FES PROJECTS LTD

Annual Report
and
Financial Statements
31 December 2020

Company Registration Number C 83872

CONTENTS

The directors present the annual report together with the audited financial statements of the Company for the year ended 31 December 2020.

Principal Activities

The main activity of the company is that of investing in, acquiring or leasing, holding and managing boutique hotels, as well as acting as a holding company.

Performance Review

The COVID-19 pandemic has disrupted business on a global level. Despite this, the pandemic did not have a direct impact on the business of the Company, given that the Company owns the Euro Guest House situated in Gzira, which is operated by FES Operations Limited following a lease agreement entered into between both parties, and a house in Senglea which is being developed into a boutique hotel. In fact, during the year the Company generated rental income of €150,000 (2019: €75,000) from the lease of the Euro Guest House boutique hotel to its subsidiary FES Operations Limited to operate this property on its behalf. The Company also generated other miscelleanous income amounting to €8,495 (2019: €7,490). Administrative expenses amounting to €154,765 (2019: €60,054) mainly comprise depreciation charge, rent expense and professional fees. Finance costs comprise interest payable on the outstanding loan due to subsidiary amounting to €126,883 (2019: €50,292). The Company's loss before taxation amounted to €123,153 (2019: €27,856). After accounting for taxation, the loss for the year amounted to €123,153 (2019: €33,351).

During the financial year 2020 the board of directors undertook certain decisions that affected the 2019 financial performance of the Company. In view of this a prior year adjustment was needed and the comparatives for the year 2019 were restated as further explained in Note 22.

Position Review

The Company's asset base amounted to €7,062,032 as at 31 December 2020. The key asset consist of the Euro Guest House boutique hotel situated in Gzira valued by an independent architect at €5.25 million in January 2019. The Company owns also other immovable property in Senglea.

The Company's main liability is made up of a loan advanced by its subsidiary, FES Finance p.l.c., of €5,079,017.

Dividends and Reserves

The accumulated losses of the Company at the end of the year amounted to €192,254 (2019: €69,101). The directors do not recommend the distribution of a dividend and propose to charge the loss for the year to reserves.

Financial Risk Management

The Company's activities expose it to a variety of financial risks, including credit risk and liquidity risk. These are further analysed in note 23 in these financial statements.

Events Subsequent to the Statement of Financial Position Date

There were no adjusting or significant non-adjusting events that have occurred between the end of the reporting period and the date of authorisation by the board.

Future Developments

The directors intend to continue to operate in line with their business plan which included mitigating factors with respect to COVID-19 pandemic.

Going concern

After making enquiries and taking into consideration future plans, including the potential impact on financial and operational performance following the COVID-19 outbreak (note 2) the directors have a reasonable expectation that the Company has adequate resources to continue in operating existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing financial statements.

Directors

Mr. Christopher Vella
Dr. Reuben Debono

Statement of Directors' Responsibilities

The Maltese Companies Act, (Cap 386) 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 at the end of the financial year and of the profit or loss of the Company for that year.

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 company will continue in business as a going concern;

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

Auditors

The auditors, Horwath Malta, have expressed their willingness to remain in office and a resolution proposing their reappointment will be put before the members at the annual general meeting.

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

Mr. Christopher Vella
Director

Dr. Reuben Debono
Director

Registered Address:
19 – 25
Conservatory Street
Floriana
Malta

26 April 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FES Projects Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FES Projects Ltd (the Company), set out on pages 7 to 30, which comprise the statement of financial position as at 31 December 2020, and the statement of 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.

In our opinion, the accompanying financial statements give a true and fair view of 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 (EU IFRSs) as modified by Article 173 of the Maltese Companies Act (Cap 386), and have been properly prepared in accordance with the requirements of the said Act.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report. Our opinion on the financial statements does not cover this information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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Other Information (continued)

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. 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability 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

Under Maltese Companies Act (Cap. 386) we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit.
- 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 nothing to report to you in respect of these responsibilities.

John Abela (Partner) for and on behalf of

Horwath Malta
Member Crowe Global

La Provvida
Karm Zerafa Street
Birkirkara BKR1713
Malta

26 April 2021

FES PROJECTS LTD
Statement of Comprehensive Income
For the year ended 31 December 2020

	Notes	2020 €	As restated 2019 €
Revenue	6	158,495	82,490
Administrative expenses		(154,765)	(60,054)
Finance costs	7	(126,883)	(50,292)
Loss before Income Tax	8	(123,153)	(27,856)
Income taxation	9	-	(5,495)
LOSS FOR THE YEAR		(123,153)	(33,351)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property plant and equipment		-	1,550,754
Deferred tax thereon	9	-	(304,000)
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		-	1,246,754
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(123,153)	1,213,403

The notes on pages 11 to 30 are an integral part of these financial statements.

FES PROJECTS LTD
Statement of Financial Position
As at 31 December 2020

	Notes	2020 €	As restated 2019 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	10	6,165,803	5,847,929
Investment in subsidiaries	11	51,468	50,238
		6,217,271	5,898,167
Current Assets			
Inventory	12	39,515	-
Trade and other receivables	13	1,059,397	279,837
Cash and cash equivalents		11,602	289,498
		1,110,514	569,335
Total Assets		7,327,785	6,467,502
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up issued share capital	14	1,818,004	1,818,004
Accumulated losses	15	(192,254)	(69,101)
		1,625,750	1,748,903
Non-Current Liabilities			
Borrowings	16	5,082,754	4,187,792
Deferred tax liability	17	304,000	304,000
		5,386,754	4,491,792
Current Liabilities			
Trade and other payables	18	309,786	221,312
Current tax liability		5,495	5,495
		315,281	226,807
Total Equity and Liabilities		7,327,785	6,467,502

The notes on pages 11 to 30 are an integral part of these financial statements.

The financial statements on pages 7 to 30 were approved by the Board of Directors on 26 April 2021 and were signed on its behalf by:

Mr. Christopher Vella
Director

Dr. Reuben Debono
Director

	Share Capital €	Revaluation reserve €	Accumulated losses €	Total €
Balance as at 1 January 2019	1,250	-	(35,750)	(34,500)
Total comprehensive income for the year				
Loss for the year as restated	-	-	(33,351)	(33,351)
Other comprehensive income for the year	-	1,246,754	-	1,246,754
Total comprehensive income for the year as restated	-	1,246,754	(33,351)	1,213,403
Transactions with owners of the company				
Issue of share capital	570,000	-	-	570,000
Capitalisation of revaluation reserve, net of tax	1,246,754	(1,246,754)	-	-
Total transactions with owners of the company	1,816,754	(1,246,754)	-	570,000
Balance as at 31 December 2019 as restated	**1,818,004**	-	**(69,101)**	**1,748,903**
Balance as at 1 January 2020 as restated	1,818,004	-	(69,101)	1,748,903
Total comprehensive loss for the year				
Loss for the year	-	-	(123,153)	(123,153)
Total comprehensive loss for the year	-	-	(123,153)	(123,153)
Balance as at 31 December 2020	**1,818,004**	-	**(192,254)**	**1,625,750**

The notes on pages 11 to 30 are an integral part of these financial statements.

	Note	2020 €	As restated 2019 €
Operating Activities			
Loss for the year before taxation		(123,153)	(27,856)
Adjustment for:			
Depreciation expense		91,706	43,583
Finance costs		126,883	50,292
		95,436	66,019
Working capital changes:			
Movement in inventory		(39,515)	-
Movement in trade and other receivables		(644,450)	(459,213)
Movement in trade and other payables		33,889	308,669
Cash used in operations		(554,640)	(84,525)
Interest paid		(250,000)	-
Net Cash (used in) / generated from Operating Activities		(804,640)	(84,525)
Investing Activities			
Acquisition of property, plant and equipment		(409,582)	(4,268,995)
Acquisition of investment in subsidiary		(1,200)	(240)
Net Cash used in Investing Activities		(410,782)	(4,269,235)
Financing Activities			
Issue of share capital		-	570,000
Net advances by subsidiary		736,554	4,123,011
Net advances by shareholders		200,972	(49,760)
Net Cash generated from Financing Activities		937,526	4,643,251
Movement in Cash and Cash Equivalents		(277,896)	289,491
Cash and cash equivalents at beginning of year		289,498	7
Cash and Cash Equivalents at end of year	19	11,602	289,498

The notes on pages 11 to 30 are an integral part of these financial statements.

1. General Information

FES Projects Ltd (the "Company") is a limited liability company domiciled and incorporated in Malta.

2. Basis of Preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386).

International Financial Reporting Standard 10, *Consolidated Financial Statements*, requires a parent company to prepare consolidated financial statements in which it consolidates its investment in subsidiaries. However, the Company has availed itself of the exemptions set out in Section 173 of the Maltese Companies Act and accordingly consolidated financial statements covering the Company and its subsidiaries have not been drawn up.

These financial statements therefore represent the separate financial statements of the Company, in accordance with International Accounting Standard 27, *Separate Financial Statements*, in which the investments are accounted for on the basis of the direct equity interest, rather than on the basis of the reported results and net assets of the investees.

Basis of measurement

The financial statements are prepared on the historical cost basis, except for land which is carried under the revaluation model.

Functional and presentation currency

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

Going Concern

FES Projects Ltd was set up as the holding company of the Group, and is principally engaged in investing in, acquiring, holding and/or managing any land, building or other property for the purpose of deriving income therefrom. To date the parent owns the Euro Guest House situated in Gzira, which is operated by FES Operations Limited following a lease agreement entered into between both parties, and a house in Senglea which is being developed into a boutique hotel. Taking this into consideration, FES Projects Ltd is materially dependant on the ability of FES Operations Limited to operate profitably the Euro Guest House. Consequently, any material changes in the performance of the Euro Guest House would directly affect the performance and position of FES Operations Ltd.

In preparing these financial statements, the directors of the Company assessed the impact that the COVID-19 pandemic has had on the performance of the Company and the FES Group. Although the COVID-19 pandemic has significantly disrupted the Euro Guest House operations, the directors note that Contractors Only Limited was set up as a subsidiary of FES Projects Ltd during 2020 to introduce a new revenue stream in order to mitigate the effect of economic realities, by repurposing use of resources that the Group developed to provide turnkey projects to third parties.

2. Basis of Preparation (continued)

Going concern (continued)

Consequently, the impact of the pandemic on the FES Group was assessed through (i) the profitability of FES Operations Limited during 2020 and the anticipated profitability once the pandemic subsides (ii) the tenders won to date when compared to the tenders submitted by Contractors Only Limited (iii) the anticipated profits arising through these tenders won by Contractors Only Limited.

The board of directors continually monitors the operations of the Company, and is satisfied that the Company is expected to have enough resources available for the entity to cover its commitments.

Following their assessment, the directors believe that it remains appropriate to prepare these financial statements on a going concern basis.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs, as adopted by the EU, requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies (refer to Note 5 – Critical accounting estimates and judgements).

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

3. Changes in Accounting Policies and Disclosures

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

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed by the Company have not been disclosed as they are not expected to have a material impact on the Company's financial statements.

3. Changes in Accounting Policies and Disclosures (continued)

New standards which have been newly adopted during the year

Some accounting pronouncements have become effective from 1 January 2020 and have therefore been adopted do not have a significant impact on the Company's financial results or position. Accordingly, the Company has made no changes to its accounting policies in 2020.

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

i. Definition of a Business (Amendments to IFRS 3)
ii. Definition of Material (Amendments to IAS 1 and IAS 8)
iii. Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
iv. Amendments to References to the Conceptual Framework (Various Standards)
v. COVID-19 Rent Related Concessions (Amendments to IFRS 16)

These amendments do not have a significant impact on these financial statements and therefore no additional disclosures have been made.

4. Significant Accounting Policies

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

Revenue recognition

Revenue include all revenues from the ordinary business activities of the company. Ordinary activities do not only refer to the core business but also to other recurring sales of goods or rendering of services. Revenues are recorded net of value added tax.

Revenue is recognised as follows:

(i) Property related income

Rentals receivables charged to tenants of immovable property are recognised in the period when the property is occupied. The company's policy for recognition of revenue from operating leases is described in accounting policy on 'Leases' below.

Borrowing costs

Borrowing costs include the costs incurred in obtaining external financing. 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 capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

4. Significant Accounting Policies (continued)

Leases

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other assets are classified as operating leases.

The company as lessor

Rental income from operating leases is recognised on a straight - line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added on the carrying amount of the leased asset and recognised on a straight-line basis of the lease term.

Income taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the statement of comprehensive income except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. Significant Accounting Policies (continued)

Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land is shown at fair value based on periodic valuations by external independent valuers. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting year. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

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 company 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 year in which they are incurred.

Increases in the carrying amount arising on revaluation of land are credited to other comprehensive income and shown as a revaluation reserve in the shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. Assets in course of construction are not depreciated.

The rates of depreciation used are the following:

- Buildings - 2% per annum
- Computer and electronic equipment - 20% per annum
- Furniture and fittings - 20% per annum
- Software - 20% per annum
- Electrical and plumbing - 10% per annum
- Other assets - 10% per annum

Land is not being depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

4. Significant Accounting Policies (continued)

Investment in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

In the Company's financial statements, investments in subsidiaries are accounted for by the cost method of accounting, that is at cost less impairment. Cost includes directly attributable costs of the investments. 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 year 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.

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 or depreciation 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 that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

Financial assets

Classification

The company classifies its financial assets (other than investment in subsidiaries) as financial assets measured at amortised costs. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The company classifies its financial assets at amortised cost only if both the following criteria are met:

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

i. Assessment whether contractual cash flows are solely payments of principal and interest

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

4. Significant Accounting Policies (continued)

Financial assets (continued)

Classification (continued)

i. Assessment whether contractual cash flows are solely payments of principal and interest (continued)

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

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, which is 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 all the risks and rewards of ownership.

At initial recognition, the company 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.

Interest income on debt instruments measured at amortised cost from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition of these instruments is recognised directly in profit or loss and presented in other gains / (losses). Impairment losses are presented as a separate line item in profit or loss.

Impairment

The company assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The company's financial assets are subject to the expected credit loss model.

i. Expected credit loss model

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

- Debt securities that are determined to have a low credit risk at the reporting date, and
- Other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the company considers reasonable and supportable information that is relevant and available without undue cost or effort.

4. Significant Accounting Policies (continued)

Financial assets (continued)

i. Expected credit loss model (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter year if the expected life of the instrument is less than 12 months). The maximum year considered when estimating ECLs is the maximum contractual year over which the company is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLSs are discounted at the effective interest rate of the financial asset.

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data such as a significant financial difficulty of the borrower or issuer, or a breach of contract such as a default or being more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

ii. Simplified approach model

For trade receivables, the company applies the simplified approach required by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected loss rates are based on the payment profiles of sales over a year of 12 months before 31 December 2019 or 1 January 2019, respectively, and the corresponding historical credit losses experienced within this year. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the liability of the customers to settle the receivable. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

For related party balances, the Company assesses the credit quality of the related companies by taking into account the financial position, performance and other factors. In measuring expected credit losses on these balances, management has taken into account the agreement in place and adherence to the agreement.

Financial liabilities

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provision of the instrument. The company'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 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 company 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.

4. Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first in first out method and comprises expenditure incurred in acquiring the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the costs to be incurred in marketing, selling and distribution.

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.

Borrowings

Borrowings are recognised initially at the fair value of proceeds, 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 year of borrowings using the effective interest method. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented 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 to realise the asset and settle the liability simultaneously.

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 deposits held at call with banks.

Share capital

Ordinary shares

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.

Dividend distribution

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

5. Critical Accounting Estimates and Judgements

Estimates and judgements 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.

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

6. Revenue

	2020	As restated 2019
	€	€
Rental income	150,000	75,000
Miscellaneous income	8,495	7,490
	158,495	82,490

7. Finance Costs

	2020	As restated 2019
	€	€
Interest on loan from subsidiary	126,883	50,292

8. Loss before Income Tax

Auditor's fee

Fees charged by the auditor for services rendered during the financial year ended 31 December 2020 relate to the following:

	2020	2019
	€	€
Annual statutory audit	3,000	2,000
Other non-audit services	300	300

9. Income Taxation

Amounts recognised in profit or loss

	2020	As restated 2019
	€	€
Current tax expense	-	5,495

Amounts recognised in other comprehensive income

	2020	2019
	€	€
Deferred tax expense on revaluation of property, plant and equipment	-	304,000
Tax expense	-	304,000

The tax on the company's loss before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2020	As restated 2019
	€	€
Loss before taxation	(123,153)	(27,856)
Tax at the applicable statutory rate of 35%	(43,104)	(9,750)
Tax effect of:		
Unrecognised deferred tax asset	7,005	-
Maintenance allowance	(10,621)	(5,774)
Disallowable expenses for tax purposes	46,720	21,019
Tax charge	-	5,495

The potential tax saving arising from unabsorbed tax losses carried forward for set-off against future taxable income amounting to €7,005 (2019: Nil) is not recognised in these financial statements.

10. Property, Plant and Equipment

	Land €	Buildings €	Furniture & Fittings €	Computer & Electronic Equipment €	Software €	Electrical and plumbing €	Other Assets €	Assets under construction €	Total €
At 1 January 2019									
Cost / Revalued amount	-	18,200	-	-	-	-	-	-	18,200
Accumulated depreciation	-	-	-	-	-	-	-	-	-
Net book amount	-	18,200	-	-	-	-	-	-	18,200
Year ended 31 December 2019									
Opening net book amount as restated	-	18,200	-	-	-	-	-	-	18,200
Additions as restated	2,249,246	1,582,328	124,063	1,981	23,051	-	288,326	53,563	4,322,558
Revaluation	1,550,754	-	-	-	-	-	-	-	1,550,754
Depreciation charge	-	(14,258)	(12,406)	(198)	(2,305)	-	(14,416)	-	(43,583)
Closing net book amount as restated	3,800,000	1,586,270	111,657	1,783	20,746	-	273,910	53,563	5,847,929
At 31 December 2019									
Cost / Revalued amount as restated	3,800,000	1,600,528	124,063	1,981	23,051	-	288,326	53,563	5,891,512
Accumulated depreciation	-	(14,258)	(12,406)	(198)	(2,305)	-	(14,416)	-	(43,583)
Net book amount as restated	3,800,000	1,586,270	111,657	1,783	20,746	-	273,910	53,563	5,847,929
Year ended 31 December 2020									
Opening net book amount as restated	3,800,000	1,586,270	111,657	1,783	20,746	-	273,910	53,563	5,847,929
Additions	-	167,404	1,739	3,888	1,086	1,595	-	233,868	409,580
Depreciation charge	-	(31,553)	(25,160)	(1,174)	(4,827)	(159)	(28,833)	-	(91,706)
Closing net book amount	3,800,000	1,722,121	88,236	4,497	17,005	1,436	245,077	287,431	6,165,803
At 31 December 2020									
Cost / Revalued amount	3,800,000	1,753,674	113,396	5,671	21,832	1,595	273,910	287,431	6,257,509
Accumulated depreciation	-	(31,553)	(25,160)	(1,174)	(4,827)	(159)	(28,833)	-	(91,706)
Net book amount	3,800,000	1,722,121	88,236	4,497	17,005	1,436	245,077	287,431	6,165,803

10. Property, Plant and Equipment (continued)

As at 31 December 2020 and 31 December 2019 property having a value of €5.25 million has a first special hypothec registered against it in favour of a Security Trustee for the benefit of a subsidiary's (FES Finance p.l.c) bondholders.

Land was valued by an independent valuer on 25 January 2019, on an open market existing use basis.

The movement in the deferred tax liability arising on the revaluation has been computed on the basis of a tax rate of 8% on the land's sales value, which is equal to its fair value at the reporting date.

The carrying amount of land that would have been included in the financial statements had these assets been carried at cost is €2,249,246 (2019: €2,249,246).

11. Investment in Subsidiaries

The carrying amount of the investment in subsidiaries at reporting date was as follows:

	2020 €	2019 €
Year ended 31 December		
Opening net book amount	50,238	49,998
Additions	1,200	240
Closing net book amount	51,438	50,238
At 31 December		
Cost and carrying net book amount	51,438	49,998

The subsidiaries as at 31 December 2020 are shown below:

	Registered Office	Class of shares held	Principal activity	Percentage of shares held 2020	2019
FES Finance plc	19 -23 Conservatory Street Floriana, Malta	Ordinary shares	Finance company	99.996%	99.996%
FES Operations Ltd	19 – 23 Conservatory Street Floriana, Malta	Ordinary shares	Operation of a boutique hotel	100%	-
Contractors Only Limited	19 – 25 Conservatory Street Floriana, Malta	Ordinary shares	Turnkey solutions of projects	100%	-

12. Inventory

	2020	2019
	€	€
Materials	39,515	-

13. Trade and Other Receivables

	2020	As restated 2019
	€	€
Amounts owed by subsidiaries	276,169	88,208
Amounts owed by related company	195,281	43,580
Advance deposits	554,837	110,000
Indirect tax recoverable	33,110	38,049
	1,059,397	279,837

Amounts owed by subsidiaries and related company are unsecured, interest free and are repayable on demand. As at 31 December 2020 and 31 December 2019, these amounts were fully performing and hence do not contain impaired assets.

14. Share Capital

	2020	2019
	€	€
Authorised		
1,818,004 ordinary shares of €1 each	1,818,004	1,818,004
Issued and Fully Paid Up		
1,818,004 ordinary shares of €1 each	1,818,004	1,818,004

During 2019 there was a significant increase in the share capital of the company, mainly due to the capitalisation of the revaluation reserve surplus of €1,246,754 following an architect's valuation of the Euro Guest House boutique hotel in Gzira. Furthermore, there was an additional cash injection by the shareholders for an amount of €470,000 as well as capitalisation of part of the shareholders' loans for an amount of €100,000.

15. Accumulated Losses

This represents accumulated losses. During the year under review no dividends were paid out.

16. Borrowings

	2020	2019
	€	€
Non-current		
Amounts owed to shareholders	265,753	64,781
Loan due to subsidiary	4,817,001	4,123,011
	5,082,754	4,187,792

Amounts owed to shareholders are unsecured, interest free and have no fixed date for repayment but they are not envisaged to be paid within the next twelve months.

A loan facility amounting to €4,897,500 is made available to the company by its subsidiary FES Finance p.l.c.. This loan is unsecured, carries interest at 5.35% per annum and is repayable in full by not later than 31 December 2028. Any other balances payable to subsidiary are unsecured, interest free and have no fixed date of repayment but are not envisaged to be paid within the next twelve months.

17. Deferred Tax Liability

Deferred taxation is calculated on all temporary differences using the principal tax rate for revaluation of land which is calculated using 8% final witholding tax rate.

The movement in the deferred tax account is as follows:

	2020	2019
	€	€
Deferred tax liability		
At beginning of year	304,000	-
Charged to equity	-	304,000
At end of year	-	304,000

Deferred taxation is principally composed of deferred tax liability which is to be recovered and settled after more than twelve months. The deferred tax liability at 31 December represents:

	2020	2019
	€	€
Deferred tax liability		
Temporary differences on:		
Revaluation of land	-	304,000

18. Trade and Other Payables

	2020	2019
	€	€
Trade payables	44,470	10,355
Accrued expenses	265,316	210,957
	309,786	221,312

Amounts owed to related company were unsecured, interest free and repayable on demand.

19. Cash and Cash Equivalents

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

	2020	2019
	€	€
Cash at bank	11,602	289,498

20. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Company forms part of the FES Group. All companies forming part of the FES Group are related parties since these companies are ultimately owned by FES Projects Ltd.

Trading transactions between these companies include items which are normally encountered in a group context. The Group is ultimately owned by Mr. Christopher Vella and Dr. Reuben Debono.

FES Projects Ltd is the parent company of the entities listed in Note 11.

20. Related Party Transactions (continued)

Transactions with related parties

	2020 €	As restated 2019 €
Income		
Rent charged to subsidiary	150,000	75,000
Expenditure		
Interest charged by subsidiary	126,833	50,292
Recharges by subsidiary	27,283	
Recharges by related company owned by common sharehoder	16,367	-
Capital Expenditure		
Interest charged by subsidiary	135,133	157,167
Recharges by subsidiary	18,115	-
Recharges by related company owned by common sharehoder	67,408	184,721
Loans and Advances		
Net advances by shareholders	200,972	(49,760)
Repayments to subsidiary	(250,000)	
Advances by subsidiary	736,531	4,123,011

Year end balances arising from related party transactions are disclosed in Notes 13and 16 to the financial statements.

21. Contingent Liabilities

The Company has given a first special hypothec on its property in Gzira for the amount of €5,250,000 and a pledge over the Insurance Policy in favour of the Security Trustee.

At 31 December 2020 and 31 December 2019, the company held the following guarantees in favour of the Security Trustee:

- Guarantee in relation to the issue of €5,000,000 5% Secured Bonds 2029.

22. Prior Year Adjustment

After the financial statements for the year ended 31 December 2019 were approved, the directors of FES Projects Ltd decided to reduce the rent charged to FES Operations Ltd by half in view of the negative impact by COVID-19 that effected the operation of the Euro Guest House boutique hotel. This reduction has been decided to be done retrospectively with effect from 1 July 2019.

As a remedial action to the COVID-19 impact, the directors sought alternative use for the extenstion of the Gzira property. For this reason the directors considered that capitalisation of borrowings costs relating to this extension that were expensed in the prvious year is more appropriate.

Consequently, a prior year adjustment is being effected in this respect as noted below.

	€
(a) Revenue as at 1 January 2020 was restated as follows:	
Revenue as at 1 January 2020 as previously reported	157,490
Correction of error:	
Overstatement of lease income	(75,000)
Revenue as restated	82,490
(b) Property, plant and equipment as at 1 January 2020 was restated as follows:	
Property, plant and equipment as at 1 January 2020 as previously reported	5,794,366
Correction of error:	
Capitalisation of borrowing costs	53,563
Property, plant and quipment as restated	5,847,929
(c) Finance costs as at 1 January 2020 were restated as follows:	
Finance costs as at 1 January 2020 as previously reported	103,855
Correction of error:	
Capitalisation of borrowing costs	(53,563)
Finance costs as restated	50,292

22. Prior Year Adjustment (continued)

(d) Tax charge as at 1 January 2020 was restated as follows:

	€
Tax charge as at 1 January 2020 as previously reported	7,748
Correction of error:	
Overstatement of tax charge	(2,253)
Tax charge as restated	5,495

(e) Tax liability as at 1 January 2020 was restated as follows:

Tax liability as at 1 January 2020 as previously reported	7,748
Correction of error:	
Overstatement of tax charge	(2,253)
Tax liability as restated	5,495

(f) The accumulated losses as at 1 January 2020 were restated as follows:

Accumulated losses as at 1 January 2020 as previously reported	49,917
Correction of error:	
Overstatement of lease income	75,000
Capitalisation of borrowing costs	(53,563)
Overstatement of tax charge	(2,253)
Accumulated losses as restated	69,101

23. Financial Risk Management

The Company's principal risk exposures related to credit risk and liquidity risk. The Company is not exposed to currency risk and interest rate risk. The directors consider interest rate risk exposure to be minimal due to fixed interest rate stipulated on interest bearing liability. Note 16 incorporates interest rates and maturity information with respect to the Company's main interest bearing liability.

Credit Risk

Financial assets which potentially subject the Company to concentrations of credit risk consist principally of amounts owed from related parties and cash at bank.

The Company's cash at bank is placed with high quality financial institutions.

23. Financial Risk Management (continued)

Credit Risk (continued)

The Company's receivables consist mainly of amounts receivable from related parties and accordingly credit risk in this respect is limited. The company monitors inter-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall company liquidity management. The company assesses the credit quality of these related parties taking into account financial position, performance and other factors. The company takes cognisance of the related party relationship with these entities and management does not expect any further significant losses from non-performance or default.

While receivables and cash and cash equivalents are subject to impairment requirements of IFRS 9, the identified impairment loss is insignificant.

Liquidity Risk

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

Management monitors liquidity risk by means of cash flows forecasts on the basis of expected cash flows over a twelve-month year to ensure that no additional financing facilities are expected to be required over the coming year.

Timing of Cash Flows

The presentation of the above mentioned financial assets and liabilities listed above under the current and non-current headings within the statement of financial position is intended to indicate the timing in which cash flows will arise.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2020.

Fair Value of Financial Instruments

At 31 December 2020 and 31 December 2019 the carrying amounts of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. As at end of the reporting year, the fair values of financial assets and liabilities, approximate the carrying amounts shown in the statement of financial position.

FES PROJECTS LTD
Schedule to the Financial Statements
For the year ended 31 December 2020

SCHEDULE

1. Administrative Expenses

FES PROJECTS LTD
Administration Expenses
For the year ended 31 December 2020

Schedule 1

	2020 €	2019 €
Audit fee	**3,000**	2,000
Professional fees	**16,038**	1,007
Depreciation	**91,706**	43,583
Bank charges	**1,203**	519
Registration fee	-	1,095
Entertainment costs	1,732	1,647
Insurance	**4,396**	4,844
Office supplies	**12**	2,669
Subscriptions	**859**	190
Licences and permits	**1,197**	1,774
Rent	**21,291**	-
Wages and salaries	**3,239**	-
Travelling and accomodation	**410**	-
Other expenses	**9,682**	726
	154,765	60,054