TESTA FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2020

TESTA FINANCE PLC

Company Information

Directors:	Mr Jean Paul Testa Ms Hanna Testa Mr Nigel Scerri Mr Raymond Pace Mr Reuben Debono
Secretary:	Mr Reuben Debono
Company number:	C 85495
Registered office:	RU 19, The Pjazza, The Point, Tigne Point, Sliema
Auditors:	KSi Malta 6, Villa Gauci Mdina Road Balzan BZN 9031

TESTA FINANCE PLC

Contents

Report of the Directors
For the year ended 31 December 2020

The directors present their report and the audited financial statements for the year ended 31 December 2020.

Incorporation

The Company was incorporated on 22 March 2018.

Principal Activity

The principal activity of the Company is to act as a finance and investment company.

Review of Business

During the year under review the Company registered a profit before tax of € 35,724. During 2019, the Company issued €3,900,000 5.5% unsecured Bonds having a nominal value of €100 each. These funds were used to finance the purchase of property at Islet Promenade in Bugibba together with its improvements, additions, and alterations.

Dividends and Reserves

The directors do not recommend the payment of a dividend.

Financial Risk Management

The Company's activities potentially expose it to a variety of financial risks: liquidity risk and credit risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. 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. The Company did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(b) Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that services are made to customers with an appropriate credit history.

Report of the Directors (continued)
For the year ended 31 December 2020

Post Balance Sheet Events

The Directors evaluated subsequent events from 1 January 2021 through 23 April 2021, the date the financial statements are approved. The effects of the COVID-19 pandemic have continued well post-year end and included government-imposed restrictions on the major operations of the wider Group. The Directors are assessing the situation on a day-to-day basis to manage, at the best of their possibilities, the economic and liquidity position of the wider Group.

Directors

The following have served as directors of the Company during the year under review:

Mr Jean Paul Testa
Ms Hanna Testa
Mr Nigel Scerri
Mr Raymond Pace
Mr Reuben Debono

In accordance with the Company's Articles of Association the present directors remain in office.

Directors' Interest

The directors' beneficial interest in the shares of the Company on 31 December 2020 is limited to 2 ordinary shares having a nominal value of €1 and 25% paid up held equally by Ms Hanna Testa and Mr Jean Paul Testa.

Statement of Directors' Responsibilities

The Companies Act, 1995 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year in accordance with the requirements of International Financial Reporting Standards as adopted by the EU. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Directors (continued)
For the year ended 31 December 2020

Statement of Directors' Responsibilities (continued)

The directors, through oversight of management are responsible to ensure that the Company establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

The Directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the company at 31 December 2020, and of the financial performance and the cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Going Concern Statement

After making enquiries and having taken into consideration the future plans of the Company, the directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they adopted the going concern basis in the preparation of the financial statements.

Auditors

KSi Malta have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD

Mr Raymond Pace	Mr Jean Paul Testa
Director	Director

23 April 2021

Corporate Governance - Statement of Compliance
For the year ended 31 December 2020

The Prospects MTF Rules ("the Rules") oblige issuing companies to observe The Code of Principles of Good Corporate Governance (the "**Code**"), in relation to which a report is to be prepared on the adherence thereto by the independent auditor. Companies listed on Prospects MTF are required to include, in their Annual Report, a Directors' Statement of Compliance which deals with the extent to which the company has adopted the Code of Principles of Good Corporate Governance and the effective measures that the company has taken to ensure compliance with the Code, accompanied by a report of the auditors thereon.

In view of the fact that Testa Finance PLC's (the **"Company"**) debt (and not equity) securities are listed and traded on Prospects MTF which is a multilateral trading facility. To company is hence hereunder reporting its compliance with the Code and where the Company has decided otherwise to not adhere to specific provisions as allowed by the Rules, the Company is specifying where and how it is not in compliance with the Code.

Part 1: Compliance with the Code

The Board of Directors (the "**Board**") of the Company believe in the adoption of the Code and has endorsed them except where the size and/or particular circumstances of the Company are deemed by the Board not to warrant the implementation of specific recommendations. In this context it is relevant to note that the Company has issued bonds on Prospects MTF and has no employees. Accordingly, some of the provisions of the Code are not applicable whilst others are applicable to a limited extent.

Principle 1: The Board

The Board of Directors is responsible for devising a strategy and setting policies of the Company. It is also responsible for reviewing internal control procedures, financial performance and business risks facing the Company. The Board is also responsible for decisions relating to the redemption of the Bond, and for monitoring that its operations are in conformity with the prospectus and all relevant rules and regulations.

The Board is composed of Mr Jean Paul Testa (Executive Director and Chief Executive Officer), Ms Hanna Testa (Executive Director and Chief Operations Officer), Mr Nigel Scerri (Executive Director and Chief Financial Officer), Mr Raymond Pace (Non-Executive Director) and Mr Reuben Debono (Non-Executive Director). All of the directors were nominated and appointed by the shareholders in general meeting.

The Board delegates specific responsibilities to an Audit Committee, details of which are found in Principle 5 hereunder.

Corporate Governance - Statement of Compliance (continued)
For the year ended 31 December 2020

Part 1: Compliance with the Code (continued)

Principle 1: The Board (continued)

The Directors and other Prospects MTF Restricted Persons as defined by the Rules are informed of their obligations on dealings in securities of the Company within the established parameters of the law and the Rules. Each such Director and Prospects MTF Restricted Person has been provided with the Code of Dealing required in terms of the Rules and training in respect of their obligations arising thereunder.

Principle 2: Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive, set out in writing and agreed by the Board, were held separately for the period to ensure that there was a clear distinction between the running of the Board and the executive responsibility for the running of the business of the Company.

The Chairman's main function is to lead the Board, set the agenda and ensure that all board members partake in discussions of complex and contentious issues.

The Chief Executive Officer has specific authorities from the Board to manage the Company's operational activities within the strategy and parameters set by it.

Principle 3: Composition of the Board

The Board considers that the size of the Board, whilst not being large as to be unwieldy, is appropriate, taking into account the size of the Company and its operations. The combined and varied knowledge, experience and skills of the Board members provides the balance of competences that are required and adds value to the functioning of the Board and gives direction to the Company.

The Board is composed of 3 executive and 2 non-executive directors. The non-executive directors, that is, Mr Raymond Pace and Mr Reuben Debono are considered to be independent within the meaning provided by the Code. Each non-executive director has submitted a declaration to the Board declaring their independence.

Directors are appointed during the Company's Annual General Meeting for period of one year, at the end of which term 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.

Principle 4: The Responsibilities of the Board

The Board has the first level responsibility for executing the four basic roles of Corporate Governance, namely accountability, monitoring, strategy formulation and policy development. The Board seeks to effectively monitor the implementation of strategy and policy by management.

Clear internal and external reporting lines are established with a view to ensuring that the Board can properly discharge its obligation to take decisions in the best interests of the Company. An audit committee has been set up with clear terms of reference in line with the Rules. The procedure of the Audit Committee is regulated under its terms of reference.

Corporate Governance - Statement of Compliance (continued)
For the year ended 31 December 2020

Part 1: Compliance with the Code (continued)

Principle 5: Board Meetings

Board meetings concentrate mainly on strategy, operational performance and financial performance of the Company. After each Board meeting and before the next, Board minutes that faithfully record attendance, key issues and decisions are sent to the directors. Meetings were attended as follows:

Members	*Meetings Attended out of total held during tenure*
Mr Jean Paul Testa	7 out of 7
Ms Hanna Testa	7 out of 7
Mr Nigel Scerri	7 out of 7
Mr Raymond Pace	7 out of 7
Mr Reuben Debono	7 out of 7

The Board also delegates specific responsibilities to the management team of the Company.

Board Committees

<u>Audit Committee</u>

The Board delegates certain responsibilities to the Audit Committee, the terms of reference of which reflect the requirements stipulated in the Rules and under applicable law. In addition, unless otherwise dealt with in any other manner prescribed by the Rules, the Audit Committee has the responsibility to, *inter alia*, monitor and scrutinise, and, if required, approve Related Party Transactions, if any, falling within the ambits of the Rules and to make its recommendations to the Board of any such proposed Related Party Transactions.

The Audit Committee establishes internal procedures and monitors these on a regular basis. The terms of reference for the Audit Committee are designed both to strengthen this function within the Company and to widen the scope of the duties and responsibilities of this Committee. The Committee also has the authority to summon any person to assist it in the performance of its duties, including the Company's external auditors.

During the year under review, the Audit Committee was composed of Mr Nigel Scerri (independent executive director), Mr Raymond Pace (independent non-executive director and Chairman of the Audit Committee) and Mr Reuben Debono (independent non-executive director).

The Board considers the Chairman of the Audit Committee to be independent and competent in accounting and/or auditing. Such determination was based on Mr Raymond Pace substantial experience in various roles throughout his career.

Corporate Governance - Statement of Compliance (continued)
For the year ended 31 December 2020

Part 1: Compliance with the Code (continued)

Principle 5: Board Meetings (continued)

Board Committees (continued)

Senior Management

In view of the Company being primarily a finance and investment company, the Company does not have any employees. However, the overall management of the Group comprises: Mr Jean Paul Testa, as Group Chief Executive Officer together with his wife Ms Hanna Testa being the Group Chief Operations Officer, responsible for operations management.

Principle 6: Information and Professional Development

Each director is made aware of the Company's on-going obligations in terms of the Companies Act, the Rules and other relevant legislation. Directors have access to the advice and services of the Company Secretary and to legal counsel. The Company is also prepared to bear the expense incurred by the directors requiring independent professional advice should they judge it necessary to discharge their responsibilities as directors.

Principle 9: Relations with Shareholders and with the Market and Principle 10: Institutional Shareholders

The Company has communicated effectively with the market through company announcements and financial information published by the Company.

Principle 10: Institutional Shareholders

The Company is of the view that due to the fact that it does not have Institutional Shareholders, this provision is not applicable.

Principle 11: Conflicts of Interest

The directors are aware that their primary responsibility is always to act in the interest of the Company and its shareholders as a whole irrespective of who appointed them to the Board. Acting in the interest of the Company includes an obligation to avoid conflicts of interest. In such instances, the Company has strict policies in place which allow it to manage such conflicts, actual or potential, in the best interest of the Company.

Principle 12: Corporate Social Responsibility

The Testa group of companies understands the importance of contributing to society at large, both in terms of the wellbeing of its staff as well as the contribution towards society at large.

Corporate Governance - Statement of Compliance (continued)
For the year ended 31 December 2020

Part 2: Non-Compliance with the Code

Principle 7: Evaluation of the Board's Performance

At present, 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 Issuer's shareholders, the market and the rules by which the Issuer is regulated.

Principle 8: Committees

The Issuer does not have a Remuneration Committee as recommended by this principle because it is not deemed as necessary in view of the very limited number of directors engaged by the Issuer. Furthermore, the Issuer does not have a Nomination Committee as recommended in Principle 8. Appointments to the Board of Directors are determined by the shareholders of the Company in accordance with the Memorandum and Articles of Association. The Issuer considers that the members of the Board provide the level of skill, knowledge and experience expected in terms of the Code.

Internal Controls

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 business of the Group, including the Company is delegated to the Group Chief Executive Officer within the limits set by the Board of Directors. Systems and procedures are in place for the Company to control, report, monitor and assess risks and their financial implications, and to take timely corrective actions where necessary. Regular financial budgets and strategic plans are prepared, and performance against these plans is actively monitored and reported to the directors on a regular basis.

Remuneration Statement

In terms of the Company's Memorandum and Articles of Association, it is the shareholders of the Company in the General Meeting who determine the maximum annual aggregate remuneration of the directors. During the last Annual General Meeting no annual remuneration to the directors were proposed since the operations of the Franchise during the year was minimal.

No part of the remuneration paid to the directors is performance based, and the Chief Executive Officer receives no additional remuneration in relation to this role. None of the directors, in their capacity as a Director of the Company, is entitled to profit sharing, share options or pension benefits with respect to Testa Finance PLC.

Signed on behalf of the Board of Directors on 23 April 2021 by:

Mr Raymond Pace	Mr Jean Paul Testa
Director and Chairman of the Audit Committee	Director

Independent Auditors' Report

To the shareholders of Testa Finance PLC

Report on the Audit of the Financial Statements

We have audited the financial statements of Testa Finance PLC (the Company), set out on pages 13 to 34, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion

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

Basis for Opinion

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

Emphasis of Matter

We draw attention to the fact that the Company forms part of a wider Group that operates in the catering industry. Due to the COVID-19 outbreak, this industry was negatively affected and the Group had to deal with government-imposed restrictions on all its operations. After significant capital expenditure and expansion during the year ended 31 December 2019, the Group planned to operate for the first time all of its outlets for twelve whole months during the year ending 31 December 2020, but this was not possible due to the COVID-19 outbreak and the economic crisis it has generated. Furthermore, the Group also had to deal with similar circumstances post year-end.

The Company's principal activity is to act as a finance company, that is itself dependent on the financial performance on another Company within the Group. In order to offset the effects of these issues on the Group's cash flow, the related company, has obtained the BOV MDB COVID-19 Assist loan from a local credit institution to finance the Group's operations during the period under review. Nonetheless, these events or conditions indicate that an uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

As per Note 15, the Board is however confident that the Group's operation will be back to normal once the economy stabilizes and, therefore, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

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Independent Auditors' Report (continued)

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.

Other Information

The directors are responsible for the other information. The other information comprises the Report of the Directors, Directors' Responsibilities, and the Corporate Governance Statement of Compliance. Our opinion on the financial statements does not cover this information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Report on 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 auditors to include a report on the Statement of Compliance prepared by the Directors.

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 return.

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 4 to 8 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

We also read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. Our responsibilities do not extend to any other information.

With respect to the Report of the Directors, we also considered whether the Report of the Directors 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 Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements; and

- the Report of the Directors has been prepared in accordance with the Maltese Companies Act (Cap.386).

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Independent Auditors' Report (continued)

Report on Corporate Governance (continued)

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 Report of the Directors. We have nothing to report in this regard.

Responsibilities of the Directors

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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Independent Auditors' Report (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors 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.

Report on Other Legal and Regulatory Requirements

We have responsibilities under the Companies Act, 1995 enacted in Malta to report to you if, in our opinion:

- The information given in the Report of the Directors is not consistent with the financial statements.

- Adequate accounting records have not been kept.

- 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.

- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

Joseph Gauci (Partner) for and on behalf of
KSi Malta

Certified Public Accountants
Balzan

23 April 2021

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TESTA FINANCE PLC

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020

	Notes	2020 €	2019 €
Administrative expenses	6	(17,862)	(2,756)
Operating loss		(17,862)	(2,756)
Finance income	6	268,569	186,173
Finance costs	6	(214,983)	(215,193)
Net finance income/(cost)		53,586	(29,020)
Profit/(Loss) before tax		35,724	(31,776)
Income tax expense	7	-	(171)
Profit/(Loss) for the year		35,724	(31,947)
Other comprehensive income for the year			
Other comprehensive income for the year		-	-
Total comprehensive profit/(loss) for the year		35,724	(31,947)

Statement of Financial Position
As at 31 December 2020

	Notes	2020 €	2019 €
Assets			
Trade and other receivables	8	2,875,296	2,838,301
Cash and cash equivalents	8	1,200,531	1,200,490
Total current assets		4,075,827	4,038,791
Total assets		4,075,827	4,038,791
Liabilities			
Borrowings	8	3,858,531	3,853,348
Total non-current liabilities		3,858,531	3,853,348
Trade and other payables	8	208,534	212,234
Current tax liabilities		-	171
Total current liabilities		208,534	212,405
Total liabilities		4,067,065	4,065,753
Net assets/(liabilities)		8,762	(26,962)
Equity			
Share capital	9	12,500	12,500
Retained earnings	9	(3,738)	(39,462)
Total equity/(Deficiency)		8,762	(26,962)

The financial statements on pages 13 to 34 were approved and authorised for issue by the Board on 23 April 2021 and were signed on its behalf by:

Mr Raymond Pace
Director

Mr Jean Paul Testa
Director

Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital €	Retained earnings €	Total €
Changes in equity for 2019			
Balance at 1 January 2019	12,500	(7,515)	4,985
Loss for the year	-	(31,947)	(31,947)
Balance at 31 December 2019	12,500	(39,462)	(26,962)
Changes in equity for 2020			
Balance at 1 January 2020	12,500	(39,462)	(26,962)
Profit for the year	-	35,724	35,724
Balance at 31 December 2020	12,500	(3,738)	8,762

Statement of Cash Flows
For the year ended 31 December 2020

	Note	2020 €	2019 €
Cash flows from operating activities			
Profit/(Loss) before tax		35,724	(31,776)
Adjustments for:			
Amortisation of bond issue cost		5,184	5,184
Tax paid		(171)	-
Bond interest payable		209,799	-
Operating profit/(loss) before working capital changes		250,536	(26,592)
Movement in payables		(3,701)	209,949
Movement in receivables		(268,528)	(185,683)
Net cash outflow from operating activities		(21,693)	(2,326)
Cash flows from financing activities			
Proceeds from bond loan		-	3,848,164
Payments from/(to) related company		231,533	(2,645,348)
Bond interest paid		(209,799)	-
Net cash inflow from financing activities		21,734	1,202,816
Net movement in cash and cash equivalents		41	1,200,490
Cash and cash equivalents at beginning of year		1,200,490	-
Cash and cash equivalents at end of year	8.3	1,200,531	1,200,490

1 REPORTING ENTITY AND OTHER INFORMATION

Testa Finance PLC is a limited liability company domiciled and incorporated in Malta. The company's registered office is RU 19, The Pjazza, Tigne Point, The Point, Sliema. The Company is to act as a finance and investment company to related companies within the Group.

2 BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and comply with the Companies Act, 1995. They were authorised for issue by the Company's board of directors 23 April 2021.

Details of the Company's accounting policies are included in Note 14.

3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Euro, which is the Company's functional currency.

4 USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

4.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements are included in the following notes:

- Estimation of current tax payable and current tax expense;
- Recognition of deferred tax liabilities.

5 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Standards and interpretations applied during the current year

Amendments and interpretations applicable for the first time in 2020 shown here under have been implemented. The application of the below standards and interpretations do not have an impact on the financial statements of the Company.

Standard	Subject of amendment	Effective date
IFRS 3 Business Combinations	Amendments to clarify the definition of a business	1 January 2020
IFRS 7 Financial Instruments- Disclosures	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IFRS 9 Financial Instruments	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IFRS 16 Leases	Amendment to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification	1 June 2020
IAS 1 Presentation of Financial statements	Amendments regarding the definition of material	1 January 2020
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Amendments regarding the definition of material	1 January 2020
IAS 39 Financial Instruments: Recognition and Measurement	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IAS 41 Agriculture	Amendments resulting from *Annual Improvements to IFRS Standards 2019–2020* (taxation in fair value measurements)	1 January 2020

5 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (continued)

Standards issued but not yet effective

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

Standard	Subject of amendment	Effective date
IFRS 1 First-time Adoption of International Financial Reporting Standards	Amendments resulting from *Annual Improvements to IFRS Standards 2018–2020* (subsidiary as a first-time adopter)	1 January 2022
IFRS 3 Business Combinations	Amendments updating a reference to the *Conceptual Framework*	1 January 2022
IFRS 4 Insurance Contracts	Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021
	Amendments regarding the expiry date of the deferral approach	1 January 2023
IFRS 7 Financial Instruments: Disclosures	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2021
IFRS 9 Financial Instruments	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2021
	Amendments resulting from *Annual Improvements to IFRS Standards 2018–2020* (fees in the '10 per cent' test for derecognition of financial liabilities)	1 January 2022
IFRS 16 Leases	Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021
IFRS 17 Insurance Contracts	Original issue	1 January 2023
	Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published (includes a deferral of the effective date to annual periods beginning on or after 1 January 2023)	1 January 2023
IAS 1 Presentation of Financial statements	Amendments regarding the classification of liabilities	1 January 2023
	Amendment to defer the effective date of the January 2020 amendments	1 January 2023

5 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (continued)

Standards issued but not yet effective (continued)

IAS 16 Property, Plant and Equipment	Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	1 January 2022
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022
IAS 39 Financial Instruments: Recognition and Measurement	Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021

The directors are of the opinion that the adoption of these Standards (where applicable) will not have a material impact on the financial statements.

6 OTHER INCOME AND EXPENSE ITEMS

6.1 Breakdown of expenses by nature

	2020 €	2019 €
Auditors' remuneration	3,000	2,000
Other expenses	14,862	756
Total administrative expenses	17,862	2,756

6.2 Finance costs

	2020 €	2019 €
Bank charges	-	210
Amortisation- bond issue costs	5,184	5,184
Bond interest	209,799	209,799
	214,983	215,193

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

6 OTHER INCOME AND EXPENSE ITEMS (continued)

6.3 Finance income

	2020 €	2019 €
Bank interest received	41	490
Interest on related company loans	268,528	185,683
	268,569	186,173

7 INCOME TAX EXPENSE

7.1 Income tax expense

	2020 €	2019 €
Current tax		
Current tax on taxable income for the year	-	171
Total current tax expense	-	171
Deferred income tax		
Deferred tax expense for the year	-	-
Total deferred tax expense	-	-
Total income tax expense	-	-

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

7 INCOME TAX EXPENSE (continued)

7.2 Reconciliation of income tax expense

	2020 €	2019 €
Profit/(Loss) before tax	35,724	(31,776)
Theoretical tax expense @ 35%	12,503	(11,122)
Tax effect of amounts which are not deductible in calculating taxable income:		
Disallowable expenses	5,972	1,038
Amortisation of bond issue costs	1,814	1,814
Fines and penalties	280	-
Group loss relief absorbed	(21,000)	-
Deferred tax not recognised	431	-
Tax Affect on interest payable on bond loan apportioned	-	8,441
	-	171

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The company holds the following financial instruments:

	Notes	2020 €	2019 €
Financial assets			
Other financial assets at amortised costs	8.2	2,421,085	2,652,618
Trade and other receivables	8.1	454,211	185,683
Cash and cash equivalents	8.3	1,200,531	1,200,490
		4,075,827	4,038,791
Financial liabilities			
Trade and other payables	8.4	208,534	212,234
Borrowings	8.5	3,858,531	3,853,348
		4,067,065	4,065,582

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

8.1 Trade and other receivables

	2020	2019
	€	€
Current assets		
Accrued income	454,211	185,683
	454,211	185,683

8.2 Other financial assets at amortised cost

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows;
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets at amortised cost include the following debt investments:

	2020	2019
	€	€
Current assets		
Loan from related companies (note)	2,421,085	2,652,618
	2,421,085	2,652,618

Note:

Further information relating to loan from related companies and key management personnel is set out in note 13.

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

8.3 Cash and cash equivalents

	2020	2019
Current assets		
Cash at bank and in hand	€ 1,200,531	€ 1,200,490

8.3.1 Reconciliation to cashflow statement

The above figures reconcile to the amount of cash shown in the statement of cashflows at the end of the financial year as follows

	2020	2019
Balance as above	€ 1,200,531	€ 1,200,490

8.4 Trade and other payables

	2020	2019
Current liabilities		
Accruals	€ 208,534	€ 212,234

8.5 Borrowings

	2020 €	2019 €
Secured		
Amounts falling due after on year		
Bond loan (note)	3,858,531	3,853,348
Total Borrowings	3,858,531	3,853,348

Note:

<u>Bond loan</u>

On 20 December 2018, the Company issued € 3,900,000 5.5% Unsecured Bonds having a nominal value of € 100 each. The bond issue was admitted to Prospects MTF operated by the Malta Stock Exchange with effect from 9 January 2019. Trading on the bond issue commenced on 10 January 2019. The Bonds are redeemable at par on 9 January 2029. The bond issue costs are being amortised over 10 years.

These funds were used to finance the purchase of property in Bugibba at the Islets Promenade together with its improvements, additions and alternations, repayments of existing borrowings and facilities from credit institutions, repayment of a third-party loan and working capital obligations and repayments.

9 EQUITY

9.1 Share Capital

	2020	2019
Authorised		
500,000 ordinary shares of €1 each	€ 500,000	€ 500,000
Called-up, issued and 25% paid up		
50,000 ordinary shares of €1 each	€ 12,500	€ 12,500

Ordinary shares have a par value of € 1. They entitle the holder to participate in dividends and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

9.2 Retained earnings

The profit and loss account represents accumulated losses as follows:

	€
At 1 January 2019	(7,515)
Net loss for the year	(31,947)
At 31 December 2019	(39,462)
At 1 January 2020	(39,462)
Net profit for the year	35,724
At 31 December 2020	(3,738)

10 EARNINGS PER SHARE

Earnings per share is calculated by dividing the results attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Profit/(Loss) for the year	€ 35,724	€ (31,947)
Weighted number of ordinary shares	50,000	50,000
Earnings per shares	€ 0.71	€ (0.64)

11 FINANCIAL RISK MANAGEMENT

The company's risk management is carried out by the board of directors. There are written principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidities.

11.1 Market risk

(i) Cash flow and fair value interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its financial position and cash flows. As at the reporting date, the Company has fixed and variable interest-bearing liabilities. Fixed interest-bearing liabilities consists of finance lease liability whilst exposure to variable interest-bearing liabilities consists of bank overdrafts. As at the consolidated statement of financial position date, the Company's exposure to changes in interest rates on bank overdrafts held with financial institutions was limited as the level of borrowings with variable interest-bearing liabilities is immaterial with the level of borrowing with a fixed rate interest rate.

11.2 Credit risk

Credit risk arises from credit exposure to customers and amounts held with financial institutions (note 8). The maximum credit exposure to credit risk at the reporting date in respect of the financial assets was as follows:

	2020	2019
Cash at bank	€ 1,200,531	€ 1,200,490

With respect to amounts receivable, the Company assesses on an ongoing basis the credit quality of the third party tenants, taking into account financial position, past experience and other factors. The Company manages credit limits and exposures actively in a practical manner such that there are no material past due amounts receivable from third party tenants as at the reporting date. The Company has no significant concentration of credit risk arising from third parties. As at 31 December 2020 and 2019, the company had no trade receivables.

11.3 Liquidity risk

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally interest-bearing borrowings and trade and other payables. Prudent liquidity risk management includes maintaining sufficient cash to ensure the availability of an adequate amount of funding to meet the Company's obligations.

The following table analyses the Company'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. Balance due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Notes to the Financial Statements (continued)
For the year ended 31 December 2020

11 FINANCIAL RISK MANAGEMENT (continued)

11.3 Liquidity risk (continued)

	Carrying amounts €	Contractual cash flows €	On demand €	Within one year €	Between two and five years €	After more than five years €
At 31 December 2020						
Other payables	208,534	208,534	208,534	208,534	-	-
Bond loan	3,858,531	5,830,500	214,500	214,500	858,000	4,758,000
	4,067,065	6,039,034	423,034	423,034	858,000	4,758,000
At 31 December 2019						
Other payables	212,234	212,234	212,234	212,234	-	-
Bond loan	3,853,348	6,045,000	214,500	214,500	858,000	4,972,500
	4,065,582	6,257,234	426,734	426,734	858,000	4,972,500

12 CAPITAL MANAGEMENT

12.1 Risk management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;

- to maintain an optimal capital structure to reduce the cost of capital; and

- to comply with requirements of the Prospectus issued in relation to the 5.5% bonds.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence to sustain future development of business. The board of directors monitor the return on capital, which the Company defines as the profit for the year divided by total equity. The board of directors also monitors the level of dividends that may be available to ordinary shareholders.

13 RELATED PARTY TRANSACTIONS

13.1 Parent Entity

The Company is partially-owned subsidiary of Testa Properties Limited, the Group's parent Company. The registered office of the parent Company is situated at RU 19, The Pjazza, The Point, Tigne Point, Sliema. The ultimate beneficial owners are Mr Jean Paul Testa and Ms Hanna Testa.

It is the responsibility of the parent entity to prepare consolidated financial statements of the Group.

13.2 Loans from related companies

		Transaction value period ending 31 December		Balance outstanding as at 31 December	
		2020	2019	2020	2019
	Note				
Amounts due from related companies (note)	13.2.1	€ (231,533)	€ 2,645,348	€ 2,421,085	€ 2,652,618

13.2.1 The amounts due from related companies are unsecured, bear interest at 7% per annum and repayable on demand.

14 ACCOUNTING POLICIES

14.1 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

14 ACCOUNTING POLICIES (continued)

14.2 TAXATION

The income tax expense represents the sum of the tax currently payable and deferred tax.

14.2.1 Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

14.2.2 Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

14 ACCOUNTING POLICIES (continued)

14.2 TAXATION (continued)

14.2.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

14.3 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

14.4 FINANCIAL ASSETS

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

14.4.1 Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

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

14 ACCOUNTING POLICIES (continued)

14.4 FINANCIAL ASSETS (continued)

14.4.1 Classification of financial assets (continued)

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and

- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

14.4.2 Write off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

14.4.3 Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company always recognises lifetime Expected Credit Losses (ECL) for trade receivables, contract assets and lease receivables.

The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

14 ACCOUNTING POLICIES (continued)

14.4 FINANCIAL ASSETS (continued)

14.4.4 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

14.5 FINANCIAL LIABILITIES

14.5.1 Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

14.5.2 Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

14 ACCOUNTING POLICIES (continued)

14.5 FINANCIAL LIABILITIES (continued)

14.5.3 Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

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

14.5.4 Derecognition

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

14.6 PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

14.7 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Dividends are recognised as liability in the period in which they are declared.

15 GOING CONCERN

The Company's principal activity is to act as a finance company. Since the Company does not carry out any trading activities itself, it is economically dependent on the business prospects of Testa Catering Concepts Limited whose core operations are catering outlets. In preparing these financial statements, given that the Company is economically dependent on the operations carried out by the group companies, the directors of the Company have taken into consideration the potential impact of the outbreak of COVID- 19 on the Company as well as the wider Group.

Due to the COVID-19 outbreak, all the operations of the wider Group were negatively affected and had to deal with government-imposed restrictions on all operations, which measures were introduced in an effort to curb the pandemic. In light of the situation, the Government of Malta announced several support measures to mitigate the negative effects brought about by the pandemic. The Group applied for various schemes including the COVID-19 Wage Supplement Scheme and the MDB COVID-19 Assist loan provided by local credit institutions, to manage the liquidity and cash flow position of the Group.

The Group shall continue to closely monitor the situation and constantly assess the impact of the COVID-19 pandemic on its operations. The Group acknowledges that there is still a high degree of uncertainty, however the directors will continue to take appropriate actions, as they have already done, and consider the Company resilient enough to be able to sustain the current conditions.

Taking into consideration all of the above factors and circumstances, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.