not changed in a way that would impact significantly the fair value of these financial assets and liabilities. All financial assets and liabilities are short term in nature.

**23.5.3 Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

At reporting date, the Group was not exposed to any significant currency risk.

**23.6 Capital management**

The Group's policy is to maintain a strong capital base so as to sustain the future development of the business. The Director monitors the return on capital as well as the level of dividends to ordinary shareholders. The Group is not subject to externally imposed capital requirements. More specifically, the Group's net deficiency in equity arises from the reversal at consolidation level of capitalised interest at the component level amounting to €824,578. Whilst large development projects of this type are forecast to start returning positive results after completion of development, the performance of the Group to date has been substantially as planned.

## NOTES TO THE FINANCIAL STATEMENTS

**24 Related parties****24.1 Ultimate controlling party**

The Group is fully owned by Mr. Joseph Portelli, who is the ultimate controlling party.

**24.2 Identity of related parties**

The Group has a related party relationship with its subsidiaries and entities controlled by the same director of the Group ("other related parties").

**24.3 Related party balances**

Information on amounts due to/by related parties are set out in notes 15, 19, 21 and 22 to these financial statements.

**24.4 Related party transactions carried out by the Group during the year**

		<b>2019</b>	<b>2018</b>
	<b>Note</b>	<b>€</b>	<b>€</b>
<b>Turnover</b>			
Sale of airspace	<b>24.4.1</b>	-	1,300,000
Sale of shell apartments	<b>24.4.2</b>	<b>80,000</b>	-
<b>Net receivable / (payable) from / (to) related parties</b>			
- Funds forwarded to related parties		<b>35,351,993</b>	9,371,195
- Cost of construction – property		<b>(7,273,787)</b>	(7,381,490)
- Cost of construction - inventories		<b>(2,623,151)</b>	(1,534,561)
<b>Financing transactions</b>			
- Funds collected on behalf of related parties		<b>(3,044,727)</b>	(9,669,872)
- Proceeds of loan	<b>24.4.3</b>	-	(2,493,680)
- Expenses paid on behalf of related parties		-	1,143,056

**24.4.1** During 2018, the Group sold the airspace of a car park to Mercury Car Park Limited for the value of €1,300,000.

**24.4.2** During 2019, the Director acted in his sole capacity to acquire a penthouse for personal use, the payment of which was settled through the sale of the airspace of an apartment within the Mercury tower (previously held as inventory by the Group). This barter transaction was assigned a contractual value of €80,000 for airspace, which was included under the revenue caption within Note 5.

**24.4.3** During 2019, the parent Company had loan proceeds of €22,444,358 (see Note 19) from the Subsidiary during the year, which was eliminated upon consolidation and therefore not included in the related party transactions schedule per above.

**NOTES TO THE FINANCIAL STATEMENTS**

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**25 Commitments**

- 25.1** As at the year ended 31 December 2019, the Company accounted for costs amounting to €23,518,856 on investment property and property (both under construction), and €18,022,606 on inventory (net of inventory sold as at year-end) which is also under construction. Both are part of the landmark being built by the Company. The Company currently expects to incur further costs on contracting works amounting to €17.5 million in relation to investment property and a further €7.9 million in relation to inventory under construction. These committed capital costs are based on budgets as at the reporting date and will fluctuate depending on actual costs incurred.

**26 First-time adoption of IFRS as adopted by the EU**

- 26.1** As explained in note 2.1, these are the Company's first set of financial statements prepared in accordance with IFRS as adopted by the EU. They are also the first set of consolidated financial statements for the Group, which is also in accordance with IFRS as adopted by the EU.

The Group accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2019, the comparative information presented in these financial statements for the year ended 31 December 2018 and in the preparation of the opening IFRS statement of financial position at 1 January 2018 (the Group's date of transition).

The accounting policies applied by the Group upon transition to IFRS were consistent with those applied by the parent Company under GAPSME, with the following exception:

- As at 1 January 2018, no impairment was recognised on the trade and other receivables balance. However, in line with the expected credit loss requirements under IFRS 9 (see note 3.8.1), upon transition to IFRS, a loss allowance of €201,585 was recognised in retained earnings (with a conforming entry in trade and other receivables). In addition, the corresponding deferred tax asset of €70,555 was recorded within non-current assets as at the same date. The same adjustment, i.e. the deduction in trade and other receivables of €80,983 and the recognition of deferred tax of €28,344 was recorded as at 31 December 2018 for the impairment loss arising during the year.

**27 Subsequent events**

- 27.1** Subsequent to the reporting date, the outbreak of the COVID-19, which is a rapidly evolving situation, has adversely impacted global and local commercial activities. The rapid development and fluidity of this situation precludes any prediction of its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global and local economic slowdown. The Director does not believe that there is any financial impact on the Group that would otherwise require an adjustment to, or further disclosures in the financial statements as at 31 December 2019, as a result of this subsequent event.

To date, the Group has continued to operate normally, even during the more challenging months of the pandemic. Construction has been limitedly impacted, if at all, and at this point in time, given the continuous lifting of the COVID-19 related restrictions, the director is confident that the Company and the Group can continue to manage the situation without any significant impact.

**27 Subsequent events (continued)**

The Group will continue monitoring developments in relation to the COVID-19 and is coordinating its operation response based on its business continuity plan and on guidance from health organisations, government, and general pandemic response best practices. The director is confident that, notwithstanding the current circumstances, the Group will be able to operate through the prevalent market conditions.

**27.2** During May 2020, the application for Phase 2 permit was submitted to the Planning Authority.



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## **Independent Auditors' Report**

### **To the Shareholders of Mercury Towers Ltd**

#### **1 Report on the Audit of the Financial Statements**

##### ***Opinion***

We have audited the financial statements of Mercury Towers Ltd (the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- (a) give a true and fair view of the financial position of the Company and of the Group as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and
- (b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act").

##### ***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 *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, 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 (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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## **Independent Auditors' Report (continued)**

### **To the Shareholders of Mercury Towers Ltd**

#### ***Other information***

The director is responsible for the other information. The other information comprises the 'General Information' and the 'Director's Report' but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the director's report on which we report separately below in our 'Report on Other Legal and Regulatory Requirements', 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 the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The director is responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act, and for such internal control as the director determines 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 director is responsible for assessing the Company's and 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 director either intends to liquidate the Company and/or the Group or to cease operations, or has no realistic alternative but to do so.

The director is also responsible for overseeing the financial reporting process.



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## **Independent Auditors' Report (continued)**

### **To the Shareholders of Mercury Towers Ltd**

#### ***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 auditors' 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the director.





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## **Independent Auditors' Report (continued)**

### **To the Shareholders of Mercury Towers Ltd**

#### ***Auditors' responsibilities for the audit of the financial statements (continued)***

- Conclude on the appropriateness of the director's 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 and 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company and/or the Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. 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 director 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.



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## **Independent Auditors' Report (continued)**

**To the Shareholders of Mercury Towers Ltd**

### **2 Report on Other Legal and Regulatory Requirements**

#### *Opinion on the director's report*

The director is responsible for preparing a director's report in accordance with the provisions of article 177 of the Act.

We are required to consider whether the information given in the director's report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the director's report has been prepared in accordance with the applicable legal requirements; and
- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the director's report, giving an indication of the nature of any such misstatements.

In such regards:

- in our opinion, the director's report has been prepared in accordance with the applicable legal requirements; and
- we have not identified material misstatements in the director's report.



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## **Independent Auditors' Report (continued)**

### **To the Shareholders of Mercury Towers Ltd**

#### ***Matters on which we are required to report by exception by the Act***

Pursuant to articles 179(10) and 179(11) of the Act, we have nothing to report to you with respect to the following matters:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Thomas Galea.

A handwritten signature in blue ink, appearing to read 'Thomas Galea', with a long horizontal line extending to the right.

**KPMG**  
Registered Auditors

30 June 2020