

MERCURY PROJECTS FINANCE P.L.C.

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2023

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MERCURY PROJECTS FINANCE P.L.C.

GENERAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2023

Board of Directors:	Mr. Joseph Portelli Mr. Peter Portelli Mr. Stephen Muscat Mr. Mario Vella
Company Secretary:	Dr. Joseph Saliba
Company Registration Number:	C 89117
Registered Office:	1400, Block 14 Portomaso St. Julians STJ 4014 Malta
Bankers:	Bank of Valletta Plc 102, Republic Street Victoria VCT 1017 Gozo
Legal Advisor:	Saliba Stafrace Legal 9/4, Britannia House Old Bakery Street Valletta VLT 1450 Malta
Auditors:	Baker Tilly Malta Level 5 Rosa Marina Building 216, Marina Seafront Pieta' PTA 9041 Malta

MERCURY PROJECTS FINANCE P.L.C.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

The directors present herewith their annual report together with the audited financial statements of Mercury Projects Finance P.l.c. (the "Company") for the year ended 31 December 2023. The directors have prepared the report in accordance with Article 177 of the Malta Companies Act (Cap 386) including the further provisions as set out in the Sixth Schedule to the Act.

Principal Activities

The principal activities of the Company consist in acting as a finance and investment vehicle for Mercury Towers Ltd., (the "Guarantor" and "Parent Company") and related Group companies, namely Mercury Hotel Ltd., Mercury Car Park II Ltd. and Mercury Commercial Mall Ltd.

On 4 March 2019, the Company issued € 11,500,000 3.75% secured Bonds maturing in 2027 (Series I Bonds) and a further € 11,000,000 4.25% secured Bonds maturing in 2031 (Series II Bonds). Both Bonds were issued at a nominal value of € 100 per bond. These Bonds were admitted to the official list of the Malta Stock Exchange with effect from 29 March 2019 and trading in the Bonds commenced on 5 April 2019. In accordance with the provisions of the Prospectus dated 4 March 2019, the proceeds from the bond issues have been advanced by way of two loan facilities to the Guarantor and Parent Company, for the purpose of refinancing existing bank loans and for the construction and finishing of project elements at the Mercury Towers site in St. Julians, Malta, which project is owned by the Guarantor and the related Group companies.

On the 22 March 2022, the Company issued a further € 50,000,000 4.3% secured Bonds to mature in 2032. This bond was issued at a nominal value of €100 per bond and was admitted to the official list of the Malta Stock Exchange with effect from 26 April 2022 and trading commenced on 27 April 2022. The proceeds from this second bond issue were advanced by way of another loan facility to the Guarantor and Parent Company, namely Mercury Towers Ltd., for the purpose of construction and finishing of the hotel forming part of the Mercury Towers project owned by Mercury Hotel Ltd., who made available the hotel property by way of a first ranking special hypothec in security for the bond, as well as for the Group's general corporate funding.

Review of Business

During the year under review, interest income on loans receivable from the Parent Company amounted to € 3,370,829 (2022: € 2,729,733). After accounting for interest payable on the Company's borrowings and administrative costs, the Company registered a profit before taxation amounting to € 127,321 (2022: € 192,273). The Company's financial position is dependent on the Parent Company's ongoing obligation to pay the annual interest on loans granted, which serve as the primary income to pay out the annual interest on the public Bonds, as well as in future years, in paying back the principal on maturity of the loans, which proceeds will be used to repay the Bonds to the bondholders. The Guarantor offers the maximum support to the Company through the strength of its balance sheet. The Company's balance sheet is primarily made up of the diverse bond issues for € 72.5 million and corresponding loans to the Guarantor amounting to € 72.44 million. The Company's equity as at the end of the financial year amounted to € 575,454 (2022: € 492,695).

Group Companies

As at 31 December 2023, Mercury Projects Finance P.l.c. (the "Company") was a subsidiary of Mercury Towers Ltd. (the "Parent Company" and "Guarantor"), and which company also held Mercury Hotel Ltd., Mercury Car Park II Ltd. and Mercury Commercial Mall Ltd., as other fully owned subsidiaries. These companies are to own, develop and operate different areas of the Mercury Towers project.

Key Risks

The key risks associated with the Company and Mercury Towers Ltd., as the Guarantor and Parent Company, as well as that of Mercury Hotel Ltd. who made available the hotel by way of a first ranking special hypothec in security for the bond, are currently those associated with the exposure to the real estate development market, and eventually to an array of competitive pressures in the operation and management of the hospitality, accommodation and commercial rental markets in Malta. The full list of all the key risks is listed in both the Prospectuses for the 2019 and 2022 bond issues and are still applicable to the Company and the Guarantor.

MERCURY PROJECTS FINANCE P.L.C.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Guarantor and Group's Performance for 2023 and Prospects for 2024

During 2021, the Guarantor entered into a promise of sale agreement for the acquisition of 68% of Mercury Car Park Ltd from Bersella Holdings Ltd, the Company owning the car park under the first phase of the development. This strategic re-acquisition was concluded for a price of € 9 million, thus increasing the effective ownership of the Guarantor in the car park to 93% of the total area available. The Guarantor now has full ownership of the car park except for 28 spaces which are owned by a third party. The contract for this acquisition was finalised on 28 March 2023.

On 18 December 2023, the Guarantor transferred the commercial mall and the entertainment arena to Mercury Commercial Mall Ltd and Level 0 and Level 1 of the Podium to Mercury Hotel Ltd. These transfers were done at cost.

By the time of issue of these financial statements, the residential area within the tower forming part of the first phase of the project was almost completely finished, with handing over of apartments and other areas occurring gradually. There are no units available for sale in the Mercury Tower. Finishing of the commercial areas of the tower are in their advanced stages and are expected to be completed by Q3 of 2024. This tower consists of a 34-storey building above ground which twists on itself at levels 10, 11 and 12 and which was perhaps the most difficult engineering structure of the entire project. The second phase of the project is fully constructed with finishes being at an advanced stage. Out of the 22 units still not sold at the year-end, 13 units are under preliminary sale agreements whilst 7 units were sold by the time of issue of these financial statements.

During the year under review, the Guarantor, through its subsidiaries, launched operations of the car park and the commercial mall, while the hotel is expected to start operations during the second quarter of 2024.

To date, the funding of this project is mainly emanating from proceeds of units sold which stand at 100% of total units for sale after the approval of the additional floors for the tower, and 98% of total units for sale within the peripheral block. Construction of property to be retained by the Guarantor for revenue generation was mainly funded from the bonds issued by the Company. Furthermore, the Guarantor enjoys a number of banking relationships which provide bridge financing from time to time that supplement the funding from such bonds as and when required.

Regional Conflicts

Conflicts between countries will always have a negative effect on the rest of the world. The increased challenges brought about by various conflicts in Ukraine and the Mediterranean cannot be ignored. However, following a thorough assessment of the Company's operations and, more significantly, that of the Group, it has been noted that there is no reliance on these regions for goods or services. The directors continue to actively monitor all developments taking place internationally in order to take any action that might be necessary in the eventuality that developments in these conflicts start to impact the Company's and the Group's performance and operations.

Results, Dividends and Reserves

The results for the year and the movement on the reserves are as set out on pages 9 and 11 of the financial statements respectively. No dividends were recommended or paid during the year. The directors do not recommend the distribution of any final dividends.

Directors

The directors who served in office throughout the year are:

Mr. Joseph Portelli
Mr. Stephen Muscat
Mr. Mario Vella
Mr. Peter Portelli

In accordance with the Company's Articles of Association, the directors at date of this report offer themselves for re-election.

MERCURY PROJECTS FINANCE P.L.C.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Statement of Directors' Responsibilities for the Financial Statements

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

In preparing these financial statements, the 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;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

The 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 (Cap. 386) enacted in Malta. This responsibility includes designing, implementing and maintaining 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. 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.

The financial statements of Mercury Projects Finance P.l.c. for the year ended 31 December 2023 are included in the Annual Financial Report for 2023 which is made available on the Mercury Group's website.

The directors are responsible for the maintenance and integrity of the Annual Financial Report on the website in view of their responsibility for the controls over, and the security of the website. Access to information published on the Group's website is available in other countries and jurisdictions where legislation governing the preparation and dissemination of financial statements may differ from requirements or practices in Malta.

Statement of Responsibility pursuant to the Listing Rules issued by the Listing Authority

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 as at 31 December 2023 and of the financial performance and the cash flows for the year 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 its principal risks and uncertainties that the Company and the Guarantor face.

MERCURY PROJECTS FINANCE P.L.C.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Going Concern Statement pursuant to Capital Markets Rule 5.62

After making enquires, the directors, at the time of approving the financial statements, have determined that it is reasonable to assume that the Company has adequate resources to continue operating for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.


Auditors

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

Signed on behalf of the Board of Directors on 19 April 2024 by Mr. Peter Portelli (Director) and Mr. Mario Vella (Director) as per Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Financial Report.



Mr. Peter Portelli
Director



Mr. Mario Vella
Director

Registered Office
1400, Block 14
Portomaso
St. Julians STJ 4014
Malta

MERCURY PROJECTS FINANCE P.L.C.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

Introduction

Pursuant to the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority, Mercury Projects Finance P.l.c. (the “Issuer” or the “Company”) as a wholly owned subsidiary of Mercury Towers Ltd., (the “Guarantor” and “Parent Company”), hereby reports on the extent to which the Company has adopted the Code of Principles of Good Corporate Governance (the “Code” or “Principles”) appended to Chapter 5 of the Capital Markets Rules, as well as the measures adopted to ensure compliance with the same Principles.

The Board of Directors of the Company notes that the Code does not dictate or prescribe mandatory rules but recommends principles of good governance. Nevertheless, the Board strongly maintains that the Principles are in the best interest of both the shareholders and investors, since they ensure that the directors adhere to internationally recognised high standards of corporate governance.

The Board recognises that in line with Capital Markets Rules 5.101, the Company is exempt from making available the information set out in Listing Rules 5.97.1 to 5.97.3, 5.97.6 and 5.97.8.

Since its incorporation, the Company’s principal activity was to raise funds, mainly from the capital market, to finance the operations of Mercury Towers Ltd., the Parent Company. Effective December 2022, the Mercury Towers Group headed by Mercury Towers Ltd., expanded to incorporate other companies to own and operate different components of the Mercury Towers project.

The Guarantor

The Guarantor, Mercury Towers Ltd., is a private company and, accordingly, is not bound by the provisions of the Code set out in the Prospectus Rules of the Malta Stock Exchange. While the Guarantor is not required to adopt the provisions of the Code, the Audit Committee, which is set up at the level of the Company, has been specifically tasked with keeping a watchful brief over the performance of the Guarantor and other related Companies.

Compliance with the Code

The Board of Directors (the “Board”) of Mercury Projects Finance P.l.c. (the “Company”) believes 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 to the public and has no employees. Accordingly, some of the provisions of the Code are not applicable whilst others are applicable to a limited extent.

Roles and Responsibilities of the Board

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for:

- The Company’s strategy and decisions with respect to the issue, servicing and repayment of the Bonds;
- Monitoring that its operations are in conformity with its commitments towards the bondholders, shareholders, other external financiers and all relevant laws and regulations.

The Board is responsible for ensuring that the Company installs and operates effective internal controls and management information systems and that it communicates effectively with the market.

MERCURY PROJECTS FINANCE P.L.C.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

The Board of Directors

The Board of Directors is made up of four directors who were appointed by the ultimate principal shareholder, Mr. Joseph Portelli.

During the financial year ended 31 December 2023, Mr. Joseph Portelli occupied a senior position within the Mercury Group of Companies. The remaining directors, namely Mr. Mario Vella, Mr. Stephen Muscat and Mr. Peter Portelli, who were all appointed from the date of the Company's registration, act as non-executive and independent directors. Since they are each free of any business, family or other relationship with the Issuer and its ultimate beneficial shareholder, there are no conflicts of interest such as to impair their judgement.

The Exercise and Role of the Board of Directors

The activities of the Board are exercised in a manner designed to ensure that it can effectively supervise the operations of the Company and protect the interests of the bondholders and shareholders.

The Board met eight times during the year ended 31 December 2023 and all members attended the said meetings. The Board members are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting documents as necessary, which are then discussed during the Board meetings.

Apart from setting out the strategy and direction of the Company, the Board retains direct responsibility for approving and monitoring:

- direct supervision, supported by expert professional advice as appropriate, on the issue and listing of the Bonds;
- that the proceeds of the Bonds are applied for the purposes specified in the Offering Memorandum of the Bonds in issue;
- proper authorisation of the resources of the Company;
- approval of the annual report and financial statements and the relevant public announcements, and for the Company's compliance with its continuing listing obligations.

The Board did not consider it necessary to set up a separate Remuneration and Nominations Committee, as it does not have any employees. However, it did set up an Audit Committee.

Risk Management and Internal Control

The Board recognises that the Company must manage a range of risks in the course of its activities, and failure to adequately manage these risks could adversely impact the business. Whilst no system can provide absolute guarantees and protection against material loss, the risk management systems are designed to give the directors reasonable assurance that problems can be identified promptly, and remedial action can be taken as appropriate.

The Board maintains sound risk management and internal control systems. It is responsible for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. The Board established formal and transparent arrangements to apply risk management and internal control principles, as well as maintaining an appropriate relationship with the Company's auditors.

An essential element of good internal control is the continual process of monitoring the investments made by the Company, and in its capacity, it has updated itself periodically on the financial affairs and operational development of Mercury Towers Ltd., the guarantor of the Bonds, with particular reference to the progress of the operations and commercial activity and related operational and commercial concerns.

MERCURY PROJECTS FINANCE P.L.C.

CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE

The Audit Committee

The Audit Committee established by the Board meets regularly, with a minimum of four times annually, and is currently composed of the following:

Mr. Stephen Muscat (Chairman)
Mr. Mario Vella
Mr. Peter Portelli

All three directors are non-executive and independent. In assessing independence of the three Board members, due notice has been taken of the Listing Rules. Furthermore, Mr. Stephen Muscat is the independent non-executive director who the Board considers to be competent in accounting and/or auditing in terms of the Listing Rules. The chief financial officer and other key management officials are regularly invited to attend the Audit Committee meetings.

The Audit Committee met four times throughout the year ended 31 December 2023. Communication with and between the Company Secretary and top management is ongoing and considerations that require the Committee's attention are acted upon between meetings and decided by the members through electronic circulation and correspondence.

As required by the Companies Act (Cap 386 of the Laws of Malta), and the Malta Financial Services Authority Listing Rules, the financial statements of the Company are subject to an annual audit by its external auditors. The non-executive directors have direct access to the external auditors of the Company, who attend the Board meetings at which the financial statements are approved. In ensuring compliance with other statutory requirements and with continuing listing obligations, the Board is advised directly, as appropriate, by the appointed broker, legal advisor and the external auditors. Board members are entitled to seek independent professional advice at any time and on any aspect of their duties and responsibilities, at the Company expense.

The Company has formal mechanisms to monitor dealings by the directors and senior officials in the Bonds of the Company and has put in place appropriate measures for the notification of such dealings.

Relations with the Market

The market is kept up to date with all relevant information by publishing relevant information on its website to ensure consistent relations with the market.

Remuneration Statement

Pursuant to the Company's Memorandum and Articles of Association, the maximum annual aggregate remuneration that may be paid to the directors is approved by the shareholders in General Meeting. The remuneration is a fixed amount per annum and does not include any variable component relating to profit-sharing, share options or pension benefits.


During the year, the directors received emoluments amounting to € 108,000 (2022: € 87,000). No remuneration was paid to the executive director.

Conclusion

The Board considers that the Company was compliant with the Principles throughout the year under review as befits a company of its size and nature.

Approved by the Board of Directors on 19 April 2024 and signed on its behalf by:


Mr. Peter Portelli
Director


Mr. Mario Vella
Director

MERCURY PROJECTS FINANCE P.L.C.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

		<u>2023</u>	<u>2022</u>
	Note	Euro	Euro
Finance Income	4	3,370,829	2,729,733
Finance Cost	5	(3,048,750)	(2,377,243)
Net Interest Income		322,079	352,490
Administrative Overheads		(194,758)	(160,217)
Operating Profit	6	127,321	192,273
Profit before Taxation		127,321	192,273
Tax Expense	7	(44,562)	(119,715)
Profit for the Year		82,759	72,558
Total Comprehensive Income for the Year		82,759	72,558
Earnings Per Share	8	0.3310	0.2902

The notes on pages 13 to 27 form an integral part of these financial statements.

MERCURY PROJECTS FINANCE P.L.C.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2023

		<u>2023</u>	<u>2022</u>
	Note	Euro	Euro
ASSETS			
Interest Bearing Receivables	9	72,444,358	72,444,358
Total Non-Current Assets		72,444,358	72,444,358
Other Receivables	10	2,564,984	2,521,871
Taxation Recoverable	7	29,300	-
Cash and Cash Equivalents	11	235,247	365,799
Total Current Assets		2,829,531	2,887,670
Total Assets		75,273,889	75,332,028
EQUITY			
Share Capital	12	250,000	250,000
Retained Earnings		325,454	242,695
Total Equity		575,454	492,695
LIABILITIES			
Interest Bearing Borrowings	13	72,500,000	72,500,000
Total Non-Current Liabilities		72,500,000	72,500,000
Other Payables	14	2,198,435	2,293,872
Taxation Payable	7	-	45,461
Total Current Liabilities		2,198,435	2,339,333
Total Liabilities		74,698,435	74,839,333
Total Equity and Liabilities		75,273,889	75,332,028

The notes on pages 13 to 27 form an integral part of these financial statements.

The financial statements on pages 9 to 27 were approved and authorised for issue by the Board of Directors on 19 April 2024 and signed by Mr. Mario Vella (Director) and Mr. Peter Portelli (Director) as per Directors' Declaration on ESEF Annual Financial Report Submitted in conjunction with the Annual Financial Report.



Mr. Peter Portelli
Director



Mr. Mario Vella
Director

MERCURY PROJECTS FINANCE P.L.C.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	<u>Total</u>	<u>Share Capital</u>	<u>Retained Earnings</u>
	Euro	Euro	Euro
Balance at 1 January 2023	492,695	250,000	242,695
Comprehensive Income for the Year			
Profit for the Year	82,759	-	82,759
Balance at 31 December 2023	<u>575,454</u>	<u>250,000</u>	<u>325,454</u>
Balance at 1 January 2022	420,137	250,000	170,137
Comprehensive Income for the Year			
Profit for the Year	72,558	-	72,558
Balance at 31 December 2022	<u>492,695</u>	<u>250,000</u>	<u>242,695</u>

The notes on pages 13 to 27 form an integral part of these financial statements.

MERCURY PROJECTS FINANCE P.L.C.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

		<u>2023</u>	<u>2022</u>
	Note	Euro	Euro
Cash Flows from Operating Activities			
Profit for the Year		82,759	72,558
<i>Adjustments for:</i>			
Income Tax Expense		44,562	119,715
		-----	-----
		127,321	192,273
<i>Changes in:</i>			
Accrued Finance Income		-	(1,608,904)
Accrued Finance Expense		-	1,478,493
Other Receivables		69	(10,163)
Other Payables		2,210	14,197
		-----	-----
Cash Generated from Operations		129,600	65,896
Taxation Paid		(119,323)	(138,962)
		-----	-----
Net Cash from/(used in) Operating Activities		10,277	(73,066)
		-----	-----
Cash Flows from Investing Activities			
Movement on Parent Company Loan Account		-	(50,000,000)
		-----	-----
Net Cash from/(used in) Investing Activities		-	(50,000,000)
		-----	-----
Cash Flows from Financing Activities			
Proceeds from Bond Issue		-	50,000,000
Movement on Parent Company Account		(140,829)	406,138
		-----	-----
Net Cash from/(used in) Financing Activities		(140,829)	50,406,138
		-----	-----
Net Movement in Cash and Cash Equivalents		(130,552)	333,072
Cash and Cash Equivalents at Beginning of Year		365,799	32,727
		-----	-----
Cash and Cash Equivalents at End of Year	11	235,247	365,799
		=====	=====

The notes on pages 13 to 27 form an integral part of these financial statements.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Reporting Entity

Mercury Projects Finance P.l.c. (the “Company”) is a limited liability company domiciled and incorporated in Malta. The Company’s registered office is at 1400, Block 14, Portomaso, St. Julians STJ 4014, Malta.

The principal activity of the Company is to act as a finance vehicle to the Parent Company, namely Mercury Towers Ltd. (the “Parent” and the “Guarantor”), which company owns all the shares but one of the issued and paid up capital of the Company.

2. Basis of Preparation

2.1 Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“the applicable framework”), which standards were issued by the International Accounting Standards Board (IASB). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU. They have also been drawn up in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta), to the extent that such provisions do not conflict with the applicable framework.

2.2 Basis of Measurement

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

2.3 Going Concern Basis

During the financial period ended 31 December 2019, the Company issued € 11,500,000 3.75% Secured Bonds of € 100 each maturing 2027, and a further € 11,000,000 4.25% Secured Bonds of € 100 each maturing 2031. The net proceeds were advanced as two loans to the Parent Company, namely Mercury Towers Ltd.

On 21 March 2022, the Company issued a further € 50,000,000 4.3% secured Bonds maturing in 2032. These Bonds were issued at a nominal value of € 100 per bond and were admitted to the official list of the Malta Stock Exchange with effect from 26 April 2022. Trading in the Bonds commenced on 27 April 2022. The proceeds from this bond issue were advanced by way of another loan facility to the Guarantor and Parent Company, namely Mercury Towers Ltd. With the loan from the new bond proceeds, the Guarantor secured the major part of the funding necessary for the completion of the Mercury Towers project in line with the development permits held. Any remaining funding requirements will be raised from alternative sources.

The ability of the Company to meet its obligations both in terms of servicing its debt and ultimately repaying the bond holders on the redemption date, is dependent on the ability of Mercury Towers Ltd., as the Guarantor, and Mercury Hotel Ltd., a related company who made available the hotel property by way of a first ranking special hypothec in security for the bond, to meet its obligations towards the Company. The directors are satisfied that the Company has sufficient funds in order to meet its commitments in the foreseeable future and it is therefore appropriate to adopt the going concern assumption in the preparation of these financial statements.

2.4 Functional and Presentation Currency

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

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

2. Basis of Preparation (*Contd.*)

2.5 Use of Estimates and Judgements

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

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

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

2.6 Measurement of Fair Values

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

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

2.7 New Standards and Interpretations Not Yet Adopted

A number of amended standards became applicable for the current period and have been applied as necessary. The impact of the adoption of these revisions on the Company's accounting policies and on the financial results are insignificant.

Certain new standards, amendments and interpretations to existing standards have been published by the date of the authorisation for issue of these audited financial statements but are not mandatory for the Company's accounting period starting 1 January 2023. The Company may early adopt these revisions to the requirements of IFRSs as adopted by the EU. The Company's directors are of the opinion that there are no requirements that will have a significant impact on the financial statements in the period of initial application.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3. Significant Accounting Policies

The accounting policies set out below have been applied throughout the year presented in these financial statements.

3.1 Foreign Currency Transactions

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognised in profit or loss.

3.2 Finance Income

Finance income comprises interest receivable on loans advanced in the ordinary course of business. Interest receivable is recognised in profit and loss as this accrues, using the effective interest method.

3.3 Finance Costs

Finance costs represent interest payable on the Bonds in issue as set out in the notes to these financial statements. Finance costs are recognised as an expense in profit and loss as these accrue, using the effective interest method.

3.4 Bond Issue Costs

Bond issue costs representing fees incurred in connection with the issuance of the Bonds by the Company were assumed by the Parent Company as the beneficiary of the funding.

3.5 Loans Receivable

Debt instruments representing financial assets where the contractual cash flows are solely principal and interest and the objective of the Company's business model is achieved both by collecting contractual cash flows and where these give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding, are measured at amortised cost using the effective interest method, less any impairment losses.

On derecognition, impairment or disposal of debt instruments, any gains or losses are recognised within the profit or loss.

3.6 Receivables

Receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less expected credit losses.

Receivables are written off or impaired where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure by the debtor to abide by the credit terms or failure to engage in a repayment programme with the Company for the settlement of amounts due.

Expected credit losses on receivables are presented as net expected credit losses within operating profit. Subsequent recoveries of amounts previously written off or provided for are credited against the same line item.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3. Significant Accounting Policies (*Contd.*)

3.7 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, deposits at call with financial institutions, other short-term liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.8 Impairment of Financial Assets

The Company recognises loss allowances for Expected Credit Losses (ECLs) on financial assets at amortised cost, namely loans due by related parties, other receivables and cash at bank.

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

The Company measures loss allowances for trade receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs.

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. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

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

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

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

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

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

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

Measurement of ECLs

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

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

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3. Significant Accounting Policies (Contd.)

3.8 Impairment of Financial Assets (Contd.)

Credit-impaired financial assets

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 the following observable data:

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of comprehensive income.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off on its financial assets based on whether there is a reasonable expectation of recovery and with reference to its historical experience of recoveries.

The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

3.9 Borrowings

Borrowings comprise funds acquired in order to assist with the financing of the Company's operations. Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least one year after the reporting date. If not, they are presented as non-current liabilities. Any interest payable is recognised as an expense as this accrues in profit or loss, using the effective interest method.

3.10 Other Payables

Other payables comprise obligations to pay for 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. If not, they are presented as non-current liabilities. The carrying amount of trade and other payables are the same as their fair values due to their short-term nature.

3.11 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit will be required to settle the obligation.

3.12 Share Capital

Ordinary shares are classified as equity.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3. Significant Accounting Policies (Contd.)

3.13 Earnings per Share

The Company presents basic earnings per share (EPS) data for ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding at year end.

3.14 Tax

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

Current tax is the expected tax payable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date.

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 not recognised for:

- (a) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- (b) temporary differences relating to investments in subsidiaries, associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

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

4. Finance Income

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Interest Receivable on Parent Company Loans	3,370,829	2,729,733

5. Finance Costs

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Bonds Interest Expense	3,048,750	2,377,243

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

6. Operating Profit

The results from operating activities are stated after charging the following:

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Auditors' Remuneration (inclusive of VAT)	9,440	9,440
Directors' Remuneration	<u>108,000</u>	<u>87,000</u>

6.1 Employee Information

The Company did not have any persons employed with it during the accounting year.

7. Tax Expense

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Current Taxation	44,562	119,715
Total Tax Charge	<u>44,562</u>	<u>119,715</u>

7.1 Reconciliation of Effective Tax Rate

The tax expense and the result of the accounting profit/(loss) multiplied by the applicable tax rate in Malta, the Company's country of incorporation, are reconciled as follows:

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Profit before Taxation	<u>127,321</u>	<u>192,273</u>
Tax Using the Company's Domestic Tax Rate of 35%	44,562	67,295
Tax Effect of Non-Allowable Expenses	-	52,420
Tax Expense for the Year	<u>44,562</u>	<u>119,715</u>

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

7. Tax Expense (Contd.)

7.2 Taxation Recoverable

Taxation recoverable is made up as follows:

	Euro	Euro
Balance Brought Forward		45,461
Settlement Tax Paid		(45,461)

		-
Year of Assessment		
2024 – Provision	44,562	
– Provisional Tax Paid	(73,862)	

		(29,300)

Taxation Recoverable		(29,300)
		=====

7.3 Deferred Taxation

No account for deferred taxation has been recognised in these financial statements as there were no losses or temporary differences which gave rise to deferred tax assets or liabilities.

8. Earnings per Share

Basic earnings per share is based on the profit attributable to the shareholders of Mercury Projects Finance P.L.c. divided by the number of shares in issue at the year-end.

9. Interest Bearing Receivables

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Non-Current:		
Loan Advanced to Parent Company I	11,500,000	11,500,000
Loan Advanced to Parent Company II	10,944,358	10,944,358
Loan Advanced to Parent Company III	50,000,000	50,000,000
	-----	-----
Total Interest Bearing Receivables	72,444,358	72,444,358
	=====	=====

9.1 Loan I amounting to € 11,500,000 is subject to an annual interest rate of 4.75% and is repayable by 2027. Loan II amounting to € 10,944,357 is repayable by 2031 and is subject to interest at the annual rate of 5.25%. The loans are secured by immovable property of the Guarantor and Parent Company. The loan balances include costs amounting to € 394,352 incurred by the Company in connection with the bond issues in view that the said costs were exclusively incurred to finance the operations of the Parent Company.

9.2 Loan III amounting to € 50,000,000 is subject to an annual interest rate of 4.50% and is repayable by 15 April 2032. This loan is guaranteed by Mercury Towers Ltd. and secured over immovable property of a related company, namely Mercury Hotel Ltd.

9.3 The carrying value of loans advanced classified as interest bearing receivables and measured at amortised cost, approximates the fair value.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

9. Interest Bearing Receivables (Contd.)

- 9.4 No provision for Expected Credit Losses was made in the financial statements as all loans are secured over immovable property held by the Guarantor, namely Mercury Towers Ltd. and that of a related company, namely Mercury Hotel Ltd. The directors have therefore assessed that the Probability of Default and Loss Given Default are non-existent.

10. Other Receivables

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Accrued Interest on Loans Receivable from Parent Company	2,508,638	2,508,638
Prepayments	13,164	13,233
Amount due from Parent Company	43,182	-
	<u>2,564,984</u>	<u>2,521,871</u>

- 10.1 The accrued interest on loans receivable due from the Guarantor and Parent Company are due for payment on the anniversary of the date when the loans were advanced by the Company, in terms with conditions listed in the Company's Prospectus.
- 10.2 The amount due from the Parent Company is unsecured, interest free and repayable on demand.
- 10.3 The Company's exposure to credit risk related to other receivables is disclosed in Note 16.3. No provision for Expected Credit Losses was considered necessary on the above balance due from the Parent Company, as the Parent Company is acting as Guarantor and is financially solid. The directors have therefore assessed that the Probability of Default and Loss Given Default are non-existent.

11. Cash and Cash Equivalents

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Bank Balances	235,247	365,799
Cash and Cash Equivalents	<u>235,247</u>	<u>365,799</u>

12. Share Capital

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Authorised		
500,000 Ordinary Shares of € 1 each	<u>500,000</u>	<u>500,000</u>
Issued and Fully Paid Up		
250,000 Ordinary Shares of € 1 each	<u>250,000</u>	<u>250,000</u>

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

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

13. Interest Bearing Borrowings

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Non-Current:		
3.75% Series I Bonds 2027	11,500,000	11,500,000
4.25% Series II Bonds 2031	11,000,000	11,000,000
4.30% Bonds 2032	50,000,000	50,000,000
	-----	-----
Total Interest Bearing Borrowings	72,500,000	72,500,000
	=====	=====

- 13.1** On 4 March 2019, the Company issued € 11,500,000 3.75% secured Bonds maturing in 2027 (Series I Bonds) and a further € 11,000,000 4.25% secured Bonds maturing in 2031 (Series II Bonds). Both Bonds were issued at a nominal value of € 100 per bond. These Bonds were admitted to the official list of the Malta Stock Exchange with effect from 29 March 2019 and trading in the Bonds commenced on 5 April 2019.

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

- 13.2** On 22 March 2022, the Company issued a further € 50,000,000 4.30% secured Bonds of € 100 each maturing in 2032. On 14 April 2022, the bond was fully subscribed and the proceeds from this bond issue were advanced by way of another loan facility to the Parent Company, for the purpose of construction and finishing of the hotel at the Mercury Towers project and for general corporate funding. This bond is guaranteed by the Parent Company, Mercury Towers Ltd., and secured by a first ranking special hypothec on the immoveable property of a related company, namely Mercury Hotel Ltd.

- 13.3** The quoted market price as at 31 December 2023 for the 3.75% Bonds was € 99.00 (2022: € 99.49) whilst the quoted market price of the 4.25% Bonds was € 99.50 (2022: € 97.00). The quoted market price of the 4.3% Bond was € 98.30 (2022: € 97.00).

14. Other Payables

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Accrued Interest on Borrowings	2,167,945	2,167,945
Other Payables	1,475	1,574
Accrued Expenses	29,015	26,706
Amounts due to Parent Company	-	97,647
	-----	-----
	2,198,435	2,293,872
	=====	=====

- 14.1** The amounts due to the Parent Company in the comparative period were unsecured, interest free and repayable on demand.

- 14.2** The carrying value of other payables classified as financial liabilities measured at amortised cost approximates fair value.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

15. Fair Value Hierarchy

The following table shows financial instruments, including those recognised at fair value, for the year ended 31 December 2023, analysed between those whose fair value is based on:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based upon observable market data.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	Euro	Euro	Euro	Euro
31 December 2023				
Financial Assets				
Interest Bearing Receivables	72,444,358	-	-	72,444,358
Other Receivables	2,564,984	-	-	2,564,984
Taxation Recoverable	29,300	-	-	29,300
Cash and Cash Equivalents	235,247	-	-	235,247
	-----	-----	-----	-----
	75,273,889	-	-	75,273,889
	=====	=====	=====	=====
Financial Liabilities				
Interest Bearing Borrowings	72,500,000	-	-	72,500,000
Other Payables	2,198,435	-	-	2,198,435
	-----	-----	-----	-----
	74,698,435	-	-	74,698,435
	=====	=====	=====	=====
31 December 2022				
Financial Assets				
Interest Bearing Receivables	72,444,358	-	-	72,444,358
Other Receivables	2,521,871	-	-	2,521,871
Cash and Cash Equivalents	365,799	-	-	365,799
	-----	-----	-----	-----
	75,332,028	-	-	75,332,028
	=====	=====	=====	=====
Financial Liabilities				
Interest Bearing Borrowings	72,500,000	-	-	72,500,000
Other Payables	2,293,872	-	-	2,293,872
Taxation Payable	45,461	-	-	45,461
	-----	-----	-----	-----
	74,839,333	-	-	74,839,333
	=====	=====	=====	=====

During the reporting year ended 31 December 2023, there was no transfer between Level 1 and Level 2 fair value measurement.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

16. Financial Risk Management

16.1 Overview

The Company activities potentially expose it to a variety of financial risks, including fair value or cash flow interest rate risk, credit risk, liquidity risks and market risks.

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

16.2 Risk Management Framework

The Board has overall responsibility for the establishment and oversight of the Company's risk management objectives and policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details of these policies are set out below:

16.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans receivable from its Parent Company, Mercury Towers Ltd.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. The Company's policy is to place cash with financial institutions of a high credit rating. The Company's bankers currently have a credit rating of BBB.

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting year was as follows:

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Loans Receivable from Parent Company	72,444,358	72,444,358
Other Receivables	43,182	-
Cash and Cash Equivalents	235,247	365,799
	-----	-----
	72,722,787	72,810,157
	=====	=====

- 16.3.1 The Company's loans receivable consists of advances made to its Parent Company, Mercury Towers Ltd., which advances were affected out of the Company's net bond issue proceeds. The Company monitors intra-group credit exposures on a regular basis and ensures timely performances of these assets in the context of overall group liquidity management. The Company's collateral held as security in respect of the financial assets is disclosed in Note 9 to the financial statements. The Guarantor in relation to the bond issues is Mercury Towers Ltd., whilst the related company, Mercury Hotel Ltd., made available the hotel by way of a first ranking special hypothec in security for the bond. The Company assesses the credit quality of Mercury Towers Ltd. taking into account the financial position, performance and other factors. The Company takes cognisance of the related party relationship with its parent, and the directors do not expect any losses from non-performance or default.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

16. Financial Risk Management (Contd.)

16.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company is exposed to liquidity risk in relation to meeting the future obligations associated with its financial liabilities, which comprise principally of the Bonds issued to the general public as well as other payables and is dependent on cash flows receivable from Mercury Towers Ltd. Prudent liquidity risk management includes, maintaining sufficient cash and liquid assets to ensure the availability of an adequate amount of funding to meet the Company's obligations.

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

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

	<u>Within 1 Year</u>	<u>Between 1-2 Years</u>	<u>Between 2-5 Years</u>	<u>Over 5 Years</u>
	Euro	Euro	Euro	Euro
31 December 2023				
Interest Bearing Borrowings	3,048,750	3,048,750	20,215,000	71,002,500
Other Payables	30,490	-	-	-
	<u>3,079,240</u>	<u>3,048,750</u>	<u>20,215,000</u>	<u>71,002,500</u>
31 December 2022				
Interest Bearing Borrowings	3,048,750	3,048,750	20,646,250	73,620,000
Other Payables	28,280	-	-	-
Amounts due to Parent Company	97,647	-	-	-
	<u>3,174,677</u>	<u>3,048,750</u>	<u>20,646,250</u>	<u>73,620,000</u>

16.5 Market Risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Company's income on the loans affected from the proceeds of the secured Bonds. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

16.5.1 Fair Value Interest Rate Risk

The Company's transactions consist mainly of earning interest income on advances affected, principally from the bond issues proceeds, and servicing its borrowings. The Company's significant interest-bearing instruments, comprising advances to the Parent Company and the Bonds issued to the general public, are subject to fixed interest rates. The Company has secured the spread between the return on its investment in the Parent Company and its cost of borrowings. Accordingly, the Company is not exposed to cash flow interest rate risk but is potentially exposed to fair value interest rate risk in view of the nature of the fixed interest nature of its instruments, which are however measured at amortised cost.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

16. Financial Risk Management *(Contd.)*

16.5 Market Risk *(Contd.)*

16.5.1 Fair Value Interest Rate Risk *(Contd.)*

The Company's operating income and cash flows are substantially independent of changes in market interest rates, and on this basis, the directors consider the potential impact on the profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be insignificant.

16.5.2 Foreign Currency Risk

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

16.6 Capital Risk Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Parent Company's objectives when managing capital at the company level is to safeguard the respective company's ability to continue as a going concern in order to provide returns to the Parent Company and benefits other stakeholders, and to maintain an optimal capital structure to reduce cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

The capital equity, as disclosed in the financial statements, constitutes its capital. The Company maintains its level of capital by reference to its financial obligations and commitments arising from operational requirements. Taking cognizance of the nature of the Company's assets, together with collateral held as security backing the Company's principal borrowings, the capital level at the end of the reporting year is deemed adequate by the directors.

17. Related Parties

17.1 Parent and Ultimate Controlling Party

The Company is a subsidiary of Mercury Towers Ltd. (the "Parent Company") whose registered office is at J. Portelli Projects, 1400, Block 14, Portomaso, St. Julians, Malta.

Mercury Towers Ltd. is in turn fully owned by Mr. Joseph Portelli.

Mercury Towers Ltd. prepares consolidated financial statements of the Group of which Mercury Projects Finance P.l.c. forms part. These financial statements are filed and available for public viewing at the Malta Business Registry.

17.2 Identity of Related Parties

The Company has a related party relationship with its Parent Company and other group companies.

MERCURY PROJECTS FINANCE P.L.C.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

17. Related Parties (Contd.)

17.3 Related Party Transactions and Balances

	<u>2023</u>	<u>2022</u>
	Euro	Euro
Parent Company		
Interest Income Receivable from	3,370,829	2,729,733
Loans Advanced by/(to)	-	(50,000,000)
Net Funds Advanced by/(to)	<u>(140,829)</u>	<u>406,138</u>

Amounts due from and to the Parent Company are disclosed in Notes 9, 10 and 14 to these financial statements.

The key management of the Company are considered to be the directors of the Company. The directors' remuneration has been disclosed in Note 6 to these financial statements.

- 17.4 Related party transactions are entered into on a commercial basis with entities which are related by way of common shareholders, and who are able to exercise significant influence over the Company's operations. Transactions with these companies principally include advances affected by the Company from the Bond proceeds referred to in the notes to the financial statements.

18. Capital Commitments

The Company did not have any commitments to purchase any property, plant and equipment at year end.

19. Contingent Liabilities

At year end, the Company did not have any contingent liabilities.

20. Regional Conflicts

Conflicts between countries will always have a negative effect on the rest of the world. The increased challenges brought about by various conflicts in Ukraine and the Mediterranean cannot be ignored. However, following a thorough assessment of the Company's operations and, more significantly, that of the Group, it has been noted that there is no reliance on these regions for goods or services. The directors continue to actively monitor all developments taking place internationally in order to take any action that might be necessary in the eventuality that developments in these conflicts start to impact the Company's and the Group's performance and operations.

21. Subsequent Events

The directors have evaluated subsequent events since 31 December 2023 up to the date of approval of these financial statements and concluded that there were no subsequent events which require disclosure in the financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MERCURY PROJECTS FINANCE P.L.C.
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Opinion

We have audited the financial statements of Mercury Projects Finance P.l.c. (the "Company") set out on pages 9 to 27 which comprise the statement of financial position as at 31 December 2023, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta).

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

Basis for Opinion

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

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

Independence

We are independent of the 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.

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

The non-audit services that we have provided to the Company in the period from 1 January 2023 to 31 December 2023, are disclosed in Note 6 to the financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MERCURY PROJECTS FINANCE P.L.C.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our Audit Approach

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

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into consideration the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit work was influenced by the application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatements. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The overall materiality amount has been set at € 376,507 based on 0.50% of total assets. Total assets have been chosen as a benchmark because, in our view, it is an appropriate measure for this type of entity. We considered that this provides us with a consistent year-on-year basis of determining materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during the course of the audit above € 18,825 (5%), as well as any misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loans receivable represent funds advanced to the Parent Company in terms of the Bond Issue Offer Memorandums. The loan balances at year end amounted to € 72,444,358 whilst accrued interest thereon amounted to € 2,508,638. As explained in accounting policy 3.5, the recoverability of the loans and interest thereon is assessed at each financial year end. The loans and accrued interest receivable thereon constitute the principal assets of the Company, which is why we have given due attention to this area.

We have agreed the terms of the loans and interest to supporting loan agreements. We have also assessed the financial soundness of the Parent Company, namely Mercury Towers Ltd., which is also the Guarantor of the Company's Bonds, and in so doing, we made reference to the latest audited financial statements, management accounts, forecasts and other prospective information made available to us.

Based on evidence and explanations obtained, we concur with management's view with respect to the recoverability of the loans and accrued interest thereon.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MERCURY PROJECTS FINANCE P.L.C.
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Other Information

The directors are responsible for the other information. The other information comprises the directors' report and the Corporate Governance Statement of Compliance.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as stated within the *Report on Other Legal and Regulatory Requirements*.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting.

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 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the 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.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MERCURY PROJECTS FINANCE P.L.C.
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

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

- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

The annual financial report and financial statements contain other areas required by legislation or regulation on which we are required to report. The directors are responsible for these other areas.

We set out below the areas presented within the annual financial report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the other information section of our report. Except as outlined in the relative section, we have not provided an audit opinion or any form of assurance.

Directors' Report

The Malta Companies Act (Cap. 386) requires the directors to prepare a Directors' Report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.

We are required to consider whether the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

We are also required to express an opinion as to whether the Directors' Report has been prepared in accordance with the applicable legal requirements.

In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' Report, and if, 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 Malta Companies Act (Cap. 386).

We have nothing to report to you in this regard.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MERCURY PROJECTS FINANCE P.L.C.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Report on Corporate Governance – Statement of Compliance

The Capital Markets 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 Governance and the effective measures that they have taken to ensure compliance throughout the financial period with those Principles. The Capital Market Rules also require the auditors to include a report on the Statement of Compliance prepared by the directors.

We read the Statement of Compliance with the Principles of Good Corporate Governance set out on pages 6 to 8 and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

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

In our opinion, the Statement of Compliance with the Principles of Good Corporate Governance has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority.

Report on Compliance with the Requirements of the European Single Electronic Format Regulatory Technical Standard (the "ESEF RTS"), by Reference to Capital Markets Rule 5.55.6

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive (the "ESEF Directive 6") on the annual financial report of Mercury Projects Finance P.l.c. for the year ended 31 December 2023, entirely prepared in a single electronic reporting format.

The directors are responsible for the preparation of the annual financial report, including the financial statements, by reference to Capital Markets Rule 5.56A, in accordance with the requirements of the ESEF RTS.

Our responsibility is to obtain reasonable assurance about whether the annual financial report, including the financial statements, comply in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6. Our procedures included:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the annual financial report in XHTML format.
- Examining whether the annual financial report has been prepared in XHTML format.

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

In our opinion, the annual financial report for the year ended 31 December 2023 has been prepared in XHTML format in all material respects.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MERCURY PROJECTS FINANCE P.L.C.
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Other Reporting Requirements

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

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

We also have responsibilities under the Capital Markets Rules to review the statement made by the directors that the business is a going concern together with the supporting assumptions or qualifications as necessary.

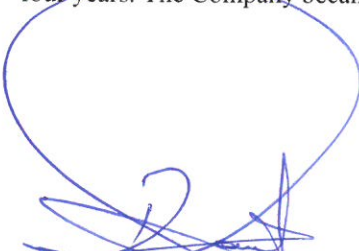
We have nothing to report to you in this regard.

Other Matter – Use of this Report

Our report, including our opinions, have been prepared for and only for the Company's shareholders as a body in accordance with Article 179 of the Malta Companies Act (Cap.386) and for no other purposes. We do not, in giving our opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed to by our prior written consent.

Appointment

We were first appointed auditors of the Company for the year ended 31 December 2019. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of four years. The Company became listed on a regulated market in March 2019.



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

Baker Tilly Malta

Registered Auditors

Level 5

Rosa Marina Building

216, Marina Seafront

Pieta' PTA 9041

Malta

19 April 2024