

Company Registration No.: C 84461

HH FINANCE PLC

**Report
and
Financial Statements**

31 December 2018

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

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HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

GENERAL INFORMATION

Registration

HH Finance plc is registered in Malta as a public limited liability company under the Companies Act (Cap 386). The Company's registration number C 84461.

Directors

Luke Chetcuti
Benjamin Muscat
Tonio Depasquale
Hugo Chetcuti

(ceased to be a director following his demise from 12 July 2018)

Company secretary

Ann Marie Agius

Registered office

2, St Georges Court A
St Augustine Street
St Julians STJ 3200
Malta

Bankers

Bank of Valletta plc
58 Zachary Street
Valletta VLT 1130
Malta

Auditors

RSM Malta
Mdina Road
Zebbug ZBG 9015
Malta

HH FINANCE PLC

Financial Statements for the period ended 31 December 2018

DIRECTORS' REPORT

The directors of the Company hereby present their first report and the financial statements for the financial period ended 31 December 2018.

Company Incorporation

The Company was incorporated on 17 January 2018 as a public limited liability company under the Companies Act (Cap. 386). Accordingly, the figures in the financial statements cover the period from the date of incorporation to 31 December 2018.

Principal Activity

The Company has an investment property which it leases to a fellow subsidiary.

Review of the Business

During the period under review the Company acquired a hotel from its parent company. It then successfully issued €5 million 5% unsecured bonds having a nominal value of €100 each issued on Prospects for the purpose of paying part of the amount due to the parent company. The Company also entered into a lease agreement with a fellow subsidiary to lease the hotel. The rental income earned during the period amounted to €1,251,332 and the rent receivable outstanding as at 31 December 2018 amounted to €664,135.

During the period under review, profit before taxation amounted to €3,963,819.

Financial Risk Management

The Company's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. Refer to note 17 to the financial statements.

Results and Dividends

The results for the period are set out in the statement of comprehensive income on page 15. The directors do not recommend the payment of a dividend.

Related Party Transactions

During the financial period ended 31 December 2018, the Company conducted transactions with related parties as disclosed in note 16 to these financial statements. To the best of our knowledge, the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

HH FINANCE PLC

Financial Statements for the period ended 31 December 2018

DIRECTORS' REPORT - continued

Directors

The directors who held office during the period were:

Luke Chetcuti (Managing Director)

Benjamin Muscat

Tonio Depasquale

Hugo Chetcuti (ceased to be a director following his demise from 12 July 2018)

In accordance with the Company's Articles of Association, all directors except for the managing director, shall retire from office at least once every three (3) years, but shall be eligible for re-election.

Statement of directors' responsibilities

The Companies Act (Cap. 386) requires the directors to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company and of the profit or loss of the Company for that period.

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 the 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;
- report comparative figures corresponding to those of the preceding accounting period; and
- prepare the financial statements in accordance with the general accepted accounting principles as defined in the Companies Act (Cap. 386) and in accordance with the provision of the same Act.

The directors are also 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.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

DIRECTORS' REPORT - continued

Statement of directors' responsibilities - continued

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 2018, and of the financial performance and the cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union ; and
- the annual report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Auditors

RSM Malta, Certified Public Accountants, have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

Signed on behalf of the directors by:



Luke Chetcuti
Director

28 March 2019



Benjamin Muscat
Director

HH FINANCE PLC

Financial Statements for the period ended 31 December 2018

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Company supports the Prospects MTF Rules ("the Rules").

It adopts a Code of Principles of Good Corporate Governance, guided by the Listing Rules of the Listing Authority (the "Code") with the exceptions mentioned below, and is confident that by being guided by this Code this shall result in positive effects accruing to it. The Issuer adopts measures in line with the Code of Principles with a view to ensure that all transactions are carried out at arm's length.

The Board of Directors sets the strategy and direction of the Issuer and retains direct responsibility for appraising and monitoring the Issuer's financial statements and annual report. The activities of the Board are exercised in a manner designed to ensure that it can effectively supervise the operations of the Issuer so as to protect the interests of the bondholders, amongst other stakeholders. The Board is also responsible for making relevant public announcements and for the Issuer's compliance with its continuing obligations in terms of the Rules.

The Issuer's financial statements are to be subject to an annual audit by the Issuer's external auditors. Moreover, the non-executive Directors will have direct access to the external auditors of the Issuer who attend at Board meetings at which the Company's financial statements are approved. In ensuring compliance with other statutory requirements and with continuing admission obligations, the Board is advised directly, as appropriate, by its appointed broker, legal advisor and the external auditors. Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the Issuer's expense.

The Board

The Board of Directors is responsible for the Company's affairs, in particular in giving direction to the Company and being actively involved in overseeing the systems of control and financial reporting. The Board has discussed the Code and all directors are aware of their responsibilities as such, including those arising from such Code.

Directors

Mr Luke Chetcuti (executive director)
Mr Benjamin Muscat (non-executive director)
Mr Tonio Depasquale (non-executive director)

Board Committees

The Company established an audit committee. The following directors sit on the audit committee:
Mr Benjamin Muscat (Chairman – non-executive director)
Mr Tonio Depasquale (non-executive director)
Mr Luke Chetcuti (executive director)

Remuneration Committee

Due to the nature of the Company's restricted operational functions, the Board does not consider it necessary to set up a remuneration committee. The directors received in aggregate €27,804 for services rendered during 2018. The remuneration has been approved by the audit committee.

HH FINANCE PLC

Financial Statements for the period ended 31 December 2018

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Evaluation of the Board's Performance

Under the present circumstances, the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the Board's performance is always under the scrutiny of the shareholders.

Internal Control System

The Company's internal control system is designed to ensure, as much as possible, transparency, independence and segregation of duties. The process is also designed to ensure reliable financial reporting, effective and efficient operations and compliance with applicable laws and regulations.

Whilst the board of directors is responsible for an effective internal control system, it relies on its effectiveness on the audit committee.

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Zebbug ZBG 9015,
Malta.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of HH Finance plc

Opinion

We have audited the financial statements of HH Finance plc ("the Company"), set out on pages 14 - 29, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 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 2018, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITORS' REPORT - continued

Key Audit Matters - continued

Fair value of the Investment Property

The Company's investment property pertains to the H Hotel located at Triq Santu Wistin, Paceville, St Julians valued at €35,039,041. Valuation of this property is inherently subjected to, among other factors, the individual nature of the property, its location, and the expected future revenues to be derived from the property.

The existence of significant estimates used to arrive at the fair value of the property, could result in a potential material misstatement by virtue of the inherent uncertainties underlying estimations. Consequently, specific audit focus and attention was afforded to this area. The valuation of the property was performed by management on the basis of valuation reports prepared by an independent valuer. The valuations are in accordance with the Royal Institution of Chartered Surveyors (RICS) standards and were arrived at by reference to market evidence of transactions for similar properties.

The valuer's opinion of fair value was primarily derived using several variables, assumptions and valuation techniques. These assumptions such as the discount rate, annual growth rate, capitalisation rate and the exit yield, are mostly market related and based on professional judgement and market observation.

Our audit procedures on the transactions, include amongst others:

- we have considered the objectivity, independence and expertise of the external valuer; and
- we have assessed the reasonableness of the valuation by reference to market evidence of transactions for similar properties.

Assessment of the Recoverability of the Receivables

We identified the recoverability of accounts receivables as a key audit matter due to the significant degree of judgements made by management in assessing the impairment of the receivables and determining the allowance for doubtful debts.

As at 31 December 2018, the Company had an outstanding balance of other receivables amounting to €664,135 which relates to accrued rental income. The Company's sole source of revenue is from rental income from leasing the investment property to a related party ("the lessee").

Our procedures in relation to the recoverability of receivables included:

- we have reviewed the terms surrounding the receivable to the lease agreement; and
- we have assessed the financial soundness of the fellow subsidiary. In doing this, we referred to the management accounts made available to us.

INDEPENDENT AUDITORS' REPORT - continued

Other Information

The directors are responsible for the other information. The other information comprises the general information, the statement of compliance with the principles of good corporate governance and the directors' report. Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, 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.

Under Article 179(3) of the Companies Act (Cap. 386), we are required to consider whether the information given in the directors' report is compliant with the disclosure requirements of Article 177 of the same Act.

Based on the work we have performed, in our opinion:

- the directors' report has been prepared in accordance with the Companies Act (Cap. 386);
- 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
- in light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the 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 have no realistic alternative but to do so.

The directors have delegated the responsibility for overseeing the Company's financial reporting process to the Audit Committee.

INDEPENDENT AUDITORS' REPORT - continued

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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 directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT - continued

Auditors' Responsibilities for the Audit of the Financial Statements - continued

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.

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

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

Report on other Legal and Regulatory Requirements

Report on the Statement of Compliance with the Principles of Good Corporate Governance

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

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

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

INDEPENDENT AUDITORS' REPORT - continued

Report on the Statement of Compliance with the Principles of Good Corporate Governance - continued

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

In our opinion, the Statement of Compliance has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

This copy of the audit report has been signed by

A handwritten signature in blue ink, appearing to read 'Joseph Ellul Falzon', is written over a horizontal line.

Joseph Ellul Falzon (*Partner*)
for and on behalf of

RSM Malta
Certified Public Accountants

28 March 2019

HH FINANCE PLC
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STATEMENT OF COMPREHENSIVE INCOME

		17.01.2018 to 31.12.2018 €
	Note	
Revenue	4	1,251,332
Administrative expenses		<u>(192,641)</u>
Operating profit		1,058,691
Interest income	5	3,059,923
Finance cost	6	<u>(154,795)</u>
Profit before tax	7	3,963,819
Taxation	8	<u>-</u>
Profit for the financial period		<u>3,963,819</u>
Total comprehensive income for the period		<u>3,963,819</u>
Earnings per share for profit attributable to the ordinary equity holders of the Company:		
Basic earnings per share	12	<u>31.31</u>
Diluted earnings per share	12	<u>0.11</u>

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STATEMENT OF FINANCIAL POSITION
As at 31 December

	Note	2018 €
ASSETS		
Non-current assets		
Investment property	9	<u>35,039,041</u>
Current assets		
Other receivables	10	664,135
Cash and cash equivalents	15	<u>529,458</u>
		<u>1,193,593</u>
TOTAL ASSETS		<u>36,232,634</u>
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	11	150,000
Retained earnings		<u>3,963,819</u>
TOTAL EQUITY		<u>4,113,819</u>
Non-current liabilities		
Borrowings	13	<u>31,915,077</u>
Current liabilities		
Trade and other payables	14	<u>203,738</u>
TOTAL LIABILITIES		<u>32,118,815</u>
TOTAL EQUITY AND LIABILITIES		<u>36,232,634</u>

The financial statements on pages 14 to 29 have been authorised for issue by the Board of Directors on 28 March 2019 and were signed on its behalf by:



Luke Chetcuti
 Director



Benjamin Muscat
 Director

HH FINANCE PLC
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STATEMENT OF CHANGES IN EQUITY

	Issued capital	Retained earnings	Total
	€	€	€
For the period ended 31 December 2018			
Issuance of share capital	150,000	-	150,000
Total comprehensive income for the period			
<i>Profit for the financial period</i>	-	3,963,819	3,963,819
Balance as at 31 December 2018	150,000	3,963,819	4,113,819

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STATEMENT OF CASH FLOWS

	Note	2018 €
Cash flows from operating activities:		
Profit before tax		3,963,819
Adjustment for:		
Interest expense		154,795
Interest income		<u>(3,059,923)</u>
Profit from operations before capital changes		1,058,691
Increase in other receivable		(664,135)
Increase in trade and other payables		<u>48,943</u>
Net cash flows from operating activities		<u>443,499</u>
Cash flows from investing activity:		
Purchase of investment property		<u>(35,039,041)</u>
Net cash flows used in investing activity		<u>(35,039,041)</u>
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares		150,000
Loans from parent company		29,975,000
Proceeds from the issuance of bonds		<u>5,000,000</u>
Net cash flows from financing activities		<u>35,125,000</u>
Net movement in cash and cash equivalents		<u>529,458</u>
Cash and cash equivalents at beginning of period		<u>-</u>
Cash and cash equivalents at end of period	15	<u>529,458</u>

HH FINANCE PLC

Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS

1. INCORPORATION

HH Finance plc ("the Company") is registered in Malta as a public limited company whose bonds are publicly listed in the Malta Stock Exchange under Prospects MTF market. The Company was incorporated on 17 January 2018, and accordingly, these financial statements cover the period from incorporation to 31 December 2018.

2. ADOPTION OF STANDARDS AND INTERPRETATIONS

At the end of the reporting period, certain new standards, interpretations or amendments thereto, were issued and endorsed by the European Union, but not yet effective for the current financial period. There have been no instances of early adoption of standards, interpretations or amendments thereto ahead of their effective date. The directors anticipate that the adoption of the new standards, interpretations or amendments thereto, will not have a material impact on the financial statements upon initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting convention and basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and comply with the Companies Act (Cap. 386) enacted in Malta. These financial statements are prepared under the historical cost convention except for investment property which is valued at fair value.

These financial statements have been presented in Euro (€), which is the Company's functional currency.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The directors have considered the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates. Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and judgments

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are outlined below.

Fair value of investment property

The fair value of the Company's investment property was based on valuation reports prepared by an independent valuer, in accordance with the Royal Institution of Chartered Surveyors (RICS) standards. The fair value is dependent on inherent assumptions made by the valuer including assumptions relating to the discount rate, annual growth rate, capitalisation and exit yield.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Accounting convention and basis of preparation - continued

Critical accounting estimates and judgments - continued

Impairment of amounts owed by fellow subsidiary

In assessing the recoverability of the amounts owed by the fellow subsidiary, the directors took into consideration the expected future outcome of the company which is currently in the initial period of operations and still not operating fully.

As a result of the above assessment, the directors consider the amounts owed by the fellow subsidiary as at 31 December 2018 are not impaired and are fully recoverable.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rental income

Rental income from investment property is recognised in profit or loss on a systematic basis.

Investment property

Investment properties principally comprises of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the company. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly in profit or loss.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected. Transfers to and from investment properties to property, plant and equipment are determined by a change in use of owner-occupation. The fair value on the date of change of use from investment properties to property, plant and equipment are used as deemed cost for the subsequent accounting. The existing carrying amount of property, plant and equipment is used for the subsequent accounting cost of investment properties on the date of change of use.

Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit loss. The amount of expected credit loss is updated at each reporting period to reflect changes in credit risk since initial recognition.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and cash equivalents

Cash in hand and at banks and short-term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at bank.

Impairment of non-financial assets

The carrying amount of the Company's assets are reviewed at the end of each reporting year to determine whether there is any indication of impairment. If such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For accrued income the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Borrowings

All borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market, or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Trade and other payables

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company. Due to their short-term nature, these are measured at amortised cost and are not discounted.

Earnings per share

Earnings per share have been calculated using the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are calculated using the weighted average number of additional ordinary shares that would have been outstanding during the year assuming the conversion of all dilutive potential ordinary shares.

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Tax

The tax charge in the profit or loss for the year normally comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised and/or sufficient taxable temporary differences are available. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. REVENUE

	17.01.2018
	to
	31.12.2018
	€
Rental income from investment property	<u>1,251,332</u>

Revenue represents lease income from a fellow subsidiary on the lease of the hotel.

5. INTEREST INCOME

	17.01.2018
	to
	31.12.2018
	€
Net effect of effective interest	<u>3,059,923</u>

The net effect of effective interest relates to the accounting of the notional interest upon initial recognition on the interest-free element of the long term borrowings from the parent company.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

6. FINANCE COST

	17.01.2018 to 31.12.2018 €
Payable to bondholders	<u>154,795</u>

7. PROFIT BEFORE TAX

The profit before tax is stated after charging:

	17.01.2018 to 31.12.2018 €
Directors' fees	27,804
Auditors' remuneration	6,000
Formation costs	<u>770</u>

8. TAXATION

The tax on the Company's profit before tax reconciles to the theoretical tax expense that would arise using the applicable tax rate in Malta of 35% as follows:

	17.01.2018 to 31.12.2018 €
Profit before tax	<u>3,963,819</u>
Theoretical tax expense at 35%	1,387,337
Tax effect of:	
Non-deductable expenses	67,425
Non-taxable income	(1,070,974)
Maintenance allowance	(87,593)
Losses surrendered from fellow subsidiary	<u>(296,195)</u>
	<u>-</u>

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

9. INVESTMENT PROPERTY

At fair value

	2018 €
Additions	<u>35,039,041</u>

The investment property is held for long-term rental yields and is carried at fair value.

The rental income recognised in the profit or loss from the Company's investment property which is being leased out to a fellow subsidiary under operating leases amounted to €1,251,332.

As at 31 December, the minimum lease payments from the lease of the investment property not recognised in the financial statements are receivable as follows:

	2018 €
Not later than 1 year	1,752,000
Later than 1 year but not later than 5 years	7,300,000
Later than 5 years	<u>22,486,000</u>
	<u>31,538,000</u>

10. OTHER RECEIVABLES

	2018 €
Accrued income	<u>664,135</u>

The Company's exposure to credit risk related to other receivable is disclosed in note 17.

11. SHARE CAPITAL

	2018 €
Authorised, issued and fully paid up	
149,999 Ordinary A shares at €1 each	149,999
1 Ordinary B share at €1 each	<u>1</u>
	<u>150,000</u>

All ordinary shares rank equally in all respects except that the holder of the Ordinary A shares is entitled to one vote in general meetings of the Company whilst the holder of the Ordinary B share is not entitled to any vote in respect of the share.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

12. EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share at 31 December 2018 is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period, as follows:

	2018
Profit for the financial period	€ 3,963,819
Weighted average number of ordinary shares	<u>126,583</u>
Basic earnings per share	€ <u>31.31</u>

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2018 is based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 December 2018, calculated as follows:

	2018
Net profit attributable to ordinary shareholders	€ 3,963,819
Net effect of effective interest on convertible loan	<u>(2,997,615)</u>
Net profit attributable to ordinary shareholders (diluted)	€ <u>966,204</u>
Weighted average number of ordinary shares, beginning of period	126,583
Effect of conversion of convertible loan	<u>8,333,333</u>
Weighted average number of ordinary shares (diluted)	<u>8,459,916</u>
Diluted earnings per share	€ <u>0.11</u>

The portion of the amount due to the parent company which may be settled in ordinary shares or cash at the option of the Company, is considered to be potential ordinary shares and has been included in the determination of diluted earnings per share from its date of issue. This has not been included in the determination of basic earnings per share. Details relating to this amount due to the parent company are set out in note 13.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

13. BORROWINGS

	2018
	€
Amounts owed to the parent company (i)	26,915,077
5,000,000 5% bond 2023 - 2028 (ii)	<u>5,000,000</u>
	<u>31,915,077</u>

- (i) The amounts owed to the parent company relate to the outstanding balance due from the acquisition of the investment property. This amount is unsecured, subject to 4% interest per annum accruing from 30 January 2019, except for €10,000,000 which is interest free. The amount is repayable upon the lapse of 90 days from 30 January 2028. For the €10,000,000 however, the company has the option to either repay the amount in cash or to capitalize the debt through the allotment of a fresh issue of 10,000,000 ordinary shares of a nominal value of €1 each.

The loan is accounted for at its fair value which is estimated as the present value of all future cash payments discounted using the effective interest rate of 4%. The nominal amount of the loan amounts to €29,975,000.

- (ii) During the period, the Company issued an aggregate principal amount of €5,000,000 unsecured bonds, having a nominal value of €100 each, bearing an interest rate of 5% per annum. The bonds are redeemable on 19 May 2028. However, between 19 May 2023 and 19 May 2028, the Company has the option to repay all or part of the principal amount of the bonds and all accrued interest up to the date of the repayment by giving 30 day prior written notice of such repayment. The quoted market price as at 31 December 2018 for the 5% bonds 2023 - 2028 was €102.

14. TRADE AND OTHER PAYABLES

	2018
	€
Trade payables	1,888
Interest payable on bonds	154,795
VAT payable	36,976
Accruals	6,000
Directors' fees payable	3,132
Other tax payable	<u>947</u>
	<u>203,738</u>

The Company's exposure to liquidity risk related to trade and other payables is disclosed in note 17.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of balances with banks. Cash and cash equivalents included in the statement of cash flows reconcile to the amounts shown in the statement of financial position as follows:

	2018
	€
Bank balances	<u>529,458</u>

16. RELATED PARTY TRANSACTIONS

The Company has related party relationships with companies over which directors exercise significant influence. Transactions are carried out with related parties on a regular basis and in the ordinary course of the business as listed below:

	2018
	€
Rental income from fellow subsidiary	1,251,332
Purchase of investment property from the parent company	35,000,000
Net effect of effective interest	<u>3,059,923</u>

The outstanding amounts arising from transactions with the immediate parent are disclosed in note 13. Accrued rent receivable from fellow subsidiary is as disclosed in note 10.

Directors' fees are as disclosed in note 7 to the financial statements; amounts outstanding are disclosed in note 14.

17. FINANCIAL RISK MANAGEMENT

At year end, the Company's financial assets in the statement of financial position comprise of the other receivables and cash and cash equivalents. At year end, there were no off-balance sheet financial assets.

At year end, the Company's financial liabilities in the statement of financial position comprise of bonds payable, loans from the parent company, trade and other payables and interest payable. At year end, there were no off-balance sheet financial liabilities.

Exposure to liquidity, foreign currency and interest rate risks arise in the normal course of the Company's operations.

Timing of cash flows

The presentation of the financial assets and liabilities 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.

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

17. FINANCIAL RISK MANAGEMENT - continued

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 13 and equity attributable to equity holders, comprising issued share capital and retained earnings as disclosed in note 11 to these financial statements and in the statement of changes in equity.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets which potentially subject the company to concentrations of credit risk consist principally of accrued rental income from fellow subsidiary and cash at bank.

The Company's receivables consist of receivables from a fellow subsidiary and credit risk in this respect is deemed by the directors to be limited since they are confident that the fellow subsidiary will generate enough future cash flows from its operations. The Company applied the IFRS 9 simplified approach to measure the expected credit losses which uses a lifetime expected loss allowance for the amounts receivable from the fellow subsidiary.

The credit risk relating to cash at bank is considered to be low in view of management's policy of placing it with quality financial institutions.

Liquidity risk

Liquidity risk arises in the general funding of the Company's activities and in the management of positions. It includes the risk that obligations cannot be met as and when they fall due. Liquidity risk is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required to meet business goals driven by management.

The directors monitor the liquidity risk by forecasting the expected cash flows in order to ensure that adequate funding is in place for the Company to be in position to meet its commitments as and when they fall due.

The table below analyses the Company's financial liabilities by the remaining contractual maturities using the contractual undiscounted cash flows.

Liquidity table

	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	€	€	€	€	€
Trade and other payables	48,943	-	-	-	48,943
Debt securities in issue	250,000	250,000	750,000	6,250,000	7,500,000
Amounts owed to the parent company	-	-	-	37,365,750	37,365,750
	<u>298,943</u>	<u>250,000</u>	<u>750,000</u>	<u>43,615,750</u>	<u>44,914,693</u>

HH FINANCE PLC
Financial Statements for the period ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS - continued

17. FINANCIAL RISK MANAGEMENT - continued

Changes in liabilities arising from financing activities

The table below details the changes in the Company's liabilities arising from financing activities, including both cash and non cash changes.

	Bonds payable €	Amounts owed to the parent company €	Net effect of effective interest €	Total €
Proceeds from issuance of bonds payable	5,000,000	-	-	5,000,000
Amounts owed due to the parent company	-	26,915,077	3,059,923	29,975,000
	5,000,000	26,915,077	3,059,923	34,975,000

Fair values

The carrying amounts of financial assets and financial liabilities classified as current assets and current liabilities approximated their fair values due to their short-term maturities.

The fair value of non-current borrowings from the parent company are based on discounted cash flows using a current borrowing rate. They are classified as Level 3 in the fair value hierarchy due to the use of unobservable inputs.

The fair value of investment property has been categorised as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

18. STATUTORY INFORMATION

HH Finance plc is a public limited liability company and is incorporated in Malta. The Company's registered address is 2, St Georges Court A, St Augustine Street, St Julians, Malta.

HH Finance plc is a subsidiary of Hugo's Hotel Limited, a company registered in Malta, with its registered address at Hugo's Hotel, St George's Bay, St Julians, Malta, owning 99.99% shareholding of the Company.

The ultimate parent company is Lifetime Limited, a company registered in Malta, with its registered address at The Penthouse, Carolina Court, Giuseppe Cali' Street, Ta' Xbiex, Malta.

The ultimate controlling parties of the Company are the heirs of Mr. Hugo Chetcuti.