



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 2020

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 2020.

Copies of the above-mentioned Audited Financial Statements for the financial year ended 31st December 2020, 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

29<sup>th</sup> April 2021

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#### Directors

Joseph Portelli

Mario Vella

Peter Portelli

Stephen Muscat

**MERCURY TOWERS LTD.**

**ANNUAL REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2020**

**MERCURY TOWERS LTD.**

**GENERAL INFORMATION  
31 DECEMBER 2020**

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**MERCURY TOWERS LTD.**

**GENERAL INFORMATION  
31 DECEMBER 2020**

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**Director:**

Mr. Joseph Portelli

**Company Secretary:**

Dr. Ian Stafrace

**Registered Office:**

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  
Malta

**Legal Advisor:**

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

**Auditors:**

Baker Tilly Malta  
Level 5  
Rosa Marina Building  
216, Marina Seafront  
Pieta PTA9041  
Malta

## **MERCURY TOWERS LTD.**

### **DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

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#### **Director**

Mr. Joseph Portelli

The sole 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 2020. 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 current principal activity of Mercury Towers Ltd. is the purchase and sale of property within the Mercury Tower Project in St. Julians, Malta. The Company owns the land and Mercury House, a 19<sup>th</sup> Century Grade 2 villa. The Company is also building and will 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 within the constraints of the pandemic. The Group continued to sign new preliminary agreements whilst the majority of contracts were signed during the financial year under review as construction of the floors were completed. The parent Company's equity at the end of the year under review following the revaluation of investment property effected during 2020, is €26,141,101 (2019: €182,082). The increase in equity relates to the recognition of income upon signature of deeds of sale and the revaluation of the investment property.

#### *Turnover and cost of sales*

Revenue is recognized once the deeds of sale are signed. During the year under review, revenue amounted to €19,836,010 (2019: €9,047,280). The increase mainly results from the fact that during the financial year, a higher number of floors were completed which in turn resulted in larger execution of deeds of sale.

Cost of sales for the year under review amounted to €12,863,063 (2019: €7,427,557).

#### *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 4.25% 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 issues have been advanced by way of loan facilities 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. Julians, Malta, which project is owned by the Company.

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## **MERCURY TOWERS LTD.**

### **DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

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#### **Review of business (Contd.)**

##### *Project Update*

The Mercury House site consists of a plot of land measuring approximately 7,701 sq. mt. The site is located at one of the main gateways into Paceville. Paceville is Malta's main entertainment area, known for its vibrant and 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 spaces that will upgrade the amenity and contribute to the public realm of Paceville.

World renowned architect Dame 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 completed in shell form. 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. The permit for the addition of a further 3 floors was obtained on the 17 December 2020 which permit became executable on the 22 April 2021.

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 97% of total units for sale prior to the approval of the additional floors. Property to be retained by the Company is funded from the bonds issued by Mercury Projects Finance p.l.c. 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.

#### **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 the 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.

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 procedures to mitigate these risks in the most prudent way.

By the time of signing of this report, the permit sanctioning the second phase of the project together with the extension of the tower, dated 17 December 2020, became executable. Financing to construct and complete phase 2 of the project has been secured.

**MERCURY TOWERS LTD.**

**DIRECTOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**COVID-19**

The Coronavirus (COVID-19) pandemic is affecting economic and financial markets worldwide, and virtually all industries are facing challenges associated with the economic conditions resulting from efforts to address it.

The director has assessed the effects of COVID-19 on the Company's and the Group's operations and notes that to date, the Group has continued to operate, even during the more challenging months of the pandemic. Although certain elements of construction were impacted, 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.

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 and project delays experienced so far, the Company will be able to operate through the prevalent market conditions.

**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 8, 10 and 11. No dividends were recommended or paid during the year. No final dividends are being recommended to be declared.

**Director**

The director listed on page 4 served in office throughout the year. In accordance with the Company's Articles of Association, the director at date of this report is to remain in office.

The Company's secretary is Dr. Ian Stafrace.

**Auditors**

Baker Tilly Malta have intimated their willingness to continue in office. A proposal to reappoint Baker Tilly Malta as auditors of the Company will be put to the General Meeting.

Approved by the sole director on 29 April 2021:



Mr. Joseph Portelli  
**Director**

**MERCURY TOWERS LTD.**

**DIRECTOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**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 and the Group 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 and the Group 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the sole director on 29 April 2021.



Mr. Joseph Portelli  
**Director**

**MERCURY TOWERS LTD.**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
AS AT 31 DECEMBER 2020**

	Note	Group		Company	
		2020 €	2019 €	2020 €	2019 €
Revenue	4	<b>19,836,010</b>	9,047,280	<b>19,836,010</b>	9,047,280
Cost of sales		<b>(12,863,063)</b>	(7,427,557)	<b>(12,863,063)</b>	(7,427,557)
<b>Gross profit</b>		<b>6,972,947</b>	1,619,723	<b>6,972,947</b>	1,619,723
Other income	5	<b>184,518</b>	5,000	<b>184,518</b>	5,000
Administrative expenses	6	<b>(581,873)</b>	(375,633)	<b>(501,449)</b>	(319,230)
Selling expenses		<b>(490,955)</b>	(226,007)	<b>(490,955)</b>	(226,007)
Provision for expected credit losses		<b>(16,090)</b>	(127,365)	<b>(15,670)</b>	(127,365)
Other expenses		-	(500,000)	-	(500,000)
Revaluation of investment property		<b>24,560,857</b>	-	<b>24,560,857</b>	-
<b>Operating profit</b>		<b>30,629,404</b>	395,718	<b>30,710,248</b>	452,121
Finance costs	7	<b>(898,750)</b>	(1,095,637)	-	(406,178)
<b>Profit/(loss) before tax</b>		<b>29,730,654</b>	(699,919)	<b>30,710,248</b>	45,943
<b>Tax expense</b>	8	<b>(4,825,482)</b>	(740,789)	<b>(4,751,229)</b>	(696,399)
<b>Profit/(loss) for the year</b>		<b>24,905,172</b>	(1,440,708)	<b>25,959,019</b>	(650,456)
<b>Comprehensive income/(loss) for year</b>		<b>24,905,172</b>	(1,440,708)	<b>25,959,019</b>	(650,456)

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

**MERCURY TOWERS LTD.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2020**

	Note	Group		Company	
		2020 €	2019 €	2020 €	2019 €
<b>Non-current assets</b>					
Property, plant and equipment	9	11,660,593	22,293,684	12,600,689	23,118,262
Investment property	10	40,887,051	400,594	41,892,362	400,594
Investment in subsidiary	11	-	-	250,000	250,000
Investment in associate	12	1,500	1,500	1,500	1,500
Other receivables	14	-	689,130	-	689,130
Restricted cash	15	20,682	20,682	20,682	20,682
Deferred tax assets	8	-	143,323	-	143,323
		<b>52,569,826</b>	<b>23,548,913</b>	<b>54,765,233</b>	<b>24,623,491</b>
<b>Current assets</b>					
Inventories	13	8,918,687	18,022,606	8,918,687	18,022,606
Trade and other receivables	14	7,335,954	20,379,288	7,332,884	20,378,766
Taxation recoverable		1,270	1,270	1,270	1,270
Cash and cash equivalents	15	577,640	266,976	435,752	9,894
		<b>16,833,551</b>	<b>38,670,140</b>	<b>16,688,593</b>	<b>38,412,536</b>
<b>Total assets</b>		<b>69,403,377</b>	<b>62,219,053</b>	<b>71,453,826</b>	<b>63,036,027</b>
<b>Equity</b>					
Share capital	16	500,000	500,000	500,000	500,000
Investment property reserve	16	22,595,988	-	22,595,988	-
Retained earnings/(losses)		1,201,014	(1,108,170)	3,045,113	(317,918)
<b>Total equity/(deficiency)</b>		<b>24,297,002</b>	<b>(608,170)</b>	<b>26,141,101</b>	<b>182,082</b>
<b>Non-current liabilities</b>					
Loan payable to subsidiary	17	-	-	22,444,358	22,444,358
Bonds payable	18	22,500,000	22,500,000	-	-
Deferred tax liability	8	3,202,592	-	3,202,592	-
		<b>25,702,592</b>	<b>22,500,500</b>	<b>25,646,950</b>	<b>22,444,358</b>
<b>Current liabilities</b>					
Borrowings	19	10,405,504	10,565,931	10,405,504	10,565,931
Trade and other payables	20	8,924,026	29,716,903	9,260,271	29,843,656
Taxation payable		74,253	44,389	-	-
		<b>19,403,783</b>	<b>40,327,223</b>	<b>19,665,775</b>	<b>40,409,587</b>
<b>Total liabilities</b>		<b>45,106,375</b>	<b>62,827,223</b>	<b>45,312,725</b>	<b>62,853,945</b>
<b>Total equity and liabilities</b>		<b>69,403,377</b>	<b>62,219,053</b>	<b>71,453,826</b>	<b>63,036,027</b>

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

The financial statements set out on page 8 to 44 were approved and authorized for issue on 29 April 2021.

Mr. Joseph Portelli  
Director

**MERCURY TOWERS LTD.****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020****Company**

	<b>Share capital €</b>	<b>Retained earnings/ (losses) €</b>	<b>Investment property reserve €</b>	<b>Total equity €</b>
<b>Balance as at 1 January 2020</b>	<b>500,000</b>	<b>(317,918)</b>	<b>-</b>	<b>182,082</b>
<b>Comprehensive income for the year</b>				
Profit for the year	-	<b>25,959,019</b>	-	<b>25,959,019</b>
<b>Movement on reserves</b>				
Transfer of revaluation of investment property	-	<b>(24,560,857)</b>	<b>24,560,857</b>	-
Transfer of deferred tax on revaluation	-	<b>1,964,869</b>	<b>(1,964,869)</b>	-
<b>Balance at 31 December 2020</b>	<b>500,000</b>	<b>3,045,113</b>	<b>22,595,988</b>	<b>26,141,101</b>
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>-</b>	<b>832,538</b>
<b>Comprehensive loss for the year</b>				
Loss for the year	-	<b>(650,456)</b>	-	<b>(650,456)</b>
<b>Balance as at 31 December 2019</b>	<b>500,000</b>	<b>(317,918)</b>	<b>-</b>	<b>182,082</b>

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

**MERCURY TOWERS LTD.**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**Group**

	Share capital €	Retained earnings / (losses) €	Investment property reserve €	Total equity €
<b>Balance at 1 January 2020 – Retained Earnings pertaining to the Parent Company and brought into the Group</b>	500,000	(1,108,170)	-	(608,170)
<b>Total comprehensive income for the year</b>				
Profit for the year	-	24,905,172	-	24,905,172
<b>Movement on reserves</b>				
Transfer of revaluation of investment property	-	(24,560,857)	24,560,857	-
Transfer of deferred tax on revaluation	-	1,964,869	(1,964,869)	-
<b>Balance at 31 December 2020</b>	<b>500,000</b>	<b>1,201,014</b>	<b>22,595,988</b>	<b>24,297,002</b>
<b>Balance at 1 January 2019 – Retained Earnings pertaining to the Parent Company and brought into the Group</b>	500,000	332,538	-	832,538
<b>Total comprehensive loss for the year</b>				
Loss for the year	-	(1,440,708)	-	(1,440,708)
<b>Balance as at 31 December 2019</b>	<b>500,000</b>	<b>(1,108,170)</b>	<b>-</b>	<b>(608,170)</b>

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

**MERCURY TOWERS LTD.**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	<b>Group</b>		<b>Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Cash flows from operating activities</b>				
Operating profit/(loss) for the year	24,905,172	(1440,708)	25,959,019	(650,456)
Adjustments for:				
Revaluation of investment property	(24,560,857)	-	(24,560,857)	-
Tax expense	4,825,482	-	4,751,229	-
Net finance costs	898,750	1,095,637	-	406,178
Provision for expected credit losses	16,090	127,365	15,670	127,365
	<b>6,084,637</b>	<b>(217,706)</b>	<b>6,165,061</b>	<b>116,913</b>
Changes in:				
Inventory	9,103,919	2,816,850	9,103,919	2,743,235
Trade and other receivables	13,716,374	(19,517,119)	13,719,372	(19,766,129)
Trade and other payables	(20,792,877)	(1,821,044)	(20,583,415)	(1,187,945)
Contract liability	-	136,080	-	136,080
	<b>2,027,416</b>	<b>(18,602,939)</b>	<b>2,239,876</b>	<b>(18,191,672)</b>
Taxes paid	(1,449,703)	(740,764)	(1,405,314)	(740,764)
<b>Net cash from/(used in) operating activities</b>	<b>6,662,350</b>	<b>(19,343,703)</b>	<b>6,999,623</b>	<b>(18,932,436)</b>
<b>Cash flows from investing activities</b>				
Acquisition of property	(5,292,509)	(6,100,893)	(6,413,338)	(6,925,471)
<b>Net cash used in investing activities</b>	<b>(5,292,509)</b>	<b>(6,100,893)</b>	<b>(6,413,338)</b>	<b>(6,925,471)</b>
<b>Cash flows from financing activities</b>				
Net proceeds from borrowings	-	4,340,586	-	4,552,457
Repayment of bank borrowings	(160,427)	-	(160,427)	-
Repayment of loans from related parties	-	(1,350,624)	-	(1,350,624)
Proceeds from loan to subsidiary	-	-	-	22,444,358
Proceeds from bond issue	-	22,500,000	-	-
Interest paid on bonds	(898,750)	-	-	-
<b>Net cash from/(used in) financing activities</b>	<b>(1,059,177)</b>	<b>25,489,962</b>	<b>(160,427)</b>	<b>25,646,191</b>
<b>Net movement in cash and cash equivalents</b>	<b>310,664</b>	<b>45,366</b>	<b>425,858</b>	<b>(211,716)</b>
Cash and cash equivalents at 1 January	266,976	221,610	9,894	221,610
<b>Cash and cash equivalents at 31 December</b>	<b>577,640</b>	<b>266,976</b>	<b>435,752</b>	<b>9,894</b>

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

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1. Reporting entity

Mercury Towers Ltd. (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, Malta.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2020 comprise the Company and its subsidiary (Mercury Projects Finance p.l.c., hereinafter the “Subsidiary”) and 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 11), prepares consolidated financial statements as required under IFRS 10 *Consolidated Financial Statements*.

##### 2.2 Going concern basis

By the time of issue of these financial statements, phase 1 of the project was fully built in shell form, overcoming the most difficult engineering structure of the project. 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 is now in the second stage of Phase 1, that involves the finishing of the building.

During the year under review, the permit for phase 2 has been approved. Excavation works have since commenced. Financing for this second phase of the project is also in place. By the time of issue of these financial statements, the Company has secured the required funding in addition to the proceeds from the sale of units.

##### 2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of investment property, which is stated at fair value.

##### 2.4 Functional and presentation currency

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

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 2. Basis for Preparation (Contd.)

##### 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 note on ECL allowance for trade receivables under Note 21.3.

##### 2.6 Measurement of Fair Values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. 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 (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company and the Group measure investment property at fair value.

##### 2.7 New Standards and Interpretations

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted, however the company has not early adopted the new or amended standards in preparing these financial statements.

Standards and amendments that are effective for the first time in 2020 and could be applicable to the Company and the Group are:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Definition of a Business (Amendments to IFRS 3)*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*
- *COVID-19 Related Rent Concessions (Amendment to IFRS 16) – Effective 1 June 2020*

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 2. Basis for Preparation (*Contd.*)

##### 2.7 New Standards and Interpretations (*Contd.*)

Other Standards and amendments that are not yet effective and have not been adopted early by the Company and the Group include:

- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IFRS 7, IFRS 4 and IFRS 16) – Effective 1 January 2021*
- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) – Effective 1 January 2022*
- *Annual Improvements to IFRS Standards 2018–2020 – Effective 1 January 2022*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) – Effective 1 January 2022*
- *Reference to the Conceptual Framework (Amendments to IFRS 3) – Effective 1 January 2022*
- *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) – Effective 1 January 2023*
- *IFRS 17 Insurance Contracts – Effective 1 January 2023*

#### 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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### **3. Significant accounting policies (Contd.)**

##### **3.1 Basis of consolidation (Contd.)**

##### **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.

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**3. Significant accounting policies (Contd.)**

**3.3 Financial instruments (Contd.)**

**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.
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## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 3. Significant accounting policies (*Contd.*)

##### 3.3 Financial instruments (*Contd.*)

##### 3.3.2 Classification and subsequent measurement (*Contd.*)

##### 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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 3. Significant accounting policies (*Contd.*)

##### 3.3 Financial instruments (*Contd.*)

##### 3.3.2 Classification and subsequent measurement (*Contd.*)

##### 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.

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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 3. Significant accounting policies (*Contd.*)

##### 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, including property under construction 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.

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.

No depreciation is taken on property under construction and depreciation commences only when the asset is ready and available for use.

##### 3.6 Investment property

Investment properties are properties held to earn rentals and or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at open market value. Gains or losses arising from changes in the fair value of the investment properties are included in the comprehensive income in the period they arise.

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 on investment property under construction commences when the asset is ready and available for use.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the period in which the property is derecognised.

##### 3.7 Inventories

###### 3.7.1 *Property held for resale*

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.

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**3. Significant accounting policies (*Contd.*)**

**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.

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.

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**3. Significant accounting policies (Contd.)**

**3.8 Impairment (Contd.)**

**3.8.1 Financial assets (Contd.)**

*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.

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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 3. Significant accounting policies (*Contd.*)

##### 3.8 Impairment (*Contd.*)

###### 3.8.1 *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.

##### 3.9 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 apartments in airspace or shell form in Mercury Towers in St. 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.

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**3. Significant accounting policies (Contd.)**

**3.10 Revenue from contracts with customers (Contd.)**

**3.10.1 Performance obligations and revenue recognition policies (Contd.)**

***Satisfaction of performance obligation***

The sale of apartments in airspace or 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.

**3.11 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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 3. Significant accounting policies (*Contd.*)

##### 3.13 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.

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

##### 3.14 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.

###### 3.14.1 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.

###### 3.14.2 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.

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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 4. Revenue

##### 4.1 Revenue streams

The Company and the Group mainly generate revenue through the sale of real estate properties.

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Sale of airspace property	15,299,707	7,808,599	15,299,707	7,808,599
Sale of shell apartments	4,536,303	1,238,681	4,536,303	1,238,681
	<b>19,836,010</b>	<b>9,047,280</b>	<b>19,836,010</b>	<b>9,047,280</b>

The revenue generated during 2020 is recognised at the point in time when control transfers to the customer.

##### 4.2 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 (2019: €136,080), recognised within trade and other payables (see Note 20). 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.

#### 5. Other Income

Other income arises mainly from fees charged on cancellation of Promise of Sale agreements. Since this is not considered to be part of the main revenue generating activities, the Company and the Group presents this net income separately from revenue.

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Cancellation Fees	184,518	5,000	184,518	5,000
	<b>184,518</b>	<b>5,000</b>	<b>184,518</b>	<b>5,000</b>

**MERCURY TOWERS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020****6. Administrative expenses**

6.1 The total audit fees (excluding VAT) charged to the Company and the Group by the auditors were as follows:

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Remuneration of the Parent's auditor	19,000	19,000	19,000	19,000
Remuneration of the Subsidiary's auditor	7,080	7,080	-	-
Directors' fees	45,000	33,750	45,000	-

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

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Salaries	94,877	88,503	94,877	88,503
Social costs	4,563	4,220	4,428	4,220
<b>Total</b>	<b>99,440</b>	<b>92,723</b>	<b>99,305</b>	<b>92,723</b>

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

	Group		Company	
	2020	2019	2020	2019
	No.	No.	No.	No.
Administration	2	2	2	2

**7. Finance costs**

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
<b>Finance costs</b>				
Interest on bonds	(898,750)	(689,452)	-	-
Other interest	-	(406,185)	-	(406,178)
	<b>(898,750)</b>	<b>(1,095,637)</b>	<b>-</b>	<b>(406,178)</b>

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**8. Tax expense**

**8.1 Tax recognised in profit or loss**

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
<b>Current tax expense</b>				
Final withholding tax at the rate of 8% on sale of property	(1,405,314)	(740,823)	(1,405,314)	(740,823)
Current tax – 35%	(74,253)	(44,390)	-	-
<b>Deferred tax income</b>				
Originating from temporary differences	5,474	44,424	5,474	44,424
Originating from Revaluation of Investment Property	(3,351,389)	-	(3,351,389)	-
<b>Tax expense</b>	<b>(4,825,482)</b>	<b>(740,789)</b>	<b>(4,751,229)</b>	<b>(696,399)</b>

**8.2 Reconciliation of effective tax rate**

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Profit / (loss) before tax	29,730,654	(699,919)	30,710,248	45,943
Tax using the domestic tax rate of 35%	(10,405,729)	244,972	(10,748,587)	(16,080)
<i>Tax effect of:</i>				
Non-taxable income	8,660,881	-	8,660,881	-
Non-deductible expenses	(4,895,200)	(3,002,457)	(4,870,380)	(2,985,472)
Different tax rates	5,499,077	2,349,871	5,499,077	2,349,871
Income recognized for tax purposes	-	(33,677)	-	(33,832)
Deferred tax element unrecognised	(403,177)	(299,498)	(10,886)	(10,886)
Absorbed trading losses	64,581	-	64,581	-
<b>Tax expense</b>	<b>(1,479,567)</b>	<b>(740,789)</b>	<b>(1,405,314)</b>	<b>(696,399)</b>

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**8. Tax expense (Contd.)**

**8.3 Recognised deferred tax assets**

Deferred tax assets are attributable to the following for the Company and the Group:

	Balance at 1 January 2020 €	Recognised in profit or loss €	Balance at 31 December 2020 €
Loss allowance on financial assets	143,323	5,474	148,797
Revaluation of Investment Property	-	(3,351,389)	(3,351,389)
	<b>143,323</b>	<b>(3,345,915)</b>	<b>(3,202,592)</b>

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

**9. Property, plant and equipment**

**9.1** The parent Company's property was as follows:

	Land €	Assets in the course of construction €	Total €
<b>Balance at 1 January 2020</b>	<b>8,408,375</b>	<b>14,709,887</b>	<b>23,118,262</b>
Additions	-	6,413,337	6,413,337
Reclassified to Investment Property	(7,115,673)	(9,815,237)	(16,930,910)
<b>Balance at 31 December 2020</b>	<b>1,292,702</b>	<b>11,307,987</b>	<b>12,600,689</b>
<b>Carrying amounts</b>			
At 31 December 2019	8,408,375	14,709,887	23,118,262
At 31 December 2020	<b>1,292,702</b>	<b>11,307,987</b>	<b>12,600,689</b>

**9.2** The property relates to airspaces which will be retained by the Company and the Group to be used in the supply of services. As at 31 December 2020, the property was still under construction and hence was not yet available for use. As a result, the property has not been depreciated during the current year.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 9. Property, plant and equipment (Contd.)

- 9.3 Included within property are capitalised borrowing costs related to the acquisition of the land and the assets in the course of construction of €309,888 (2019: €138,256), and which calculated using a capitalisation rate of 6% and €1,120,829 (2019: €824,578), calculated using capitalised rates emanating from the Company's loan with its subsidiary. As a result, accumulated capitalised borrowing costs amounting to € 940,096 are eliminated from the property value upon consolidation, in accordance with Note 3.1. As a result, the property balance at Group level amounted to €11,660,593 (2019: €22,293,684) as at year-end.
- 9.4 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 10.5). Reclassification has been effected on a prospective basis.
- 9.5 Property owned by the Group is subject to special hypothecs in favour of creditors for funds borrowed (see Notes 18 and 19).

#### 10. Investment property

- 10.1 The Company's and the Group's investment property were as follows:

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
<b>Balance at 1 January</b>	<b>400,594</b>	16,593,385	<b>400,594</b>	16,593,385
Reclassification from Property	<b>15,925,599</b>	-	<b>16,930,910</b>	-
Revaluation	<b>24,560,858</b>	-	<b>24,560,858</b>	-
Reclassification to property	-	(16,192,791)	-	(16,192,791)
<b>Balance at 31 December</b>	<b>40,887,051</b>	400,594	<b>41,892,362</b>	400,594

- 10.2 Included within property are capitalised borrowing costs related to the acquisition of the land and the assets in the course of construction of €309,888 (2019: €138,256), calculated using a capitalisation rate of 6% and €1,120,829 (2019: €824,578), calculated using capitalised rates emanating from the Company's loan with its subsidiary. As a result, accumulated capitalised borrowing costs amounting to € 1,005,310 that relate directly to investment property are eliminated from the property value upon consolidation, in accordance with Note 3.1. As a result, the property balance at Group level amounted to € 40,887,051 as at year-end after also taking into consideration the revaluation which was carried out during the year.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 10. Investment property (Contd.)

- 10.3 The Group's investment property comprised property at level 30 and level 31 together with all the areas making up the commercial mall. Since the investment property is not yet available for use, it was not depreciated during the current year.

Land and buildings classified as investment property as on 31 December 2020 were revalued by external independent qualified valuers, namely DHI Periti. The external independent valuers have a recognised and relevant professional qualification and have experience in the location and category of the property being valued.

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 meter. The estimated fair value would increase (decrease) depending on the market prices of similar property and the general economic trend of the country.

- 10.4 Investment property owned by the Group is subject to special hypothecs in favour of creditors for funds borrowed (see Notes 18 and 19).
- 10.5 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 9.4). Reclassification has been effected on a prospective basis.

#### 11. Investment in subsidiary

##### 11.1

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Investment at cost	-	-	250,000	250,000
	-	-	250,000	250,000

- 11.2 During the 2019, the parent Company took ownership of 99.99% of the shares of Mercury Projects Finance p.l.c., a company incorporated in Malta. 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, 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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 12. Investment in associate

##### 12.1

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Investment at cost	<b>1,500</b>	1,500	<b>1,500</b>	1,500
	<b>1,500</b>	1,500	<b>1,500</b>	1,500

##### 12.2 At reporting date, the parent Company held directly the following investment in associate:

	Ownership	Country
	2020	2019
Mercury Car Park Ltd.	<b>25%</b>	25% <b>Malta</b>

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. Mercury Car Park Limited (“the Associate”) has not been in operation as at year-end.

##### 12.3 As at year end, the value of the investment in the associate based on the equity-accounting method amounted to € 29,343.

#### 13. Inventories

##### 13.1 The Company’s and the Group’s inventory were as follows:

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Cost of land and direct expenses	<b>926,215</b>	12,719,493	<b>926,215</b>	12,719,493
Phase 1 – cost of construction and development	<b>4,742,712</b>	3,785,738	<b>4,742,712</b>	3,785,738
Phase 2 – work in progress	<b>3,249,760</b>	1,517,375	<b>3,249,760</b>	1,517,375
	<b>8,918,687</b>	18,022,606	<b>8,918,687</b>	18,022,606

##### 13.2 Included within inventories are capitalised borrowing costs related to the acquisition of the land of €143,607 (2019: €73,615), calculated using a capitalisation rate of 6%.

##### 13.3 Inventories owned by the Company are subject to special hypothecs in favour of creditors for funds borrowed (see Notes 18 and 19).

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**14. Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Trade receivables	<b>198,867</b>	-	<b>198,867</b>	-
Amounts receivable from related parties	<b>2,023,384</b>	2,038,770	<b>2,023,384</b>	2,040,018
Advances and other repayments to related contractor	<b>4,167,663</b>	18,188,228	<b>4,167,663</b>	18,188,228
Deposit held as guarantee	<b>232,738</b>	232,917	<b>232,738</b>	232,917
Other receivables	<b>713,302</b>	608,503	<b>710,232</b>	606,733
	<b>7,335,954</b>	21,068,418	<b>7,332,884</b>	21,067,896
Non-current	-	689,130	-	689,130
Current	<b>7,335,954</b>	20,379,288	<b>7,332,884</b>	20,378,766
	<b>7,335,954</b>	21,068,418	<b>7,332,884</b>	21,067,896

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

**14.2** As at 31 December 2020, 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.

**14.3** As at 31 December 2020, other receivables included deferred consultancy fees amounting to €456,213 recharged by the subsidiary in connection with the bond issue (see Note 18).

**15. Cash and cash equivalents**

**15.1**

	<b>Group</b>		<b>Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Bank balances	<b>577,640</b>	266,976	<b>435,752</b>	9,984
Restricted cash	<b>20,682</b>	20,682	<b>20,682</b>	20,682
<b>Cash and cash equivalents in the statement of financial position</b>	<b>598,322</b>	287,658	<b>456,434</b>	30,576
Restricted cash	<b>(20,682)</b>	(20,682)	<b>(20,682)</b>	(20,682)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>577,640</b>	266,976	<b>435,752</b>	9,894

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**16. Capital and reserves**

**16.1 Share capital**

	<b>Group</b>		<b>Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
In issue at 1 January and 31 December				
- Fully paid	<b>500,000</b>	500,000	<b>500,000</b>	500,000
	<b>500,000</b>	500,000	<b>500,000</b>	500,000

At 31 December 2020, the authorised share capital comprised 500,000 (2019: 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.

**16.2 Reserves**

*Investment Property Reserve*

This reserve represents transfers out of retained earnings equivalent to the movement between the cost of investment properties and their fair values as revalued by an architect, net of deferred taxation.

**17. Loan payable to subsidiary**

**17.1**

	<b>Group</b>		<b>Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Loan I advanced by subsidiary company	-	-	<b>11,500,000</b>	11,500,000
Loan II advanced by subsidiary company	-	-	<b>10,944,358</b>	10,944,358
	-	-	<b>22,444,358</b>	22,444,358

- 17.2** 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 €408,468 (2019: €394,352) incurred by the subsidiary in connection with the bond issues and recharged 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, leading to a Group balance of nil as at year-end.

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**18. Bonds payable**

**18.1**

	<b>Group</b>		<b>Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Non-current:</b>				
3.75% Series I Bonds 2027	<b>11,500,000</b>	11,500,000	-	-
4.25% Series II Bonds 2031	<b>11,000,000</b>	11,000,000	-	-
	<b>22,500,000</b>	22,500,000	-	-

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

**18.3** 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.

**19. Borrowings**

**19.1** Borrowings included under current liabilities comprise of the following amounts:

	<b>Group</b>		<b>Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Current liabilities</b>				
Bank loan 1	-	10,000,000	-	10,000,000
Bank loan 2	<b>10,405,504</b>	-	<b>10,405,504</b>	-
Other loans	-	565,931	-	565,931
	<b>10,405,504</b>	10,565,931	<b>10,405,504</b>	10,565,931

**19.2** As per sanction letter dated 25 June 2020, the Company obtained another bank loan amounting to €10,500,000. The loan bears an interest rate of 6% per annum and is to be fully paid by latest 31 December 2022. 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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 20. Trade and other payables

##### 20.1

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Trade payables	1,198,896	4,487,021	1,189,267	4,482,938
Amounts due to related parties	-	3,265,265	144,394	3,265,265
Deposits received on Promise of Sale	6,856,343	20,263,468	6,856,343	20,263,348
Contract liability	136,080	136,080	136,080	136,080
Accrued expenses	732,707	1,565,069	934,187	1,696,025
	<b>8,924,026</b>	<b>29,716,903</b>	<b>9,260,271</b>	<b>29,843,656</b>

20.2 Trade payables include a balance of €267,834 (2019: 2,493,690), comprising a liability in relation to cancellations of promise of sales and includes all respective costs as explained further in these financial statements. This balance was settled in full in March 2021.

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

20.4 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 4.2).

#### 21. Financial risk management

##### 21.1 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.

##### 21.2 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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 21. Financial risk management (Contd.)

##### 21.3 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:

	Gross carrying amount			
	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Trade and other receivables	3,168,291	2,881,460	3,165,221	2,880,938
Cash and cash equivalents	577,640	266,976	435,752	9,894
	<b>3,745,931</b>	<b>3,148,436</b>	<b>3,600,973</b>	<b>2,890,832</b>

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

	Group		Company	
	2020	2019	2020	2019
	€	€	€	€
Impairment loss on trade and other receivables	16,090	127,318	15,670	127,318
	<b>16,090</b>	<b>127,318</b>	<b>15,670</b>	<b>127,318</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 2020, the gross carrying amount on the amounts receivable from related parties amounts to €2,038,770 (2019: €2,166,087). 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.

**MERCURY TOWERS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020****21. Financial risk management (Contd.)****21.3 Credit risk (Contd.)**

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 2020.

	<b>Equivalent to external credit rating (S&amp;P's)</b>	<b>Gross carrying amount €</b>	<b>Loss allowance €</b>
Mercury Car Park Ltd.	CCC/C	922,784	17,520
Mercury Exchange Ltd.	B	1,115,986	(1,936)
		<u>2,038,770</u>	<u>15,584</u>

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.

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

*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 2020.

	€
<b>External credit rating</b>	
BBB – Gross carrying amount	<u>253,600</u>
	253,600
Loss allowance	<u>(262)</u>
<b>Carrying amount</b>	<u>253,420</u>

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 21. Financial risk management (Contd.)

##### 21.3 Credit risk (Contd.)

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.

	€
<b>External credit rating</b>	
BBB – Gross carrying amount	<u>253,600</u>
	<u>253,600</u>
Loss allowance	<u>(96)</u>
<b>Carrying amount</b>	<u>253,504</u>

##### 21.3.1 Cash and cash equivalents

The Group held cash and cash equivalents of €577,640 as at 31 December 2020 (Company's 2019: €266,976). 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 €477,640 (2019: €166,976) 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 2020 is nil (2019: nil).

#### 21.4 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.

##### 21.4.1 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.

**MERCURY TOWERS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**21. Financial risk management (Contd.)**

**21.4 Liquidity risk (Contd.)**

**21.4.2 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 falls 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 €
<b>31 December 2020</b>				
<b>Non-derivative financial liabilities</b>				
Trade and other payables	9,124,191	9,124,191	9,124,191	-
Borrowings	10,405,504	11,029,834	11,029,834	-
Loan from subsidiary	22,444,358	34,361,264	1,120,829	33,240,435
	<b>41,974,053</b>	<b>54,515,289</b>	<b>21,274,854</b>	<b>33,240,435</b>

**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	1,120,829	34,361,264
	<b>62,717,865</b>	<b>76,514,563</b>	<b>42,153,299</b>	<b>34,361,264</b>

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

	Contractual Cash Flows				
	Carrying amount €	Total €	Less than 12 months €	From 1 – 5 years €	More than 5 years €
<b>31 December 2020</b>					
<b>Non-derivative financial liabilities</b>					
Bond payable	22,500,000	30,661,250	898,750	3,595,000	26,167,500
Trade and other payables	8,787,946	8,787,946	8,787,946	-	-
Borrowings	10,405,504	11,029,834	11,029,834	-	-
	<b>41,693,450</b>	<b>50,479,030</b>	<b>20,716,530</b>	<b>3,595,000</b>	<b>26,167,500</b>

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 21. Financial risk management (Contd.)

##### 21.4 Liquidity risk (Contd.)

##### 21.4.2 Exposure to liquidity risk (Contd.)

	Contractual Cash Flows				
	Carrying amount €	Total €	Less than 12 months €	From 1 – 5 years €	More than 5 years €
<b>31 December 2019</b>					
<b>Non-derivative financial liabilities</b>					
Bond payable	22,500,000	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	-	-
	62,691,143	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.

Interest on loans to the subsidiary amounting to €1 million was paid by the 29 March 2021 as per the prospectus dated 4 March 2019.

#### 21.5 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.

##### 21.5.1 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 payable. 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.

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:

**MERCURY TOWERS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020****21. Financial risk management (Contd.)****21.5 Market risk (Contd.)****21.5.2 Interest rate risk (Contd.)**

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>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Fixed-rate instruments</b>				
Bonds payable	(22,500,000)	(22,500,000)	-	-
Bank borrowings	(10,405,504)	(10,000,000)	(10,405,504)	(10,000,000)
Loans payable to subsidiary		-		(22,444,358)
Other borrowings	-	(565,951)	-	(565,951)
<b>Variable-rate instruments</b>				
Cash at bank	577,640	266,976	435,752	9,894

*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 €5,776 (2019: €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.

**21.5.3 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.

**21.5.4 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.

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 21. Financial risk management (Contd.)

##### 21.6 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 the accumulated capitalised interest at the component level amounting to €1,945,407, of which €1,120,829 represent interest for the year. 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.

#### 22. Related parties

##### 22.1 Ultimate controlling party

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

##### 22.2 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").

##### 22.3 Related party balances

Information on amounts due to/by related parties are set out in Notes 14, 17 and 20 to these financial statements.

##### 22.4 Related party transactions carried out by the Group during the year

	2020	2019
	€	€
<b>Turnover</b>		
Sale of shell apartments	-	80,000
<b>Net receivable/(payable) from/(to) related parties</b>		
- Funds forwarded to related parties	1,073,697	35,351,993
- Cost of construction – property	(5,456,821)	(7,273,787)
- Cost of construction - inventories	(1,546,411)	(2,623,151)
<b>Financing transactions</b>		
- Funds collected on behalf of related parties	(4,991,821)	(3,044,727)
Expenses paid on behalf of related parties	20,118	-

## MERCURY TOWERS LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 23. Commitments

**23.1** As at the year ended 31 December 2020, the Company accounted for costs amounting to €29,528,171 (2019: €23,518,857) on investment property and property (both under construction), and €8,922,115 (2019: €18,802,606) 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 €21.3 million (2019: €17.5 million) in relation to investment property and a further €9.1 million (2019: €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.

#### 24. 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 2020.

#### 25. COVID-19

The outbreak of the COVID-19 pandemic, 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 has assessed the effects of COVID-19 on the Company's and the Group's operations and notes that to date, the Group has continued to operate normally, even during the more challenging months of the pandemic. Although certain elements of construction were impacted, 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.

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 and project delays experienced so far, the Company will be able to operate through the prevalent market conditions.

#### 26. Subsequent events

The director has evaluated subsequent events since 31 December 2020 up to the date of approval of these financial statements and notes that the permit of the second phase of the project is now executable and financing to construct and complete this phase has been secured.

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE MEMBERS OF MERCURY TOWERS LTD.**

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

We have audited the individual financial statements of Mercury Towers Ltd. (the Company) and the consolidated financial statements of the Company and its subsidiary (together, the Group) set out on pages 8 to 44, which comprise the statement of financial position of the Company and the Group as at 31 December 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company and the Group for the period then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

#### *Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta).

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

The director is responsible for the other information. The other information comprises the director's report.

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.

With respect to the directors' report, we also considered whether the director's report includes the disclosures required by Article 177 of the Companies Act (Cap. 386).

Based on the work performed, in our opinion:

- the information given in the director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the director's report has been prepared in accordance with the Companies Act (Cap. 386).

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

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF MERCURY TOWERS LTD.

#### *Responsibilities of Management and Those Charged with Governance for the Company's Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements of the Company and the Group in accordance with IFRS as adopted by the EU, and for such internal control as management 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, management 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company and the Group 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 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 consolidated 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 management.
- Conclude on the appropriateness of management'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF MERCURY TOWERS LTD.

#### *Auditors' Responsibilities for the Audit of the Financial Statements (Contd.)*

- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

#### *Other Legal and Regulatory Requirements*

We also have responsibilities under the Companies Act, 1995 (Chapter 386, Laws of Malta), to report to you if, in our opinion:

- Adequate accounting records have not been kept;
- The financial statements are not in agreement with the accounting records;
- We have not received all the information and explanations we required for our audit;

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



This copy of the audit report has been signed by  
Donald Sant for and on behalf of

**Baker Tilly Malta**  
*Registered Auditors*

29 April 2021