COMPANY ANNOUNCEMENT

Melite Finance plc

Approval of audited consolidated financial statements, and update to the market

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Date of Announcement	30 June 2020
Reference	11/2020
In terms of Chapter 5 of the Listing Rules	

QUOTE

1. Approval of audited consolidated financial statements

During a meeting of the Board of Directors of Melite Finance p.l.c. (the "**Company**") held today the 30th June, 2020, the Board of Directors of the Company approved the Company's audited consolidated financial statements for the financial period ended 31st December, 2019 (the **"Financial Statements"**). The Financial Statements are attached herewith and are also available for viewing at the registered office of the Company and on its website at http://meliteproperties.com/melite-finance/financial-information/.

2. Impact of events after the reporting date

The emergence and spread of the COVID-19 pandemic has caused disruption to businesses and economic activity in northern Italy. The impact on the Company's subsidiary, Melite Properties srl ("**Melite Properties"**, and together with the Company, the "**Melite Finance Group"**) has been, and remains, significant, as explained in the Financial Statements (vide *Events after reporting date*). Melite Properties, which holds rights, as lessee or sub-lessee, over 25 immovable properties located predominantly in the north of Italy, is the Company's main debtor.

Melite Italia srl, which does not form part of the Melite Finance Group but is a sister company of Melite Finance plc and sub-lessee of 21 out of the 25 leases held by Melite Properties, has been adversely affected by the developments in recent months, to the extent that it has recently informed Melite Properties of the intention to enter into a restructuring of its business and debts in terms of a procedure available in terms of Italian law.

This development has triggered a doubt on the recoverability of the amounts due by Melite Italia srl to Melite Properties. Management is already in the process of seeking alternative tenants for a number of the properties over which Melite Properties holds property rights. In the interim, the continued and regular payment of rent to landlords is imperative to ensure that Melite Properties retains such property rights, the principal asset held by the business. Such asset is what ultimately constitutes the underlying value of the security created for the benefit of holders of the €9,250,000 secured bonds redeemable at par on 23 November 2028 and bearing interest at the rate of 4.85% per annum (the "**Bonds**"), through a share pledge granted over the Company's shares in Melite Properties in favour of Alter Domus Trustee (Services) Malta Limited (C 63887), appointed to act as security trustee for the benefit of Bondholders in terms of a security trust deed dated 7 November 2018.

In light of the aforesaid, the Company is currently working on a restructuring plan that is aimed at preserving the majority of the property rights held by Melite Properties, with a view to supporting the continued servicing and final redemption of the Bonds. The restructuring plan is based on the following four pillars:

(i) rescission of certain (nine out of 25) leases;

(ii) financing from shareholders of parent company Melite Retail Limited (C-74224) – a €1.1 million financing of the Melite Finance Group is to be structured as follows: €0.63 million will be injected in the form of a capital contribution into the Company repayable at the option of the Company after the redemption of the Bonds; and €0.47 million will be loaned to Melite Properties srl in the form an (ultimate) shareholder non-interest bearing loan, repayable within five years. The financing arrangements referred to herein are conditional on the approval of the entire restructuring plan by the Bondholders, as per (iv) below;

(iii) recourse to the Covid Guarantee Scheme offered by the Malta Development Bank – the Company is in advanced discussions with its bankers for the issuance of a €0.449 million loan for the purpose of funding the Bond interest payment due to Bondholders in November 2020; and

(iv) approval of the restructuring plan by Bondholders, including a proposal to reduce the Bond interest rate from 4.85% to 3.5% with effect from the interest payment due in November 2021. For the purpose of this fourth pillar, the Board of Directors of the Company expects to convene a meeting of Bondholders in terms of section 5.12 of the Securities Note forming part of the Prospectus dated 12th November 2018.

3. **Going concern statement pursuant to Listing Rule 5.62, and material uncertainty related to going concern**

After making enquiries and having taken into consideration the abovementioned events after the balance sheet date, and the restructuring plans of the Melite Finance Group, the Board of Directors of the Company have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and continue to consider the going concern assumption in the preparation of the Company's financial statements as appropriate as at the date hereof, being the date of authorisation for issue of the Financial Statements. The above conditions and a restructuring plan that will require Bondholder approval as aforesaid indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Company to continue as a going concern.

The Board of Directors of the Company draws attention to the Report on the audit of the Financial Statements, which provides, *inter alia*, that *"the ability of the* [Melite Finance] *Group to continue as a going concern is dependent on the successful implementation of its restructuring plan, that itself will be dependent on its approval by the bondholders. These conditions, along with other matters explained in note 25 to the financial statements, indicate the existence of a*

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material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter."

4. COVID-19 update

Further to the updates provided in company announcements published on 20th March, 2020 (MTE07) and 28th April, 2020 (MTE08), the Board of Directors of the Company hereby reports that it continues to closely monitor developments in Italy. Since the lifting, towards the end of May 2020, of measures such as the forced closure of retail stores across the country, stores have gradually re-opened. Melite Properties' management remains in constant contact with landlords with a view to safeguarding the company's property rights over the stores it plans on retaining, whilst also seeking third party tenants with a view to replacing Melite Italia srl as sub-lessee for such stores. With respect to the latter, management is already in negotiations with respect to a number of stores, and further updates on the progress of these negotiations shall be provided as and when appropriate.

5. Disclosure required in terms of Listing Rule 5.16.24

The Company notes that, in terms of Listing Rule 5.16.24, the Board of Directors has determined that the results for the period in the Annual Report and Audited Financial Statements for the financial period ended 31st December 2019 differed by more than ten percent (10%) from the previously published forecast financial information included in the prospectus dated 12 November 2018. As explained in the Review of Financial Performance included in the Directors' Report, this resulted from the negative impact of the early adoption of IFRS 16 as from date of incorporation amounting to €602,407 and a net impairment on the value of leasehold premia amounting to €517,226.

The above also applies with respect to the previously published: unaudited consolidated financial statements for the financial period between the Company's date of registration and the 31st December 2018 (ref. MTE02 published on 24th April 2019), in so far as the abovementioned impairment and impact of IFRS 16 are concerned; and the unaudited interim financial statements for the financial period 1st January 2019 to 30th June 2019 (ref. MTE05 published on 22nd August 2019), in so far as the abovementioned impairment is concerned.

UNQUOTE

By order of the Board of Directors of Melite Finance plc.

Malcolm Falzon
COMPANY SECRETARY

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MELITE FINANCE P.L.C.

Annual Report and Consolidated
Financial Statements
31 December 2019

Company Registration Number: C 88405

Directors' report

The directors present their report and the audited consolidated and parent company financial statements for the period ended 31 December 2019.

Principal activity

The Company, which forms part of the Melite Retail Group, was incorporated on 27 September 2018 in terms of the Maltese Companies Act (Cap. 386). The principal activity of the Company is to act as a finance company by advancing amounts on loan to its subsidiary Melite Properties S.r.l (Melite Properties). The subsidiary, which was also incorporated on 27 September 2018, holds investment property through its rights to properties which it leases out to related and non-related parties.

The principal activity of the Melite Retail Group is the creation, development, management, financial and controlling of international retail and franchise networks involving costume jewelry, cosmetics and related fashion accessories.

Review of the business

During the period from incorporation to 31 December 2019, the Group acquired rights to properties from a related party which were leased out to related parties and third parties. During the latter part of 2018, the Group also reached an agreement for the additional acquisition of retail outlets in the South of Italy, with a view to increase the market share and improve the Group's cost effectiveness.

By virtue of an offering memorandum dated 12 November 2018, Melite Finance p.l.c. issued €9,250,000 bonds with a face value of €100 each. The bonds have a coupon interest of 4.85% which is payable annually in arrears, on 23 November of each year. The bonds are redeemable at par and are due for redemption on 23 November 2028.

On 5 November 2018, a further 5,624,406 shares of €1 each were issued and allotted to the company's parent as consideration for an amount due by the Company to its parent.

Financial performance

Revenue for the Group generated from the rental operations for the period ended 31 December 2019 amounts to €4,693,812. Consolidated gross profit during this year amounted to €1,467,596 representing a gross profit margin of 31%.

The loss before tax incurred during the period ended 31 December 2019 amounts to €1,019,298, after taking into consideration also the negative impact of the early adoption of IFRS 16, Leases as from date of incorporation amounting to €602,407 and a net impairment on the value of leasehold premia of €517,226.

Directors' report - continued

Financial Position

The Group's total asset base stands at €28,583,124. The main non-current assets comprise right-of-use assets of €24,778,967. At 31 December 2019, the Group's current assets amounted to €2,502,001 and are mainly represented by trade and other receivables of €1,899,807 and cash of €602,194. The Group's non-current liabilities amounted to €21,292,128 which mainly consist of borrowings of €8,972,097 and lease liabilities of €12,320,031. The Group's current liabilities amounted to €2,369,188 which primarily consist of the current portion of the lease liability of €1,624,392, trade and other payables of €581,225 and current tax liabilities of €163,571.

Financial risk management and uncertainties

For principal risks and uncertainties, refer to Note 2, 'Financial Risk Management' that details the key risk factors including market risk, credit risk, liquidity risk and the Group's approach towards managing these risks.

Events after the reporting period

The occurrence of extraordinary events, such as natural disasters, and the outbreak of disease epidemics, have an adverse impact on the global economy, and may lead to a global recession. In early 2020, the existence of a new virus, now known as COVID-19, was confirmed, and since this time COVID-19 has spread across the world. COVID-19 has caused disruption to businesses and economic activity, and this has been significant to the Melite Finance Group. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event.

The Company's dependence on Melite Properties
The Melite Finance Group is largely dependent on the business and prospects of its subsidiary, Melite Properties. As set out in the Prospectus, the proceeds from the issue of the Bonds were loaned, in part (circa €5.9 million), by the Company to Melite Properties for the purposes of: settlement of debts due; and refurbishing and embellishing retail outlets located in leading locations in Italy over which, from time to time, it enjoys the rights attached to the lease of such immovable property, and/or for acquiring such rights over additional retail outlets for sub-leasing. The continued servicing of the Bonds is entirely dependent – and the redemption of the Bonds is in part dependent – on Melite Properties being able to fulfil its repayment obligations towards the Company in terms of the said loan.

The current situation
Melite Properties' principal operation consists of the leasing and sub-leasing of retail outlets located in Italy, and therefore the longer-term prospects of the Melite Finance Group are intrinsically linked to the development in the retail real estate market in Italy, particularly the market for prime locations on the primary high streets of the Italian peninsula and islands. The Melite Finance Group's commercial lease agreements typically relate to retail outlets located in the prime positions in high streets of cities such as Milan or Turin or in the main retail area of towns such as Pavia, Como and Treviso.

Further to the outbreak of COVID-19 in Italy, particularly in Northern Italy where most of the leases held by Melite Properties are situated, all retail outlets in Italy were shut with effect from 10 March 2020. Retail outlets were permitted to re-open as from 18 May 2020 but virtually all of Melite Properties' tenants have elected not to re-open for the major part of the period up to the date of signing of these financial statements, in common with many retail outlets across Italy. As one would expect, the period of forced closure has had a significant adverse effect on the operations of the tenants of Melite Properties. The current outlook for the retail segment is also rather bleak due to the devastating effect that COVID-19 has had on the Italian economy, and it is expected that demand will be very weak for several months, possibly up to mid to late 2021.

Directors' report - continued

Events after the reporting period - continued

Melite Italia S.r.l ("Melite Italia"), a sister company of Melite Finance p.l.c. that currently sub-leases 21 out of the 25 leases held by Melite Properties, has been adversely affected by the developments in recent months. Its situation was exacerbated by the fact that the company was already facing challenging conditions pre-COVID. The company has registered a marked reduction in turnover and margins in 2019 on a store by store basis, which primarily reflected difficulties being faced by its primary franchise *Accessorize*. Melite Italia was in the process of implementing a plan to restructure its operations and its shareholder (Melite Retail Limited) had agreed to inject the funding required to finance this turnaround plan. The onset of COVID-19 has precipitated matters and significantly affected the turnaround plan and its related funding requirement, which led the board of directors of Melite Italia to reconsider the viability of this operation. In this context, the board of directors of Melite Italia has elected to commence a process of voluntary administration. This process will include, *inter alia*, the termination of the 21 sub-lease agreements that it holds with Melite Properties. As at 31 December 2019, the Group had receivables from Melite Italia amounting to €1,398,695, arising from rent payable which was receivable three months in arrears in line with the rental agreements. The fact that Melite Italia has elected to commence a process of voluntary administration, has triggered a doubt on the recoverability of this balance, requiring an impairment provision post year end of €1 million.

Besides the Melite Italia stores, it is also expected that the sub-leases for another two stores will be rescinded and, as a result, only two out of the 25 leases held by Melite Properties will remain occupied by tenants. Melite Properties will therefore have to source new tenants to sub-lease the properties that will be vacated. This process is likely to require time, not least due to the complicated trading conditions in view of the adverse effect of COVID-19 on the retail sector in Italy. In the intervening period until Melite Properties sources new tenants for its properties, and in order to protect its assets, it will need to finance the payment of rent due to its landlords. The continued and regular payment of rent to landlords is imperative to ensure that Melite Properties does not have to forfeit the property rights that it holds. These property rights are the principal asset held by this business and represent the underlying assets secured through the share pledge granted in favour of the Security Trustee as security in favour of the holders of the Bonds (the "bondholders"). Without these property rights, the Melite Finance Group will have no assets to generate the funds required to service interest and eventually redeem the Bonds.

The restructuring plan

The directors of Melite Finance and Melite Properties are currently working on a restructuring plan that is aimed at preserving the majority of its property rights, which will in turn support the continued servicing and final redemption of the Bonds. The restructuring plan is based on the following pillars:

- i. Rescission of certain leases;
- ii. Financing from shareholders;
- iii. Application for the COVID Guarantee Scheme offered by the Malta Development Bank;
- iv. Approval of the restructuring plan by bondholders including terms and conditions of the Bond.

Rescission of certain leases

The restructuring plan envisages rescinding some of the existing leases held by Melite Properties in order to channel all available cash towards safeguarding what the Board of Directors of Melite Properties believe to be the more valuable leases that are essential to secure the fulfilment of its obligations towards the Company and, in turn, the Melite Finance Group's long term survival. The leases that will be rescinded relate to those stores (such as stores located within commercial centres) which, based on advice from real estate specialists, are expected to take longer to sub-lease. Melite Properties will also be terminating leases where there is a small margin between the pre-COVID-19 value of the property rights and the annual rent payable to landlords, given that in these cases the payment of rent to landlords while the store is vacant will substantially erode the key money value.

Directors' report - continued

Events after the reporting period - continued

Rescission of existing leases - continued
Based on these considerations, the Board of Directors of Melite Properties has identified a total of nine leases that will be rescinded. These leases have a combined pre-COVID-19 valuation of circa €3 million, with annual rent of €1 million payable to landlords. Although the rescission of these leases may, in terms of the relevant contracts, be subject to early termination penalties, the Board of Directors of Melite Properties, having sought legal advice from the company's Italian legal advisors, have been advised that it is unlikely that a claim for payment of such penalties would be upheld by a court of law, given the context in which the leases are being terminated.

Further to the rescission of these contracts, Melite Properties would be left with a total of 17 stores (the "Retained Stores"), with a combined pre-COVID-19 valuation of circa €9 million and annual rent of €1.6 million payable to landlords. Of these stores, two are already sub-leased to third party operators whereas management is in advanced discussions with a third party retail operator for the sub-lease of another two stores.

Financing from shareholders
Melite Finance is owned entirely by Melite Retail Limited (Melite Retail). The ultimate shareholders of Melite Retail are prepared to commit to finance an amount of up to €1.1million, which based on the current projections, are estimated to finance rental payments to the landlords of the Retained Stores in the intervening period until such time as Melite Properties sub-leases, to third party operators, those Retained Stores which are being vacated as aforesaid.

The €1.1million financing will be injected through two instruments as follows:

- €0.63 million will be in the form of a capital contribution into Melite Finance that will be repayable at the option of the Company after the redemption of the Bonds; and
- €0.47 million will be in the form of a shareholder loan at the level of Melite Properties that will not bear any interest and will be repayable through a bullet repayment due after five years.

Application for the COVID Guarantee Scheme offered by the Malta Development Bank
The criteria for the COVID Guarantee Scheme (CGS) offered by the Malta Development Bank have recently been extended to cover the payment of bond issue costs by listed entities. The directors of Melite Finance are in advanced discussions with its bankers, who have indicated that they are minded to agree subject to certain conditions, to obtain a loan under this scheme amounting to €449,000, which would cover the payment of the bond interest payment due in November 2020.

Approval of the restructuring plan by bondholders including terms and conditions of the Bond.
The restructuring plan will be presented to the bondholders for their approval shortly, which approval will also seek a reduction in the Bond coupon rate from 4.85% to 3.5% (which will become effective after the payment of the coupon in November 2020).

The directors will continue to monitor the situation closely to ensure that adequate capital levels and liquid resources are maintained such that the Company would be able to face a pessimistic scenario in terms of activity levels and financial results registered.

Also based on the analysis referred to above, the directors continue to consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of the 2019 financial statements. However, the above conditions and a restructuring plan that will require bondholder approval indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern.

Directors' report - continued

Results and dividends

The income statements and the statements of comprehensive income are set out on page 30. The directors do not recommend the payment of a dividend for the current year.

Principal risks and uncertainties faced by the Company

The Company's main objective, as a finance company for the Melite Group, is to effectively and efficiently manage the financing requirements of the Group's working capital. In this context, the Company's trading prospects are dependent on the performance of the company within the Group to which amounts have been advanced by the Company by way of loan.

The Group's business activities are all concentrated in and aimed at the Italian market. Accordingly, the Group is highly susceptible to the negative economic trends that may from time to time be felt in Italy.

Within this context, the directors have evaluated the risks faced by the companies to which funds have been advanced, and continue to monitor closely the impact of events as they take place in the local and global economy and how these impact the ability of the companies within the Group to honour their financial commitments.

Directors

The directors of the company who held office during the period were:

Paul Mercieca - Chairman
Jacqueline Briffa
Alan Frendo Jones
Andrew Ganado
Christian Ganado
Stanley Portelli

In accordance with the Articles of Association, the directors of the Company are not required to retire by rotation.

Statement of directors' responsibilities

The directors are required by the Maltese Companies Act (Cap. 386) to prepare consolidated financial statements which give a true and fair view of the state of affairs of the Group as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report - continued

Disclosure in terms of the Listing Rules

Going concern statement pursuant to Listing Rule 5.62

After making enquiries and having taken into consideration the events after the balance sheet date, and the restructuring plans of the Group (note 1.1.1), the directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The directors continue to consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of the 2019 financial statements. The above conditions and a restructuring plan that will require bondholder approval indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Company to continue as a going concern.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Statement by the Directors on the Financial Statements and Other Information included in the Annual Report

The directors declare that to the best of their knowledge, the consolidated financial statements included in the Annual Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and that this report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

Paul Mercieca
Chairman

Stanley Portelli
Director

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Malta

30 June 2020

Corporate Governance – Statement of Compliance

Introduction

The Listing Rules issued by the Listing Authority require companies listed on the Official List of the Malta Stock Exchange to endeavour to adopt and observe The Code of Principles of Good Corporate Governance contained in Appendix 5.1 to Chapter 5 of the Listing Rules (the “Code”).

Although the Code sets out (non-mandatory) recommended principles of good practice, the Board of Directors of the Company (the “Board” or the “Directors”) consider that such practices are generally in the best interests of the Company, its shareholders and other stakeholders, and that compliance with the Code evidences the Company’s and the directors’ commitment to high standards of good corporate governance.

This Corporate Governance Statement (the “Statement”) sets out the organisational structures, controls practices and processes in place within the Company and explains how these effectively achieve the goals set out in the Code. For this purpose, the Statement will make reference to the pertinent provisions and principles of the Code and set out the manner in which the directors believe these have been adhered to. Where the Company has not complied with any of the principles of the Code, this Statement provides an explanation for such non-compliance. Reference in this Statement to compliance with the principles of the Code means compliance with the Code’s main principles and provisions.

The Board has carried out a review of the Company’s compliance with the Code during the period under review and is hereby reporting on the extent of its adoption of the provisions and principles of the Code for the financial period being reported, as required in terms of Listing Rule 5.97.

Compliance

The Company has adopted a corporate decision-making and supervisory structure that is tailored to suit its requirements and designed to ensure the existence of adequate controls and procedures within the Company, whilst retaining an element of flexibility essential to allow the Company to react promptly and efficiently to circumstances arising in respect of its business, taking into account its size and the economic conditions in which it operates.

The directors are of the view that it has employed structures which are most suitable and complementary for the size, nature, operations and level of complexity of the Company. Accordingly, in general the directors believe that the Company has adopted appropriate structures to achieve an adequate level of good corporate governance, together with an adequate system of control in line with the Company’s requirements.

The Company has no employees of its own and its principal purpose is to act as a financing vehicle for the Melite Finance Group, consisting of the Company and its wholly owned subsidiary, Melite Properties S.r.l. As a result, the directors deem some of the principles and provisions of the Code to be disproportionate or inapplicable to the Company, as explained further below.

Corporate Governance – Statement of Compliance - continued

Principle 1: The Board

The directors believe that for the period under review, the Company has generally complied with the requirements of this principle and the relative Code provisions.

The Board is composed of members who are fit and proper to direct and manage the business of the Company with honesty, competence and integrity. All the members of the Board are fully aware of, and conversant with, the statutory and regulatory requirements connected to the business of the Company and its status as a listed company and the Board is cognisant of its accountability for its own performance and that of its delegates. The Board of Directors is primarily responsible for:

- devising the corporate and business strategy of the Company;
- setting and reviewing internal policies, procedures and controls of the Company;
- the overall management and supervision of the Company;
- reviewing and evaluating internal control procedures, financial performance and business risks and opportunities facing the Company.

Throughout the period under review, the Executive director and the Financial Controller reported to the Board, at regular intervals or when the need arises.

The Executive director is responsible for the overall day-to-day management of Melite Properties, being the main trading and operating arm of the Melite Finance Group, leading its senior management team and acting as a channel of communication between the Board, senior management and other individuals within the Melite Finance Group, ensuring an effective contribution to the decision-making process.

The Financial Controller leads the finance function of the Company and plays a central role in the preparation of the Company's consolidated financial statements, the appraisal of investment opportunities, as well as the monitoring of the operational performance of the Company's business, cash flow and capital requirements. The Financial Controller is also generally responsible for ensuring that the Company complies with its statutory financial and fiscal reporting obligations.

The Board has delegated specific responsibilities to the Audit Committee, under formal terms of reference approved by the Board. Further detail in relation to the Audit Committee may be found in the sections headed 'Principles 4 and 5' of this Statement hereunder.

Principle 2: Chairman and Chief Executive Officer

Given that the Company acts as the financing arm of the Melite Finance Group and does not carry out other operations of its own, the Company has not appointed a Chief Executive Officer. Nevertheless, it has appointed a separate Chairperson, whose role is to lead the Board. During the period under review, Mr Paul Mercieca (an independent non-executive director of the Company) occupied the post of Chairperson.

At the same time, the senior management team of Melite Properties, the latter being the operating and trading company of the Melite Finance Group, was headed by a General Manager during the period under review. The General Manager was responsible for the day-to-day management of Melite Properties, thereby ensuring effective checks and balances on the exercise of its management and conduct of affairs. Mr Nicola Mangini occupied the role of General Manager during the period under review. Such role was subsequently subsumed into the role of executive director occupied by Mr Andrew Ganado, the sole executive director of the Company, with effect from 24th May 2020, following the resignation of Mr Mangini.

Corporate Governance – Statement of Compliance - continued

Principle 2: Chairman and Chief Executive Officer - continued

The Chairman is responsible for:

- leading the Board and setting its agenda;
- ensuring that the Board is in receipt of precise, timely and objective information to enable the Board to take sound and commercially reasonable decisions and effectively monitor the performance of the Company;
- encouraging and supporting active engagement by all directors for discussion of complex and contentious issues and ensuring that all directors are afforded ample opportunity to contribute to the issues on the agenda and present their views; and
- ensuring effective communication and relationship management with the Company's shareholders.

Principle 3: Composition of the Board

In terms of the Articles of Association of the Company, the board of directors of the Company shall consist of a minimum of six (6) directors and a maximum of ten (10) directors.

Directors are appointed during the Company's Annual General Meeting for periods of one year until the next annual general meeting, at which they may stand again for re-election. The Articles of Association of the Company clearly set out the procedures to be followed in the appointment of directors, the salient aspects of which are summarised hereunder:

- Any member or members who in the aggregate hold not less than two hundred thousand (200,000) shares having voting rights in the Company are entitled to nominate fit and proper persons for appointment as directors of the Company;
- In the event that there are either less nominations than there are vacancies on the Board, of if there are as many nominations as there are vacancies on the Board, then each nominated person shall be automatically appointed a director;
- In the event that there are more nominations than vacancies on the Board, then an election shall take place in accordance with the procedure laid down in the Articles of Association of the Company.

The Board is comprised of one (1) executive director and five (5) non-executive directors, all of whom were appointed upon incorporation of the Company. As at the date of this Statement, the directors of the Company are:

Director	*Capacity*	*Date of Appointment*
Paul Mercieca	Independent Non-Executive (Chairperson)	27th September 2018
Stanley Portelli	Independent Non-Executive	27th September 2018
Jacqueline Briffa	Non-Executive Director	27th September 2018
Alan Frendo Jones	Non-Executive Director	27th September 2018
Christian Ganado	Non-Executive Director	27th September 2018
Andrew Ganado	Executive Director	27th September 2018

For the purpose of Code Provision 3.2, two of the directors are considered by the Board to be independent within the meaning of the Listing Rules, such independent directors being Mr. Paul Mercieca and Dr. Stanley Portelli.

Corporate Governance – Statement of Compliance - continued

Principle 3: Composition of the Board - continued

The non-executive directors contribute to the strategic development of the Company and the creation of long-term growth of the Company and are responsible for:
- constructively challenging and developing strategy;
- monitoring reporting of performance;
- scrutinising performance of management; and
- ensuring the integrity of financial information, financial controls and risk management systems.

Save as disclosed above, none of the non-executive directors of the Company:

(a) are or have been employed in any capacity by the Company;
(b) receive significant additional remuneration from the Company;
(c) have close family ties with any of the executive members of the Board;
(d) have been within the last three years an engagement partner or a member of the audit team of the present or past external auditor of the Company; and
(e) have a significant business relationship with the Company.

In terms of Code Provision 3.4, each non-executive director has declared in writing to the Board that he/she undertakes:

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

Principles 4 and 5: The Responsibilities of the Board and Board Meetings

The Board of Directors is entrusted with the overall direction, administration and management of the Company and meets on a regular basis to discuss and take decisions on matters concerning the strategy, operational performance and financial performance of the Company.

In fulfilling its mandate, the Board assumes responsibility, to the extent applicable and possible to:

a) establish appropriate corporate governance standards;
b) review, evaluate and approve, on a regular basis, long-term plans for the Company;
c) review, evaluate and approve the Company’s budgets and forecasts;
d) review, evaluate and approve major resource allocations and capital investments;
e) review the financial and operating results of the Company;
f) ensure appropriate policies and procedures are in place to manage risks and internal control;
g) review, evaluate and approve the overall corporate organisation structure, the assignment of management responsibilities and plans for senior management development including succession;
h) review, evaluate and approve compensation to senior management;
(j) ensure effective communication with shareholders, stakeholders and the market.

In fulfilling its responsibilities, the Board continuously assesses and monitors the Company’s present and future operations, opportunities, threats, and risks in the external environment, and its current and future strengths and weaknesses in its internal environment.

The Board delegates certain specific responsibilities to the Audit Committee.

Corporate Governance – Statement of Compliance - continued

Principles 4 and 5: The Responsibilities of the Board and Board Meetings - continued

The Board believes that it has systems in place to fully comply with Principle 5 and the relative Code Provisions, in that it adopts a system designed to ensure reasonable notice of meetings of the Board and to ensure that the directors receive, where required, the relevant material for discussion in advance of meetings so as to provide adequate time for directors to adequately and suitably prepare themselves and enable them to make an informed decision during meetings of the Board.

The directors are assisted by the company secretary, who is consulted to ensure compliance with statutory requirements and with continuing listing obligations. The company secretary keeps minutes of all meetings of the Board and of its committees, which minutes are subsequently circulated to the Board as soon as practicable after the meeting.

The company secretary also maintains detailed records of all dealings - by directors of the Company and directors of its subsidiary and, senior management - in the Company's bonds, and assists the Board and senior management in being duly informed of and conversant with their obligations emanating from the Market Abuse Regulation (EU Regulation 596/2014) and ensuring compliance therewith, and prevention and detection of insider dealing, unlawful disclosure of inside information and, or market abuse. In particular, cognisant of the material consequences of non-compliance with MAR and the effects thereof on investor confidence and market integrity, the Board has in place written policies and procedures relating to the keeping of insiders' lists, dealing in bonds of the Company, and procedures for persons in possession of inside information.

The directors have access to independent professional advice on any aspect of their duties and responsibilities, or the business and activities of the Company, at the Company's expense should they so require.

The Board met formally eleven (11) times during the period under review. The number of board meetings attended by the individual directors for the period ended 31 December 2019 is as follows:

Name	Capacity	Meetings attended while in office
Paul Mercieca	Independent Non-Executive (Chairperson)	11/11
Stanley Portelli	Independent Non-Executive	11/11
Jacqueline Briffa	Non-Executive Director	11/11
Alan Frendo Jones	Non-Executive Director	11/11
Christian Ganado	Non-Executive Director	6/11
Andrew Ganado	Executive Director	11/11

Principle 6: Information and Professional Development

On joining the Board, Board members underwent an introductory induction programme, whereby the company secretary informed the incoming members of their statutory duties and obligations, the requirements and implications of relevant legislation, as well as their rights, duties, and obligations under the Company's Articles of Association and internal policies and procedures.

On a regular basis, the directors also receive periodic information on the Group's financial performance and position.

Corporate Governance – Statement of Compliance - continued

Principle 7: Evaluation of the Board's Performance

The Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the Board's performance is evaluated on an ongoing basis by, and is subject to the constant scrutiny of, the Board itself, the Company's shareholders, the market and the rules by which the Company is regulated as a listed company.

Principle 8: Committees

The directors believe that, due to the Company's size and operations, it is not necessary to establish committees regarding remuneration, board evaluation and nominations as suggested by the Code and the directors have formulated the view that these functions can efficiently and effectively be undertaken by the Board itself.

In view of the above, the Board undertakes an annual review of the remuneration structure applicable to directors (specifically the independent non-executive directors), and carries out a self-evaluation of the performance of the Board, as and when considered necessary. The aggregate remuneration that may be paid to the Company directors is subject to the approval of the shareholders at the annual general meeting of the Company.

Audit Committee

In preparation of the listing of its securities on the regulated market, the Board established an Audit Committee (the "Committee"), and has formally set out Terms of Reference governing the scope of its composition, role, functions, powers, duties and responsibilities, as well as the procedures and processes to be complied with in its activities.

The principal purpose of the Committee is to protect the interest of the Company and the Company's shareholders and bondholders, and to assist the directors in conducting their role effectively vis-à-vis its responsibilities over the financial reporting processes, financial policies and internal controls structures. The Audit Committee oversees the conduct of the external audit and acts to facilitate communication between the Board, management and the external auditors. The external auditors are invited to attend the Audit Committee meetings. The Audit Committee reports directly to the Board.

The Audit Committee is expected to deal with and advise the Board on issues of financial risk, control and compliance, and associated assurance of the Company, including:

i. ensuring that the Company adopts, maintains and, at all times, applies appropriate accounting and financial reporting processes and procedures;
ii. monitoring of the audit of the Company's annual accounts;
iii. facilitating the independence of the external audit process and addressing issues arising from the audit process, as applicable;
iv. reviewing of the systems and procedures of internal control implemented by management and of the financial statements, disclosures and adequacy of financial reporting;
v. making recommendations to the Board in relation to the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors, following the relative appointment by the shareholders in the annual general meeting;
vi. monitoring and reviewing of the external auditors' independence and, in particular, the provision of additional services to the Company;
vii. considering and evaluating the arm's length nature of related party transactions that the Company carries out to ensure that the execution of any such transactions are, indeed, at arm's length and on a sound commercial basis and ultimately in the best interests of the Company;
viii. ensuring that the Company, at all times, maintains effective financial risk management and internal financial and auditing control systems, including compliance functions;

Corporate Governance – Statement of Compliance - continued

Principle 8: Committees - continued

Audit Committee - continued

ix. assessing any potential conflicts of interests between the duties of directors and their respective private interests, or their duties and interests unrelated to the Company.

Additionally, it is responsible for monitoring the performance of the entity borrowing funds from the Company, to ensure that budgets are achieved and if not that corrective action is taken as necessary.

With reference to the Audit Committee's role and function of evaluating any proposed transaction to be entered into by the Company and a related party, it should be noted that the Audit Committee has a crucial role in monitoring the activities and conduct of the business of Melite Properties S.r.l, in so far as these may affect the ability of the Company to fulfil its obligations in terms of the €9,250,000 secured bonds of a nominal value of €100 per bond redeemable at their nominal value on 23 November 2028 bearing interest at the rate of 4.85% per annum and having ISIN MT0002031202 (the "Bonds"). Such role is specified in the Audit Committee's Terms of Reference and also forms the subject of a contractual undertaking by the Company in favour of Melite Properties S.r.l (in the loan agreement regulating the transfer of part of the Bond Issue proceeds by the Company to Melite Properties S.r.l), pursuant to which Melite Properties S.r.l has vested the Audit Committee of the Company with certain monitoring functions in light of the Company's dependence on Melite Properties S.r.l.

The Audit Committee is made up entirely of non-executive directors, the majority of whom are independent of the Company. Audit Committee members are appointed for a period of three years, unless terminated earlier by the Board. During the period under review, the Audit Committee was composed of Paul Mercieca (independent non-executive director and Audit Committee member, Chairperson of the Board and Chairperson of the Audit Committee), Stanley Portelli (independent non-executive director and Audit Committee member) and Jacqueline Briffa (non-executive director and Audit Committee member).

The Chairperson of the Audit Committee, appointed by the Board, is entrusted with reporting to the Board on the workings and findings of the Audit Committee. Mr Paul Mercieca occupied the post of Chairperson of the Audit Committee during the period under review.

Paul Mercieca and Jacqueline Briffa are considered by the Board to be competent in accounting and/or auditing in terms of the Listing Rules, based on their respective extensive experience occupying financial management and auditing roles within various private and public entities, as well as their respective skills and competencies in financial reporting, financial management, financial auditing and general financial advisory.

The Committee met five (5) times during the period ended 31 December 2019. The meetings were attended by all its members. In 2020, the Audit Committee is scheduled to meet more frequently than the statutory minimum of four times.

Remuneration Statement

In terms of Rule 8A.4 of the Code, the Company is to include a remuneration statement in its annual report which shall include details of the remuneration policy of the Company and the financial packages of the Board of Directors.

In terms of Article 63 of the Articles of Association of the Company, it is the shareholders of the Company in the General Meeting who determine the maximum annual aggregate remuneration payable to the directors. The aggregate amount approved for this purpose during the last Annual General Meeting was €20,000 plus VAT.

Corporate Governance – Statement of Compliance - continued

Remuneration Statement - continued

None of the directors of the Company is employed the Company. The directors are party to service contracts with the Company.

No part of the remuneration paid to the directors is performance-based, and the executive director received no additional remuneration from the Company for occupying such role. None of the directors, in their capacity as a director of the Company, is entitled to profit sharing, share options or pension benefits.

The independent non-executive directors received €20,000 plus VAT in aggregate for services rendered during the period ended 31 December 2019.

Principle 10: Relations with shareholders (and bondholders) and the market

The Company is committed to ensuring an open channel of communication with its shareholders, bondholders and the wider market. The publication of interim and annual financial statements, together with ongoing company announcements keep the market informed of developments relating to the Company and, in the case of bondholders, of developments pertinent to their investment in the Bonds. The Board feels that such communication provides the market with adequate information about its activities. In addition, the Company's website (http://meliteproperties.com/melite-finance/) acts a central source of information about the Company, its business, and developments relating thereto.

Principle 11: Conflicts of Interest

The directors are fully aware of their responsibility to always act in the best interests of the Company and its shareholders irrespective of whoever appointed or elected them to serve on the Board.

On joining the Board and regularly thereafter, directors and officers of the Company are informed and reminded of their obligations on dealing in securities of the Company within the parameters of law and Listing Rules. The Company has also established an internal code of dealing and reporting procedures.

It is the practice of the Board that when a potential conflict of interest arises in connection with any transaction or other matter, the potential conflict of interest is declared, so that steps may be taken to ensure that such items are appropriately addressed. By virtue of the Memorandum and Articles of Association, the directors are obliged to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with that of the Company. The Board member concerned shall not take part in the assessment by the Board as to whether a conflict of interest exists. A director shall not vote in respect of any contract, arrangement, transaction or proposal in which he/she has a material interest in accordance with the Memorandum and Articles of Association of the Company. The Board believes that this is a procedure that achieves compliance with both the letter and rationale of Principle Eleven of the Code.

Any material transactions with related parties, which pose intrinsic potential conflicts of interests, require the approval of the Audit Committee, which is charged with ensuring that such transactions are necessary for the conduct of the Company's business and are transacted on an arm's length basis.

Corporate Governance – Statement of Compliance - continued

Principle 11: Conflicts of Interest - continued

Save as stated below, the directors are not aware of any potential conflicts of interest which could relate to their roles within the Company:

- During the year under review, Andrew Ganado and Christian Ganado were officers of Melite Properties S.r.l and other related companies of which Melite Retail Limited is the parent (the **"**Melite Retail Group"), while Jacqueline Briffa and Alan Frendo Jones occupied the post of directors of Melite Properties S.r.l. For this reason, these directors are susceptible to conflicts between the potentially diverging interests of the different members of the Melite Finance Group and the Melite Retail Group, respectively. Furthermore, Gordon Schembri and Nicola Mangini were members of the management teams of both the Melite Finance Group and of the Melite Retail Group, which may give rise to possible conflicts of interests between the interests of the two groups;
- Melite Italia S.r.l, a company forming part of the Melite Retail Group, leases a substantial number of immovable properties over which Melite Properties S.r.l enjoys certain rights. This commercial relationship may therefore give rise to potential conflicts of interests should the interests of the two companies in relation to such lease agreements not be aligned;
- Furthermore, both Jacqueline Briffa and Alan Frendo Jones are officers of Alf Mizzi & Sons Ltd (C 203) and MMGH Ltd (C 343) respectively, and each of Andrew Ganado and Christian Ganado are officers and shareholders of Lidsdale (OC-636). Each of these companies are shareholders of Melite Retail Limited (C 74224), the parent company of the Melite Group. Potential conflicts may therefore arise between the interests of the Company and the Melite Finance Group on the one hand, and those of the shareholders of Melite Retail Limited on the other;
- In view of the lender-borrower relationship which exists between the Company and Melite Properties S.r.l, there may be situations which could give rise to conflicts between the potentially diverging interests of both companies. In these situations, the directors shall act in accordance with the majority decision of those directors who would not have a conflict in the situation and in line with the advice of outside legal counsel.

Principle 12: Corporate Social Responsibility

The directors seek to promote the adherance by management to accepted principles of corporate social responsibility in its management of the Melite Finance Group.

Non-compliance with the Code

The directors believe that good corporate governance is a function of a mix of checks and balances that best suit the Company and its business. Accordingly, whilst there are best practices that can be of general application, the structures that may be required within the context of larger companies are not necessarily and objectively the structures for companies whose size and/or business dictate otherwise. It is in this context that the directors have adopted a corporate governance framework within the Company that is designed to better suit the Company, its business, scale, and complexity, whilst ensuring proper checks and balances.

Taking the above into account and considering that the Code is not mandatory and that the provisions thereof may be departed from provided that reasonable and justifiable circumstances exist and are adequately explained, the directors set out below the Code Provisions with which the Company does not comply and what are, in its view, a reasonable and justifiable basis for such departure from the recommendations set out in the Code relating to the composition of the Board.

Corporate Governance – Statement of Compliance - continued

Non-compliance with the Code - continued

Principle 4: Succession Policy for the Board (Code provision 4.2.7)	Although the General Manager is responsible for the recruitment and appointment of senior management, the Company has not established a formal succession plan.
Principle 7: Evaluation of the Board's Performance (Code provision 7.1)	The Board has not appointed a committee for the purpose of undertaking an evaluation of the Board's performance in accordance with the requirements of Code Provision 7.1.
Principle 7: Evaluation of the Board's Performance (Code provision 7.1)	The Board believes that the size of the Company and the Board itself does not warrant the establishment of a committee specifically for the purpose of carrying out a performance evaluation of its role. Whilst the requirement under Code Provision 7.1 might be useful in the context of larger companies having a more complex set-up and a larger Board, the size of the Company's Board is such that it should enable it to evaluate its own performance without the requirement of setting up an *ad-hoc* committee for this purpose. The Board shall retain this matter under review over the coming year.
Principle 8A: Remuneration Committee (Code provision 8.A.1) and Nominations Committee (Code provision 8.B.1)	The Board has not established a Remuneration and/or Nominations Committee. The Board has formulated the view that the size, structure and management of the Company are such that the establishment of an *ad hoc* Remuneration Committee is not warranted, and the responsibility for the establishment, review and implementation of the Company's remuneration policies has been retained within the remit of the Board itself. In particular, the Board notes that the current remuneration policy of the Company comprises purely fixed-rate remuneration, with no entitlement to any performance-based remuneration, or any entitlement to share options, retirement pension benefits or other benefits. Furthermore, the Board believes that the formal and transparent procedure for the nomination and appointment of directors contained in the Articles of Association is commensurate to the size and operations of the Company, and does not consider the requirement to establish an *ad hoc* Nominations Committee to be necessary for the Company.
Principle 9: Relations with shareholders and the market (Code provision 9.3)	There are no formal procedures in place within the Company for the resolution of conflicts between minority and controlling shareholders, nor do the Memorandum and Articles of Association of the Company contemplate any mechanism for arbitration in these instances.

Corporate Governance – Statement of Compliance - continued

Non-compliance with the Code - continued

Principle 9: Relations with shareholders and the market (Code provision 9.4)	The Company does not have a formal policy in place to allow minority shareholders to present an issue to the Board. In practice, however, the open channel of communication between the Company and minority shareholders via the office of the company secretary and the Chairman is such that any issue that may merit bringing to the attention of the Board may be transmitted via the company secretary or the Chairman, who is in attendance at all meetings of the Board of Directors.

Internal Controls

The key features of the Company's systems of internal controls are as follows:

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to achieve business objectives and to manage rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material error, losses or fraud.

Authority to manage the Company's subsidiary is delegated to the executive director within the limits set by the Board of Directors and the directors of Melite Properties S.r.l. The executive director is responsible to control, report, monitor and assess risks and their financial implications, and report same to the said boards, and to take timely corrective actions where necessary.

The Board also approves, after review and recommendation by the Audit Committee, the transfer of funds and other amounts payable to companies within the same group, and ensures that these are subject to terms and conditions which are on an arm's length basis.

Annual General Meeting

Annual General Meeting (AGM)

The AGM is the highest decision-making body of the Company.

All shareholders registered in the shareholders' register at the relevant registration record date, have the right to participate in the AGM and to vote thereat. A shareholder who cannot participate in at the AGM can be represented by proxy.

A general meeting is deemed to have been duly convened if at least twenty-one (21) days' notice is given in writing to all persons entitled to receive such notice, which must specify the place, the day and the hour of the meeting, and in case of special business, the general nature of that business, and shall be accompanied by a statement regarding the effect and scope of any proposed resolution in respect of such special business. The notice period may be reduced to fourteen (14) days if certain conditions are satisfied. The quorum of shareholders required is not less than 51% of the nominal value of the issued shares entitled to attend and vote at the meeting.

The agenda of the AGM will comprise of the ordinary business of the AGM, covering the presentation and approval of the Annual Report and Financial Statements, the declaration of dividends, election of directors and the approval of their remuneration, the appointment of the auditors and the authorisation of the directors to set the auditors' fees, together with any special business specified in the notice calling the AGM.

Corporate Governance – Statement of Compliance - continued

Extraordinary general meetings (EGMs)
The directors may convene an extraordinary general meeting whenever they think fit. In addition, any member/s of the Company holding at least ten per cent (10%) of the equity securities of the Company conferring a right to attend and vote at general meetings of the Company, may convene an extraordinary general meeting.

Signed on behalf of the Board of Directors on 30 June 2020 by:

Paul Mercieca
Director and Chairman of the Board of Directors

Stanley Portelli
Director

Independent auditor's report

To the Shareholders of Melite Finance p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- Melite Finance p.l.c.'s Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and the Parent Company's financial position as at 31 December 2019, and of the Group's and the Parent Company's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

Melite Finance p.l.c.'s financial statements, set out on pages 28 to 60, comprise:

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

Basis for opinion

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

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

Independence

We are independent of the Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Independent auditor's report - continued

To the Shareholders of Melite Finance p.l.c.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the parent company and its subsidiary are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

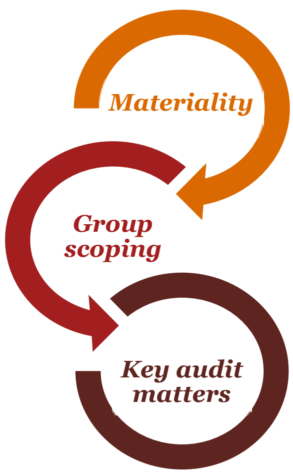
The non-audit services that we have provided to the company, in the period from 27 September 2018 to 31 December 2019, are disclosed in note 17 to the financial statements.

Material uncertainty related to going concern

We draw attention to note 1.1.1 to the financial statements which discusses the impact of COVID-19 on the Group's ability to continue as a going concern. The ability of the Group to continue as a going concern is dependent on the successful implementation of its restructuring plan, that itself will be dependent on its approval by the bondholders. These conditions, along with other matters explained in note 25 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



Overall group materiality: €149,000, which represents approximately 0.5% of total assets.

The audit carried out by the group engagement team covered the parent company and its subsidiary.

Fair valuation of right of use assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	€149,000
How we determined it	Approximately 0.5% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is an appropriate measure for this type of entity. We chose 0.5% which is within the range of materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €7,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matter described below to be the key audit matter to be communicated in our report:

Key audit matter	How our audit addressed the Key audit matter
Fair valuation of right of use assets	
The Group's right of use assets include property rights attached to the leasehold properties (Note 4). There is an active market for the transfer of property rights attached to leases of retail outlets located in Italy, whereby the current holders transfer their residual rights to the retail outlet to other parties for a consideration. The consideration paid typically reflects the differential between the current market rental rate for an outlet and the rental rate stipulated in the lease agreement with the landlord. The directors obtained an assessment of the current market value of the property rights attached to its lease agreements from a specialised real estate valuer based in Italy. These valuations were used as a basis for the initial transfer of the property rights from Melite Italia S.r.l to Melite Properties S.r.l. The valuations were carried out by reference to the current average rental value per sqm (valore locativo mq/anno) for each outlet, which reflects external market factors including the supply and demand for retail outlets in a particular location. In this respect, the valuers made reference to data derived from recent comparable market transactions that would have occurred in the same street where each property is located. For the purposes of the current period financial statements, the directors have requested the valuer to update the valuation for the same properties based on the market conditions as at 31 December 2019. The valuations are based on the same methodology assumed in the previous valuations used for the purposes of the initial transfer.	We agreed the property information in the valuation to the underlying property records held by the company. We understood the methodology underlying the valuations and confirmed, via discussion with the valuers, that the valuation approach adopted was suitable for the purpose of valuing these type of property rights. We compared the values as at 31 December 2019 to the valuations underlying the initial transfer of the property rights from Melite Italia S.r.l to Melite Properties S.r.l. We identified and followed up on the principal movements in relation to the original valuations. We held meetings with the directors and the audit committee on the period-end valuations and found that they were able to provide explanations and refer to appropriate supporting evidence. In addition, we evaluated the adequacy of the disclosures made in Note 4 of the financial statements, including those regarding the key assumptions.

Independent auditor's report - *continued*

To the Shareholders of Melite Finance p.l.c.

Key audit matter	How our audit addressed the Key audit matter
Fair valuation of right of use assets Valuations are performed annually using projected rental streams and the residual value of the property following lapse of the rental period, taking into consideration also the location of the property. As explained in Note 3 to the financial statements, the most significant judgements and estimates affecting the valuations include projected rental streams, the residual value of the property and the current market rate for the leasing of outlets in the location of the outlet being valued. The existence of significant estimates referred to previously could result in material misstatement, which is why we have given specific focus and attention to this area.	

We have no key audit matters to report with respect to our audit of the parent company financial statements.

How we tailored our group audit scope

The Group is composed of 2 components: Melite Finance p.l.c. (the parent company) and its wholly owned subsidiary. We tailored the scope of our audit in order to perform sufficient work on all components to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The group audit team performed all of this work by applying the overall Group materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Other information

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

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

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

Independent auditor's report - continued

To the Shareholders of Melite Finance p.l.c.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).
Based on the work we have performed, in our opinion:

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

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

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

Report on the statement of compliance with the Principles of Good Corporate Governance

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

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

Independent auditor's report *- continued*

To the Shareholders of Melite Finance p.l.c.

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

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

In our opinion, the Statement of Compliance set out on pages 7 to 18 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

Other matters on which we are required to report by exception

We also have responsibilities:

- under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:
    - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
    - The financial statements are not in agreement with the accounting records and returns.
    - We have not received all the information and explanations we require for our audit.

- under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

Appointment

We were first appointed as auditors of the Company by directors resolution on 22 August 2019 for the period ended 31 December 2019. The Company became listed on a regulated market on 12 November 2018.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

David Valenzia
Partner

30 June 2020

Statements of financial position

	Notes	As at December 2019 Group €	Company €
ASSETS			
Non-current assets			
Right-of-use assets	4	24,778,967	-
Property, plant and equipment	5	418,770	-
Investment in subsidiary	6	-	7,504,773
Equity instruments at fair value through other comprehensive income	7	670,065	-
Loans receivable	8	-	5,930,000
Deferred tax asset	12	213,321	-
Total non-current assets		26,081,123	13,434,773
Current assets			
Trade and other receivables	9	1,899,807	183,512
Cash and cash equivalents	10	602,194	210,488
Total current assets		2,502,001	394,000
Total assets		**28,583,124**	**13,828,773**

Statements of financial position - continued

	Notes	As at December 2019	
		Group €	Company €
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	5,874,406	5,874,406
Fair value reserve		82,826	-
Retained earnings		(1,035,424)	(1,113,197)
Total equity		4,921,808	4,761,209
Non-current liabilities			
Borrowings	13	8,972,097	8,972,097
Lease liabilities	14	12,320,031	-
Total non-current liabilities		21,292,128	8,972,097
Current liabilities			
Lease liabilities	14	1,624,392	-
Trade and other payables	15	581,225	87,897
Current tax liabilities		163,571	7,570
Total current liabilities		2,369,188	95,467
Total liabilities		23,661,316	9,067,564
Total equity and liabilities		**28,583,124**	**13,828,773**

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 27 to 60 were authorised for issue by the board on 30 June 2020 and were signed on its behalf by:

Paul Mercieca
Chairman

Stanley Portelli
Director

Income statements

		Period from 27 September 2018 to 31 December 2019	
	Notes	Group €	Company €
Revenue	16	4,693,812	-
Cost of sales	17	(3,226,216)	-
Gross profit		1,467,596	-
Administrative expenses	17	(426,384)	(183,765)
Impairment on leasehold premia, net of recovery	18	(517,226)	
Other income	9	-	315,000
Operating profit		523,986	131,235
Impairment of investment in subsidiary	6	-	(1,119,633)
Finance income	8	-	422,018
Finance costs	19	(1,543,284)	(522,668)
Loss before tax		(1,019,298)	(1,089,048)
Tax expense	21	(16,126)	(24,149)
Loss for the period		**(1,035,424)**	**(1,113,197)**
Attributable to:			
Owners of the company		**(1,035,424)**	**(1,113,197)**

Statements of comprehensive income

		Period from 27 September 2018 to 31 December 2019	
	Note	Group €	Company €
Loss for the period		(1,035,424)	(1,113,197)
Revaluation gain on equity instruments at fair value through other comprehensive income	7	82,826	-
Total comprehensive income		**(952,598)**	**(1,113,197)**
Attributable to:			
Owners of the company		**(952,598)**	**(1,113,197)**

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group

	Notes	Share capital €	Fair value reserve €	Retained earnings €	Total €
Balance at 27 September 2018		-	-	-	-
Comprehensive income:					
Loss for the period		-	-	(1,035,424)	(1,035,424)
Other comprehensive income:					
Revaluation gain on equity instruments at fair value through other comprehensive income	7	-	82,826	-	82,826
Total comprehensive income		-	82,826	(1,035,424)	(952,598)
Transactions with owners					
Issue of share capital	11	5,874,406	-	-	5,874,406
Balance at 31 December 2019		**5,874,406**	**82,826**	**(1,035,424)**	**4,921,808**

Company

	Note	Share capital €	Retained earnings €	Total €
Balance at 27 September 2018		-	-	-
Comprehensive income:				
Loss for the period – total comprehensive income		-	(1,113,197)	(1,113,197)
Transactions with owners				
Issue of share capital	11	5,874,406	-	5,874,406
Balance at 31 December 2019		**5,874,406**	**(1,113,197)**	**4,761,209**

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

Statements of cash flows

	Notes	Period from 27 September 2018 to 31 December 2019 Group €	Company €
Cash flows from operating activities			
Cash generated from operations	22	5,987,891	5,660,026
Finance costs		(485,282)	(486,012)
Finance income	8	-	422,018
Tax paid		(65,876)	(16,578)
Net cash generated from operating activities		5,436,733	5,579,454
Cash flows from investing activities			
Purchase of right of use assets		(10,307,020)	-
Purchase of property, plant and equipment	5	(592,683)	-
Acquisition of subsidiary	6	-	(8,624,406)
Loans to subsidiary	8	-	(5,930,000)
Purchase of equity instruments at fair value through other comprehensive income	7	(587,239)	-
Net cash used in investing activities		(11,486,942)	(14,554,406)
Cash flow from financing activities			
Proceeds from the issuance of ordinary shares	11	250,000	250,000
Proceeds from the issuance of bonds	13	9,250,000	9,250,000
Payments for bond issue costs	13	(314,560)	(314,560)
Principle elements of lease payments	14	(2,713,011)	-
Net cash generated from financing activities		6,472,429	9,185,440
Net movement in cash and cash equivalents		422,220	210,488
Cash and cash equivalents at beginning of period	10	-	-
Cash and cash equivalents at end of period	10	**422,220**	**210,488**

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act (Cap. 386). The financial statements have been prepared under the historical cost convention, as modified by the fair valuation of equity investments at fair value through other comprehensive income.

The Company was incorporated on 27 September 2018 in terms of the Maltese Companies Act (Cap. 386). Accordingly, the financial statements reflect the period from date of incorporation up to 31 December 2019. As this is the Group's and Company's first reporting period since incorporation, no comparative figures have been presented.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgment in the process of applying the Group's accounting policies (see Note 3 – Critical accounting estimates and judgments).

Standards, interpretations and amendments to published standards that are not yet effective but have been adopted early

The Group has early adopted IFRS 16, 'Leases' from the date of its incorporation. This is disclosed in note 1.18 to these financial statements.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Group's accounting periods beginning after 27 September 2018. Other than IFRS 16, the Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

1.1.1 Assessment of going concern assumption

The financial statements have been prepared with the assumption that the Group will continue to operate as a going concern. COVID-19 has caused disruption to businesses and economic activity, and this has been significant on the Melite Finance Group, and has resulted in certain conditions that indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern.

The ability of the Group to continue as a going concern is dependent on the successful implementation of its restructuring plan, that itself will be dependent on its approval by the bondholders (see Note 25 - Events after the reporting period).

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

1.1.1 Assessment of going concern assumption - continued

In assessing the appropriateness of the going concern assumption in the preparation of Melite Finance p.l.c.'s financial statements, the directors have taken into account the nature of planned actions, the plans actually realised to date and the likelihood of occurrence of those not yet realised. The ultimate shareholders have also given undertakings to the board of directors that they are committed to effecting further capital contributions during the financial year ending 31 December 2020 to support the company's business plan and related financing requirements, subject to bondholder approval. The Group is also in advanced discussions with its bankers to obtain a loan under the COVID Guarantee Scheme, thereby providing the financial support to ensure that the company meets its liabilities and honours its commitments on an ongoing basis. Based on the above considerations, it is the view of the Board of Directors that there is a reasonable expectation that Melite Finance p.l.c. is able to continue in business for a period of at least 12 months from the end of the reporting period. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

1.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations that fall within the scope of IFRS 3. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Upon consolidation, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

In the company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Cost includes directly attributable costs of the investment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.3 Segment reporting

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

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

1.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1. Summary of significant accounting policies - continued

1.5 Property, plant and equipment

Property, plant and equipment comprising furniture, fittings and fixtures is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

	%
Fixtures, furniture and fittings	12 - 15

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with carrying amount and are recognised within 'operating expenses' in the statement of comprehensive income.

1.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.7 Financial assets

1.7.1 Classification

The Group classifies its financial assets in the following measurement categories;
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.1 Classification - continued

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

1.7.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

1.7.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses).

  Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.

1. **Summary of significant accounting policies** - continued

1.7 Financial assets - continued

1.7.3 Measurement - continued

Debt instruments - continued

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments are recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

1.7.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

1.8 Trade and other receivables

Trade receivables comprise amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are presented as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit loss allowances (Note 1.7.3). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss. Impairment of financial assets is described in Note 1.7.4 above.

1.9 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.

1. Summary of significant accounting policies - continued

1.10 Share capital

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

1.11 Financial liabilities

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IFRS 9. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of the consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.12 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Issue costs incurred in connection with the issue of the bonds include professional fees, printing, listing, registration, underwriting, management fees, selling costs and other miscellaneous costs.

1.13 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1. Summary of significant accounting policies - continued

1.15 Provisions

Provisions for legal claims are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.16 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group’s activities as described below.

(a) Sales of services

Revenue from services is generally recognised in the period the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

(a) Rental income

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

1. Summary of significant accounting policies - continued

1.17 Revenue recognition - continued

(c) Interest income

Interest income is recognised for all interest-bearing instruments using the effective interest method.

1.18 Leases

The Group is the lessee

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

Leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

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

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

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, where there is no third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

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

1. Summary of significant accounting policies - continued

1.18 Leases - continued

The Group is the lessee - continued

Right of use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Initial direct costs include premia paid on leasehold property. Premium paid on leasehold property are shown at historical cost. Premium paid on outlets held under a *contratto di locazione* have an indefinite useful life. Therefore, such premia are not depreciated but are subject to an annual impairment test at the end of each financial year (Note 1.7). Premium paid on outlets held under a *contratto d'affitto di ramo d'azienda* are depreciated on a straight-line basis over the lease term of the leasehold property, net of any residual value.

Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right of use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. Periods after termination options are included in the lease term unless it is reasonably certain that the lease will be terminated.

For leases of properties, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate);
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The Group is the lessor

Assets leased out under operating leases are included in right of use assets in the statement of financial position and are accounted for as per above. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of the adoption of the new leasing standard.

1. Summary of significant accounting policies - continued

1.19 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment are capitalised as part of its cost. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially ready for their intended use or sale and is suspended if the development of the asset is suspended. All other borrowing costs are expensed.

Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the Group's interest-bearing borrowings.

1.20 Dividend distribution

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

2. Financial risk management

2.1 Financial risk factors

The Group's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group did not make use of derivative financial instruments to hedge its risk exposures during the current and preceding financial years.

The Board provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group is not exposed to foreign exchange risk because its principal assets and liabilities, are denominated in euro. The Group's interest income, interest expense and other operating expenses are also denominated in euro. Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

(ii) Price risk

The group is exposed to equity securities price risk because of investments held by the group amounting to €670,065 and classified in the statement of financial position as equity investments at fair value through other comprehensive income. The directors manage this risk by reviewing on a regular basis investment and market performance.

The sensitivity analysis for equity risk illustrates how changes in fair value of equity securities will fluctuate because of changes in market prices, whether these changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market. As at 31 December 2019, should the equity prices increase/decrease by 10%, with all other variables held constant, the impact on equity would be €67,007.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(iii) Cash flow and fair value interest rate risk

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its financing position and cash flows. As at the reporting date, the Company has fixed rate interest-bearing assets comprising of amounts loaned to subsidiary. Accordingly, its revenue and operating cash flows are substantially independent of changes in market interest rates.

As at the statement of financial position date, the Group's exposure to changes in interest rates on bank accounts held with financial institutions and on interest bearing liabilities was limited as the Group is predominantly subject to fixed interest rates.

Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

(b) Credit risk

Credit risk arises from loans receivable from subsidiary, cash and cash equivalents and credit exposures to customers, including outstanding receivables and committed transactions.

The maximum exposure to credit risk at the end of the reporting period in respect of the Group's financial assets is equivalent to their carrying amount, which is analysed as follows:

	At 31 December 2019	
	Group €	Company €
Financial assets at amortised cost:		
Loans receivable from fellow subsidiary (Note 8)	-	5,930,000
Trade and other receivables (Note 9)	1,717,576	177,556
Cash and cash equivalents (Note 10)	602,194	210,488
	2,319,770	**6,318,044**

The figures disclosed in the table above in respect of trade and other receivables exclude prepayments.

<u>Loan receivable and trade and other receivables</u>

The Company's loan receivable is due from subsidiary undertaking. The Company monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of its overall liquidity management.

The loss allowances for these financial assets are based on assumptions about risk of default and expected loss rates. The Company's management uses judgement in making these assumptions, based on the counterparty's past history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

As at year-end, based on the directors' assessments of these factors and the equity position of the respective counterparty, no impairment charge is considered necessary.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The directors consider both historical analysis and forward-looking information in determining any expected credit loss. Trade receivables were analysed to identify a history of default with its customers and expected payment trends and settlement periods. Management estimates any risk of default to be minimal and the impact would thus be immaterial.

Cash at bank

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was insignificant.

The following table provides information regarding the credit risk exposure with external credit ratings as at 31 December 2019:

	Group 2019 €	Company 2019 €
BBB+ to BBB-	397,896	6,190
Unrated	204,298	204,298
	602,194	**210,488**

(c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally the bonds issued to the general public, lease liabilities and other payables (refer to Notes 13, 14 and 15 respectively). Prudent liquidity risk management includes maintaining sufficient cash and liquid assets to ensure the availability of an adequate amount of funding to meet the Group's obligations.

The Group's liquidity risk is managed actively by ensuring that cash inflows arising from expected maturities of the Group's advances to related parties effected out of the bond issue proceeds, together with any related interest receivable, match the cash outflows in respect of the Group's bond borrowings, covering principal and interest payments, as referred to in Note 13 and reflected in the table below.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group	Carrying amount €	Contractual cash flows €	Within 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €
Borrowings	8,972,097	13,287,625	448,625	448,625	1,345,875	11,044,500
Lease liabilities	13,944,423	13,715,020	1,777,240	1,829,299	5,185,366	4,923,115
Trade payables	581,225	526,010	526,010	-	-	-
At 31 December 2019	**23,497,745**	**27,528,655**	**2,751,875**	**2,277,924**	**6,531,241**	**15,967,615**

Company	Carrying amount €	Contractual cash flows €	Within 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €
Borrowings	8,972,097	13,287,625	448,625	448,625	1,345,875	11,044,500
Trade payables	87,897	32,681	32,681	-	-	-
At 31 December 2019	**9,059,994**	**13,320,306**	**481,306**	**448,625**	**1,345,875**	**11,044,500**

Contractual cashflows for Trade payables exclude accrued interest which is included in the Borrowings' contractual cashflows.

2.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

2. Financial risk management - continued

2.2 Capital risk management - continued

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Structural borrowings include borrowings and lease liabilities, less cash and cash equivalents. The gearing ratios at 31 December 2019 were as follows:

	2019	
	Group	Company
	€	€
Total borrowings (Note 13)	8,972,097	8,972,097
Total lease liabilities (Note 14)	13,944,423	-
Less: Cash in hand and in bank (Note 10)	(602,194)	(210,488)
Net borrowings	22,314,326	8,761,609
Total equity	4,921,808	4,761,209
Total capital	**27,236,134**	**13,522,818**
Gearing	**81.9%**	**64.8%**

2.3 Fair values of financial instruments

At 31 December 2019 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

The fair values of the interest bearing loans receivable were not significantly different from their carrying amounts at the end of the reporting period based on discounted cash flows using market interest rates prevailing at 31 December 2019. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2 within the fair value measurement hierarchy required by IFRS 7, ' Financial instruments: Disclosures'. Information on the fair value of the Group's bonds issued to the general public is disclosed in Note 13 to the financial statements. The fair value estimate in this respect is deemed Level 1 as it constitutes a quoted price in an active market.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

2. Financial risk management - continued

2.3 Fair values of financial instruments - continued

The following table presents the Group's assets that are measured at fair value at 31 December 2019.

Group

	Level 1
	€
At 31 December 2019	
Available-for-sale financial investments:	
- Listed equity securities	670,065
Total financial assets at fair value	**670,065**

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price and has been obtained directly from the custodian. These instruments are included in level 1.

3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

3.1 Fair valuation of right of use assets

The Group's right of use assets include leasehold premia amounting to €11,433,007. These premia are fair valued on the basis of professional advice, given that such valuation requires the extensive use of judgement and estimates.

There is an active market for the transfer of property rights attached to leases of retail outlets located in Italy, whereby the current holders transfer their residual rights to the retail outlet to other parties for a consideration. The consideration paid typically reflects the differential between the current market rental rate for an outlet and the rental rate stipulated in the lease agreement with the landlord.

Valuations are performed annually using projected rental streams and the residual value of the property following lapse of the rental period, taking into consideration also the location of the property. The most significant judgements and estimates affecting the valuations include projected rental streams, the residual value of the property and the current market rate for the leasing of outlets in the location of the outlet being valued.

3. Critical accounting estimates and judgments - continued

3.1 Fair valuation of right of use assets - continued

The directors obtained an assessment of the current market value of the property rights attached to its lease agreements from a specialised real estate valuer based in Italy. These valuations were used as a basis for the initial transfer of the property rights from Melite Italia S.r.l to Melite Properties S.r.l. The valuations were carried out by reference to the current average rental value per sqm (valore locativo mq/anno) for each outlet, which reflects external market factors including the supply and demand for retail outlets in a particular location. In this respect, the valuers made reference to data derived from recent comparable market transactions that would have occurred in the same street where each property is located.

For the purposes of the current year financial statements, the directors have requested the valuer to update the valuation for the same property based on the market conditions as at 31 December 2019. The valuations are based on the same methodology assumed in the previous valuations used for the purposes of the initial transfer.

4. Right of use assets

Right of use assets recognised during the course of the current financial year relates to leasehold properties and premia paid on such properties.

Group	€
Year ended 31 December 2019	
Additions	28,420,952
Termination of leasehold agreement	(50,000)
Depreciation	(2,838,636)
Impairment on leasehold premia (note 18)	(760,046)
Depreciation released on termination of leasehold agreement	6,697
Net book amount	**24,778,967**
At 31 December 2019	
Cost	28,370,952
Accumulated depreciation	(2,831,939)
Provision for impairment on leasehold premia	(760,046)
Net book amount	**24,778,967**

The income statement shows the following amounts relating to leases:

	2019
	€
Depreciation charge of right of use assets	2,838,636
Interest expense (included in finance cost)	1,020,616
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)	212,095
	4,071,347

5. Property, plant and equipment

Group	Fixtures, furniture and fittings €	Total €
Year ended 31 December 2019		
Additions	592,683	592,683
Depreciation	(173,913)	(173,913)
Closing net book value	**418,770**	**418,770**
At 31 December 2019		
Cost	592,683	592,683
Accumulated depreciation	(173,913	(173,913)
Net book amount	**418,770**	**418,770**

6. Investment in subsidiary

Company	2019 €
Year ended 31 December	
Additions	8,624,406
Provision for impairment	(1,119,633)
Closing carrying amount	**7,504,773**
At 31 December	
Cost	8,624,406
Provision for impairment	(1,119,633)
Closing carrying amount	**7,504,773**

The subsidiary at 31 December 2019, whose results and financial position affected the figures of the Group, is shown below:

	Registered office	Class of shares held	Percentage of shares held 2019 %
Melite Properties S.r.l	Vittor Pisani 20, 20124, Milan, Italy	Ordinary shares	**100**

7. Equity investments at fair value through other comprehensive income

Group	€
Additions	587,239
Fair value movement	82,826
Closing net book amount	**670,065**

These financial assets are held as security on properties.

The Group's equity investments, as at 31 December 2019, consist of equity instruments in listed foreign companies, namely Banca Popolare di Milano, Anima Sforzesco and Anima Alto Potenziale Globale. Accordingly, these equity investments are categorised as Level 1 within the fair value measurement hierarchy required by IFRS 13. The change in the fair value of these investments is recognised in other comprehensive income in a fair value reserve.

8. Loans receivable

Company	€
Non-current	
Loans to subsidiary	**5,930,000**

The loans to subsidiary are subject to interest at a fixed interest rate of 6.1% per annum, are unsecured and repayable by not later than 23 November 2028.

9. Trade and other receivables

	2019	
	Group €	Company €
Current		
Trade receivables	19,659	-
Amounts due from subsidiary	-	157,933
Amounts due from fellow subsidiary	382,199	-
Accrued income – fellow subsidiary	1,016,496	-
Accrued income – parent	286,123	-
Prepayments	182,231	5,956
Other receivables and indirect taxation	13,099	19,623
	1,899,807	**183,512**

Amounts due from subsidiary and fellow subsidiary are unsecured, interest free and repayable on demand.

Amounts due from subsidiary include a management fee recognised in profit or loss and presented as other income.

10. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2019 Group €	2019 Company €
Cash at bank and in hand	602,194	210,488
Restricted cash	(179,974)	-
	422,220	**210,488**

Cash and cash equivalents include €179,974 which are held by Banca Intesa Sanpaolo. These deposits are subject to regulatory restrictions and are therefore not available for general use by the entities within the Group.

11. Share capital

	2019 Group and Company €
Authorised	
10,000,000 ordinary shares of €1 each	**10,000,000**
Issued and fully paid	
5,874,406 ordinary shares of €1 each	**5,874,406**

On 27 September 2018, the Company was incorporated with an issued share capital of €250,000 made up of 250,000 ordinary shares of €1 each.

On 5 November 2018, a further 5,624,406 shares of €1 each were issued and allotted to the company's parent as consideration for an amount due by the Company to its parent.

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 Group.

12. Deferred tax asset

	€
Group	
At 31 December 2019	
Credited to profit and loss (Note 21)	213,321
At end of year	**213,321**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of each of the jurisdictions in which the group's companies operate.

12. Deferred tax asset - continued

The balance at 31 December 2019 represents:

Group	€
Temporary differences arising on:	
- unutilised tax losses	213,321

13. Borrowings

	2019 Group and Company €
Non-current	
4.85% Secured Bonds 2028	**8,972,097**

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

	2019 €
Original face value of bonds issued	9,250,000
Bond issue costs	(314,560)
Accumulated amortisation	36,657
Closing net book amount of bond issue costs	8,972,097
Amortised cost and closing carrying amount	**8,972,097**

By virtue of an offering memorandum dated 12 November 2018, the Company issued €9,250,000 bonds with a face value of €100 each. The bonds have a coupon interest of 4.85% which is payable annually in arrears, on 23 November of each year. The bonds are redeemable at par and are due for redemption on 23 November 2028. The bonds were admitted on the Official List of the Malta Stock Exchange on 12 November 2018. The quoted market price as at 31 December 2019 for the bonds was €106.97, which in the opinion of the directors fairly represents the fair value of these financial liabilities.

In accordance with the provisions of the prospectus, the proceeds from the bond issue have been advanced by the Group to group related parties.

14. Lease liabilities

The lease liabilities associated with the right of use assets relate to the following types of assets:

	2019
	Group
	€
Non-current	
Leasehold properties	**12,320,031**
Current	
Leasehold properties	**1,624,392**

The total cash outflows for leases during the reporting period was €2,713,011. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December are analysed in Note 2.1(c).

15. Trade and other payables

	2019	
	Group	Company
	€	€
Current		
Trade and other payables	294,457	17,817
Amounts owed to related parties	61,716	14,864
Accrued interest and expenses	225,052	55,216
	581,225	**87,897**

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

16. Revenue

	Period from 27 September 2018 to 31 December 2019	
	Group	Company
	€	€
Rental income	**4,693,812**	**-**

The Group's revenues are derived from operations carried out in Italy. Considering the nature of the Group's activities, its non-current assets are predominantly located in Italy. The Group largely derives its revenue from related parties.

17. Expenses by nature

	Period from 27 September 2018 to 31 December 2019	
	Group €	Company €
Depreciation of right of use assets (Note 4)	2,838,636	-
Depreciation of property, plant and equipment (Note 5)	173,913	-
Directors' fees (Note 20)	20,000	20,000
Listing and related compliance costs	10,417	10,417
Legal and professional expenses	122,640	53,494
Management fee	58,335	58,335
Rent expense	212,095	-
Salaries and wages	71,454	-
Other expenses	145,110	41,519
Total cost of sales and administrative expenses	**3,652,600**	**183,765**

Auditor's fees

Fees charged by the auditor for services rendered during the financial period ended 31 December 2019 relates to the following:

	Group €	Company €
Annual statutory audit	15,000	15,000
Tax compliance and related services	8,900	8,900
Advisory services	45,000	45,000
	68,900	**68,900**

18. Impairment on leasehold premia, net of recovery

	Period from 27 September 2018 to 31 December 2019	
	Group €	Company €
Impairment on leasehold premia (Note 4)	760,046	-
Loss on termination of leasehold agreement	43,303	-
	803,349	-
Recovery from parent	(286,123)	-
Net impairment on leasehold premia	**517,226**	**-**

19. Finance costs

	Period from 27 September 2018 to 31 December 2019	
	Group €	Company €
Interest charges on lease liabilities	1,020,616	-
Bond interest cost	522,668	522,668
	1,543,284	**522,668**

20. Directors' emoluments

	Period from 27 September 2018 to 31 December 2019	
	Group €	Company €
Directors' fees	**20,000**	**20,000**

21. Tax expense

	Period from 27 September 2018 to 31 December 2019	
	Group €	Company €
Deferred tax credit	(213,321)	-
Current tax expense	229,447	24,149
Tax expense	**16,126**	**24,149**

21. Tax expense - continued

The tax on the loss before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	Period from 27 September 2018 to 31 December 2019	
	Group €	Company €
Loss before tax	(1,019,298)	(1,089,048)
Tax on loss @ 35%	(356,754)	(381,167)
Tax effect of:		
Disallowed expenditure	38,358	388,738
Movement in deferred tax	317,944	-
Foreign tax suffered at source	16,578	16,578
Tax expense	**16,126**	**24,149**

22. Cash generated from operations

	Period from 27 September 2018 to 31 December 2019	
	Group €	Company €
Operating profit	523,986	131,235
Adjustments:		
Depreciation (Notes 4 and 5)	3,012,549	-
Amortisation of bond issue costs (Note 13)	36,657	
Loss on termination of agreement (Note 18)	43,303	-
Impairment on leasehold premia – net of recovery (Note 18)	473,923	
Changes in working capital:		
Trade and other receivables	(1,613,684)	(183,512)
Trade and other payables	3,511,157	5,712,303
Cash generated from operations	**5,987,891**	**5,660,026**

Non-cash transactions include the issue and allotment of 5,624,406 shares of €1 each to the company's parent as consideration for an amount due by the Company to its parent.

23. Net debt reconciliation

The table below sets out an analysis of net debt as at 31 December 2019:

	2019	
	Group €	Company €
Cash and cash equivalents	602,194	210,488
Borrowings	(8,972,097)	(8,972,097)
Lease liabilities	(13,944,423)	-
Net debt	**(22,314,326)**	**(8,761,609)**

All the movements in the Company's net debt (borrowings and finance lease liabilities, net of cash and cash equivalents) related only to cash flow movements and disclosed as part of the financing activities in the statement of cash flows.

24. Related parties

The Group forms part of the Melite Retail Group. All companies forming part of the Melite Retail Group, which are all ultimately owned by Melite Retail Limited, are considered to be related parties in view of common ultimate shareholding.

The principal transactions carried out by the Group with related parties during the period ended 31 December 2019 are outlined below:

- Rental income from fellow subsidiary within the Melite Retail Group amounting to €4,138,992.

- Management fees charged by parent amounting to €58,335.

Amounts due to or from related parties are disclosed in Notes 8, 9 and 15 to the financial statements.

Key management personnel compensation, consisting of remuneration to the company's directors, has been disclosed in Note 20.

Bonds of the Company held by directors at 31 December 2019 amounted to €50,000.

25. Events after the reporting period

The occurrence of extraordinary events, such as natural disasters, and the outbreak of disease epidemics, have an adverse impact on the global economy, and may lead to a global recession. In early 2020, the existence of a new virus, now known as COVID-19, was confirmed, and since this time COVID-19 has spread across the world. COVID-19 has caused disruption to businesses and economic activity, and this has been significant to the Melite Finance Group. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event.

25. Events after the reporting period - continued

The Company's dependence on Melite Properties
The Melite Finance Group is largely dependent on the business and prospects of its subsidiary, Melite Properties. As set out in in the Prospectus, the proceeds from the issue of the Bonds were loaned, in part (circa €5.9 million), by the Company to Melite Properties for the purposes of: settlement of debts due; and refurbishing and embellishing retail outlets located in leading locations in Italy over which, from time to time, it enjoys the rights attached to the lease of such immovable property, and/or for acquiring such rights over additional retail outlets for sub-leasing. The continued servicing of the Bonds is entirely dependent – and the redemption of the Bonds is in part dependent – on Melite Properties being able to fulfil its repayment obligations towards the Company in terms of the said loan.

The current situation
Melite Properties' principal operation consists of the leasing and sub-leasing of retail outlets located in Italy, and therefore the longer-term prospects of the Melite Finance Group are intrinsically linked to the development in the retail real estate market in Italy, particularly the market for prime locations on the primary high streets of the Italian peninsula and islands. The Melite Finance Group's commercial lease agreements typically relate to retail outlets located in the prime positions in high streets of cities such as Milan or Turin or in the main retail area of towns such as Pavia, Como and Treviso.

Further to the outbreak of COVID-19 in Italy, particularly in Northern Italy where most of the leases held by Melite Properties are situated, all retail outlets in Italy were shut with effect from 10 March 2020. Retail outlets were permitted to re-open as from 18 May 2020 but virtually all of Melite Properties' tenants have elected not to re-open for the major part of the period up to the date of signing of these financial statements, in common with many retail outlets across Italy. As one would expect, the period of forced closure has had a significant adverse effect on the operations of the tenants of Melite Properties. The current outlook for the retail segment is also rather bleak due to the devastating effect that COVID-19 has had on the Italian economy, and it is expected that demand will be very weak for several months, possibly up to mid to late 2021.

Melite Italia S.r.l ("Melite Italia"), a sister company of Melite Finance p.l.c that currently sub-leases 21 out of the 25 leases held by Melite Properties, has been adversely affected by the developments in recent months. Its situation was exacerbated by the fact that the company was already facing challenging conditions pre-COVID. The company has registered a marked reduction in turnover and margins in 2019 on a store by store basis, which primarily reflected difficulties being faced by its primary franchise *Accessorize*. Melite Italia was in the process of implementing a plan to restructure its operations and its shareholder (Melite Retail Limited) had agreed to inject the funding required to finance this turnaround plan. The onset of COVID-19 has precipitated matters and significantly affected the turnaround plan and its related funding requirements, which led the board of directors of Melite Italia to reconsider the viability of this operation. In this context, the board of directors of Melite Italia has elected to commence a process of voluntary administration. This process will include, *inter alia*, the termination of the 21 sub-lease agreements that it holds with Melite Properties. As at 31 December 2019, the Group had receivables from Melite Italia amounting to €1,398,695, arising from rent payable which was receivable three months in arrears in line with the rental agreements. The fact that Melite Italia has elected to commence a process of voluntary administration, has triggered a doubt on the recoverability of this balance, requiring an impairment provision post year end of €1 million.

25. Events after the reporting period - continued

The current situation - continued
Besides the Melite Italia stores, it is also expected that the sub-leases for another two stores will be rescinded and, as a result, only two out of the 25 leases held by Melite Properties will remain occupied by tenants. Melite Properties will therefore have to source new tenants to sub-lease the properties that will be vacated. This process is likely to require time, not least due to the complicated trading conditions in view of the adverse effect of COVID-19 on the retail sector in Italy. In the intervening period until Melite Properties sources new tenants for its properties, and in order to protect its assets, it will need to finance the payment of rent due to its landlords. The continued and regular payment of rent to landlords is imperative to ensure that Melite Properties does not have to forfeit the property rights that it holds. These property rights are the principal asset held by this business and represent the underlying assets secured through the share pledge granted in favour of the Security Trustee as security in favour of the holders of the Bonds (the “bondholders”). Without these property rights, the Melite Finance Group will have no assets to generate the funds required to service interest and eventually redeem the Bonds.

The restructuring plan
The directors of Melite Finance and Melite Properties are currently working on a restructuring plan that is aimed at preserving the majority of its property rights, which will in turn support the continued servicing and final redemption of the Bonds. The restructuring plan is based on the following pillars:
i. Rescission of certain leases;
ii. Financing from shareholders;
iii. Application for the COVID Guarantee Scheme offered by the Malta Development Bank;
iv. Approval of the restructuring plan by bondholders including terms and conditions of the Bond.

Rescission of certain leases
The restructuring plan envisages rescinding some of the existing leases held by Melite Properties in order to channel all available cash towards safeguarding what the Board of Directors of Melite Properties believe to be the more valuable leases that are essential to secure the fulfilment of its obligations towards the Company and, in turn, the Melite Finance Group’s long term survival. The leases that will be rescinded relate to those stores (such as stores located within commercial centres) which, based on advice from real estate specialists, are expected to take longer to sub-lease. Melite Properties will also be terminating leases where there is a small margin between the pre-COVID-19 value of the property rights and the annual rent payable to landlords, given that in these cases the payment of rent to landlords while the store is vacant will substantially erode the key money value.

Based on these considerations, the Board of Directors of Melite Properties has identified a total of nine leases that will be rescinded. These leases have a combined pre-COVID-19 valuation of circa €3 million, with annual rent of €1 million payable to landlords. Although the rescission of these leases may, in terms of the relevant contracts, be subject to early termination penalties, the Board of Directors of Melite Properties, having sought legal advice from the company's Italian legal advisors, have been advised that it is unlikely that a claim for payment of such penalties would be upheld by a court of law, given the context in which the leases are being terminated.

Further to the rescission of these contracts, Melite Properties would be left with a total of 17 stores (the “Retained Stores”), with a combined pre-Cov-19 valuation of circa €9 million and annual rent of €1.6 million payable to landlords. Of these stores, two are already sub-leased to third party operators whereas management is in advanced discussions with a third party retail operator for the sub-lease of another two stores.

25. Events after the reporting period - continued

Financing from shareholders
Melite Finance is owned entirely by Melite Retail Limited. The ultimate shareholders of Melite Retail are prepared to commit to finance an amount of up to €1.1million, which based on the current projections, are estimated to finance rental payments to the landlords of the Retained Stores in the intervening period until such time as Melite Properties sub-leases, to third party operators, those Retained Stores which are being vacated as aforesaid.

The €1.1million financing will be injected through two instruments as follows:

- €0.63 million will be in the form of a capital contribution into Melite Finance that will be repayable at the option of the Company after the redemption of the Bonds; and
- €0.47 million will be in the form of a shareholder loan at the level of Melite Properties that will not bear any interest and will be repayable through a bullet repayment due after five years.

Application for the COVID Guarantee Scheme offered by the Malta Development Bank
The criteria for the COVID Guarantee Scheme (CGS) offered by the Malta Development Bank have recently been extended to cover the payment of bond issue costs by listed entities. The directors of Melite Finance are in advanced discussions with its bankers, who have indicated that they are minded to agree subject to certain conditions, to obtain a loan under this scheme amounting to €449,000 which would cover the payment of the bond interest payment due in November 2020.

Approval of the restructuring plan by bondholders including terms and conditions of the Bond.
The restructuring plan will be presented to the bondholders for their approval shortly, which approval will also seek a reduction in the Bond coupon rate from 4.85% to 3.5% (which will become effective after the payment of the coupon in November 2020).

The directors will continue to monitor the situation closely to ensure that adequate capital levels and liquid resources are maintained such that the Company would be able to face a pessimistic scenario in terms of activity levels and financial results registered.

Also based on the analysis referred to above, the directors continue to consider the going concern assumption in the preparation of the Group’s financial statements as appropriate as at the date of authorisation for issue of the 2019 financial statements. However, the above conditions and a restructuring plan that will require bondholder approval indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern.

26. Statutory information

The Melite Finance p.l.c. is a limited liability company and is incorporated in Malta.

The immediate parent company of Melite Finance p.l.c. is Melite Retail Limited, a company registered in Malta, with its registered address at Level 3, Valletta Buildings, South Street, Valletta, VLT1103. The ultimate controlling parties of Melite Retail Limited are Alec Mizzi and Andrew Ganado.