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Company Registration No.: C 84461

HH FINANCE PLC

**Annual Report
and
Financial Statements**

31 December 2019

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

CONTENTS

	<u>Page</u>
General information	2
Directors' report	3 - 5
Statement of compliance with the principles of good corporate governance	6 - 8
Independent auditors' report	9 - 14
Statement of comprehensive income	15
Statement of financial position	16
Statement of changes in equity	17
Statement of cash flows	18
Notes to the financial statements	19 - 35

HH FINANCE PLC

Annual Report and Financial Statements - 31 December 2019

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 is C 84461.

Directors

Luke Chetcuti
Tonio Depasquale
Cheryle Falzon Chetcuti (appointed on 15 November 2019)
Kari Pisani (appointed on 15 November 2019)
Benjamin Muscat (resigned on 15 November 2019)

Company secretary

Emma Grech (appointed on 15 January 2020)
Ann Marie Agius (resigned on 15 January 2020)

Registered office

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

Bankers

Bank of Valletta p.l.c.
58, Zachary Street
Valletta VLT 1130
Malta

Auditors

RSM Malta
Mdina Road
Zebbug ZBG 9015
Malta

HH FINANCE PLC

Annual Report and Financial Statements - 31 December 2019

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2019.

Principal activity

The principal activity, which is unchanged since last year, is the leasing of its investment property to a fellow subsidiary.

Company incorporation

The Company was incorporated on 17 January 2018. Consequently, the comparative figures in the financial statements cover the period from the date of incorporation to 31 December 2018.

Review of the business

The Company made a profit before tax of €13,486,047 for the year ended 31 December 2019 (2018: €3,958,588, as restated). The results for the year are inclusive of the increase in fair value of the investment property amounting to €12,960,959 (2018: nil). The Company's financial position remains satisfactory and the directors expect the general level of operating activity to be sustained in the foreseeable future.

Events after the end of reporting period

No significant events have occurred after the end of the reporting period which require mention in this report except for that disclosed in Note 22 to the financial statements.

Future developments

The Company is not envisaging any changes in operating activities for the forthcoming year.

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 20 in the financial statements.

Related Party Transactions

During the financial year, the Company conducted transactions with related parties. These are disclosed in Note 19 in the financial statements.

HH FINANCE PLC

Annual Report and Financial Statements - 31 December 2019

DIRECTORS' REPORT - continued

Directors

The directors who held office during the year under review were:

Mr Luke Chetcuti - Executive (Managing) Director

Mr Tonio Depasquale - Independent Non-Executive Director

Mr Benjamin Muscat - Independent Non-Executive Director - resigned on 15 November 2019

Dr Kari Pisani - Independent Non-Executive Director - appointed on 15 November 2019

Ms Cheryle Falzon Chetcuti - Executive Director - appointed on 15 November 2019

In accordance with the Company's Memorandum and Articles of Association, all directors except for the Managing Director, shall retire from office at least once every three 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 as at the end of the financial year and of the profit or loss for that period.

In preparing the 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 generally 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 the directors 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
Annual Report and Financial Statements - 31 December 2019

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 2019, 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 review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

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.

This report was approved by the Board of Directors and duly signed on its behalf by:



Luke Chetcuti
Director

26 June 2020



Kari Pisani
Director

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.

More specifically, in the ordinary course of its business and affairs, the board of Directors of the Company is responsible for:

- defining the Company's strategy, policies, management performance criteria and business policies;
- establishing internal and external reporting systems so that it can continuously access accurate, relevant and timely information to discharge its duties, exercise objective judgement and make decisions;
- continuously assessing and monitoring the Company's present and future operations, opportunities, threats and risks;
- evaluating the management's implementation of corporate strategy and financial objectives;
- reviewing the strategy, processes and policies adopted for implementation;
- ensuring that the Company has appropriate policies and procedures in place to assure that the Company and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards;
- providing the market with regular, timely and accurate announcements where appropriate and in terms of the applicable rules and laws governing the affairs of the Company;

The Board of the Company meets at least quarterly and more frequently if necessitated by the business and/or the general circumstances of the Company.

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

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

Current Directors

Mr Luke Chetcuti (Executive (Managing) Director)
Ms Cheryle Falzon Chetcuti (Executive Director)
Mr Tonio Depasquale (Independent Non-Executive Director)
Dr Kari Pisani (Independent Non-Executive Director)

The Company Secretary of the Company is Dr Emma Grech as from 15 January 2020.

During the course of 2019 the Board of Directors met 11 times, with a 100% attendance of all directors at 10 of these meetings. Mr Luke Chetcuti was not able to attend one of these 11 meetings, at which particular meeting all the other directors were however present.

In the opinion of the Company the board is currently composed of members who, as a whole, have the required diversity of knowledge, judgement and experience to properly complete their tasks to understand and fully appreciate the business risk issues and the ability of the Company to achieve its objectives. What is more, the Company believes the Board to be composed of an adequate mix of Executives and Independent Non - Executives. The latter members have no pre-existing or existing arrangements, business relationships or circumstances relating to the Company or the wider Group of which the Company forms part that impinges on their independence of mind and judgement.

The Board has appropriate processes and systems in place to allow for the declaration, identification and management of conflicts of interest that may arise.

Board Committees

The Company established an Audit Committee. The following directors currently sit on the Audit Committee:

Dr Kari Pisani - Chairman of the Audit Committee - Independent Non-Executive Director
Mr Tonio Depasquale - Independent Non-Executive Director
Mr Luke Chetcuti - Executive (Managing) Director

During the course of 2019 the Audit Committee met four times with a 100% attendance of all members at three of those meetings. Mr Luke Chetcuti was not able to attend one of these four meetings, at which particular meeting the other Audit Committee members were however present.

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 €39,657 for services rendered during 2019. The remuneration has been approved by the Audit Committee.

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.

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

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.

Corporate Social Responsibility

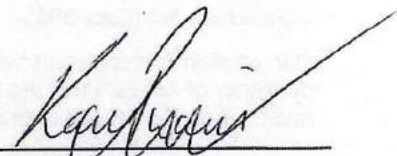
Whilst the Company is mindful of its wider social and ethical responsibilities attaching to its activities and decisions and the wider stakeholder interests that may be relevant in the management of its business and execution thereof, since the business of the Company consists exclusively in the renting of one immovable asset - within a wider Group of companies operating under the *Hugo's* brand that may have a more public destination and offering - it does not itself in any noticeable or public way, nor through any special or dedicated programme, pursue any separate corporate social responsibility initiatives, except through its association with those entertained or executed by other companies in the said wider Group of companies operating under the *Hugo's* brand.

This statement of compliance with the principles of good corporate governance has been approved by the Board of Directors and signed on its behalf by:



Luke Chetcuti
Director

26 June 2020



Kari Pisani
Director



RSM Malta

Mdina Road,
Zebbug ZBG 9015,
Malta.

T +356 2278 7000

F +356 2149 3318

www.rsm.com.mt

INDEPENDENT AUDITORS' REPORT

To the Shareholders of HH Finance plc

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of HH Finance plc ("the Company"), set out on pages 15 - 35, which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year 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).

Our opinion is consistent with the additional report to the Audit Committee in accordance with the provision of Article 11 of the EU Regulation No. 537/2014 on specific requirements regarding statutory audits of public-interest entities.

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 ethical requirements of both the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Code of Ethics for Warrant Holders in Malta. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of Financial Statements - continued

Basis for Opinion - continued

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 laws and regulations in Malta and that we have not provided any 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 during the year are disclosed in Note 6 to the financial statements.

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.

Valuation of Investment Property

The Company's investment property pertains to the H Hotel located at Triq Santu Wistin, Paceville, St Julians valued at €45,000,000. 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 the estimations. Consequently, specific audit focus and attention was given to this area. The valuation of the property was performed by management on the basis of valuation reports prepared by an independent qualified valuer. The valuation report of the third party was based on information provided by the Company and assumptions and valuation model used by the valuer. The valuation approach applied in assessing the fair value is the income approach using discounted cash flows. The most significant judgements relate to the projected cash flows, the discount rate, the annual growth rate and the capitalisation rate.

The fair value movement arising on the hotel amounted to a gain of €12,960,959 which is reflected in the statement of comprehensive income.

Our audit procedures in relation to the valuation of the investment property included, amongst others:

- Considering the objectivity, independence, competence and capabilities of the external valuer;
- Reviewing the methodology used by the external valuer and by management to estimate the fair value of the investment property;
- Testing the mathematical accuracy of the calculations derived from the forecast model;
- Assessing the key valuation inputs and assumptions used on which the forecasts were made.

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of Financial Statements - continued

Key Audit Matters - continued

Valuation of the Loans Receivable

We identified the recoverability, and hence the valuation, of the loans receivable from a fellow subsidiary as a key audit matter due to the significant degree of judgement made by management in assessing whether such loans were subject to impairment and consequently in determining the extent of allowance for expected credit losses ("ECL").

As at 31 December 2019, the Company had loans receivable amounting to €2,325,035.

Our procedures in relation to the recoverability of receivables included:

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

Other Information

The directors are responsible for the other information. The other information comprises the general information, the directors' report, and the statement of compliance with the principles of good corporate governance. 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 had been prepared is consistent with those in 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.

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of Financial Statements - continued

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of Financial Statements - continued

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

- 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 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 Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Prospects MTF 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 Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

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

In our opinion, the Statement of Compliance has been properly prepared in accordance with the requirements of the Prospects MTF Rules issued by the Malta Stock Exchange.

INDEPENDENT AUDITORS' REPORT - continued

Report on Other Legal and Regulatory Requirements - continued

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

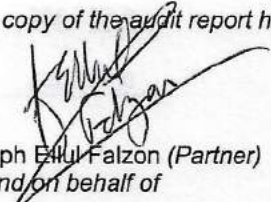
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

Appointment

We were first appointed to act as statutory auditors of the Company by the shareholders of the Company on 28 November 2018 for the period ended 31 December 2018, and we were subsequently reappointed by the shareholders at the Company's general meeting for the financial year thereafter. The period of uninterrupted engagement as statutory auditor of the Company is two financial years.

This copy of the audit report has been signed by



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

RSM Malta
Certified Public Accountants

26 June 2020

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

STATEMENT OF COMPREHENSIVE INCOME

		Restated
	01.01.2019	17.01.2018
	to	to
	31.12.2019	31.12.2018
	€	€
	Note	
Revenue	5	1,752,000 1,251,332
Administrative expenses		<u>(69,617) (192,641)</u>
Operating profit	6	1,682,383 1,058,691
Interest income	7	52,942 3,811,166
Interest expense	8	(1,210,237) (911,269)
Increase in fair value of investment property		<u>12,960,959 -</u>
Profit before tax		13,486,047 3,958,588
Taxation	9	<u>(3,803,744) -</u>
Profit for the financial year/period		<u>9,682,303 3,958,588</u>
Total comprehensive income for the year/period		<u>9,682,303 3,958,588</u>
Earnings per share		
Basic		64.55 31.27
Diluted		<u>0.98 0.11</u>

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019


STATEMENT OF FINANCIAL POSITION
As at 31 December

	Note	2019 €	Restated 2018 €
ASSETS			
Non-current assets			
Investment property	10	45,000,000	32,039,041
Loans receivable	11	2,325,035	-
Total non-current assets		47,325,035	32,039,041
Current assets			
Other receivables	12	20,392	664,135
Cash and cash equivalents	18	431,289	529,458
Total current assets		451,681	1,193,593
TOTAL ASSETS		47,776,716	33,232,634
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	150,000	150,000
Retained earnings		13,640,891	3,958,588
TOTAL EQUITY		13,790,891	4,108,588
Liabilities			
Provisions for liabilities and charges			
Deferred tax		3,600,000	-
Non-current liabilities			
Borrowings	14	29,257,628	28,920,308
Current liabilities			
Trade and other payables	16	924,453	203,738
Tax payable		203,744	-
Total current liabilities		1,128,197	203,738
TOTAL LIABILITIES		33,985,825	29,124,046
TOTAL EQUITY AND LIABILITIES		47,776,716	33,232,634

The financial statements on pages 15 to 35 have been authorised for issue by the Board of Directors on 26 June 2020 and were signed on its behalf by:



Luke Chetcuti
 Director



Kari Pisani
 Director

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital €	Retained earnings €	Total equity €
Financial 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 - restated</i>	21	-	3,958,588	3,958,588
Balance at 31 December 2018 - restated		150,000	3,958,588	4,108,588
Financial year ended 31 December 2019				
Balance at 01 January 2019 as previously reported		150,000	3,963,819	4,113,819
Prior year adjustment	21	-	(5,231)	(5,231)
Balance at 01 January 2019 - restated		150,000	3,958,588	4,108,588
Total comprehensive income for the year:				
<i>Profit for the financial year</i>		-	9,682,303	9,682,303
Balance at 31 December 2019		150,000	13,640,891	13,790,891

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

STATEMENT OF CASH FLOWS

	Note	2019 €	Restated 2018 €
Cash from operating activities:			
Profit before tax		13,486,047	3,958,588
Adjustment for:			
Interest expense		1,210,237	911,269
Interest income		(52,942)	(3,811,166)
Unrealised fair value loss on investment property		<u>(12,960,959)</u>	-
Profit from operations		1,682,383	1,058,691
Decrease/(increase) in other receivables		643,743	(664,135)
Increase in trade and other payables		<u>(11,702)</u>	48,943
Cash from operating activities		<u>2,314,424</u>	443,499
Net cash flows from operating activities		<u>2,314,424</u>	443,499
Cash flows from investing activities:			
Payments to acquire investment property		-	(32,039,041)
Proceeds from interest received classified as investing		-	751,243
Net cash flows from/(used in) investing activities		<u>-</u>	<u>(31,287,798)</u>
Cash flows from financing activities:			
Repayments from fellow subsidiaries		224,664	-
Advances to fellow subsidiaries		(2,496,757)	-
Payments of interest classified as financing		(135,270)	(756,474)
Proceeds from issuance of ordinary shares		-	150,000
Proceeds from loan from parent company		(5,230)	26,980,231
Proceeds from bonds issue		-	5,000,000
Net cash flows (used in)/from financing activities		<u>(2,412,593)</u>	<u>31,373,757</u>
Net cash (decrease)/increase in cash and cash equivalents		(98,169)	529,458
Cash and cash equivalents at beginning of year/period		<u>529,458</u>	-
Cash and cash equivalents at end of year/period	18	<u>431,289</u>	<u>529,458</u>

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

HH Finance plc ("the Company") is a public limited liability company incorporated in Malta with its registered address at 2, St Georges Court A, St Augustine Street, St Julians STJ 3200, Malta. The Company's bonds are listed at the Prospects Multilateral Trading Facility (MTF) of the Malta Stock Exchange. The principal activity of the Company is the leasing of its investment property to a fellow subsidiary.

Hugo's Hotel Limited, a private limited liability company registered in Malta, is the immediate parent of the Company. Lifetime Limited, a company registered in Malta, is the ultimate parent of the Company.

The ultimate controlling individual of the Company is Mr. Luke Chetcuti, a resident in Malta.

2. COMPARATIVE FIGURES

The Company was incorporated on 17 January 2018 under the terms of the Companies Act (Cap. 386), enacted in Malta. Accordingly, the comparative figures in these financial statements cover the period from date of incorporation to 31 December 2018.

Certain comparative figures have been restated from the financial statements previously issued as disclosed in Note 21.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement and statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Companies Act (Cap. 386) enacted in Malta.

The financial statements have been prepared under the historical cost basis, except for the investment property and the amounts owed to the parent company which are carried at fair value.

Functional and presentation currency

The financial statements are presented in Euro (€) which is the Company's functional and presentation currency.

New or revised standards, interpretations and amendments adopted

The Company adopted several new or revised standards, interpretations and amendments issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee and endorsed by the EU. The adoption of these new or revised standards, interpretations and amendments did not have a material impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

New or revised standards, interpretations and amendments issued but not yet effective

At the end of the reporting period, certain new standards, interpretations or amendments thereto, were in issue and endorsed by the EU, but not yet effective for the current financial period. There have been no instances of early adoption of standards, interpretations or amendments 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.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Leases

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

The company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Investment property

Investment properties are freehold land and/or 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 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.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognised when they are extinguished, discharged, cancelled or expire.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets are classified at initial recognition in accordance with how they are subsequently measured, as follows:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income; and
- financial assets at fair value through profit or loss.

The Company's financial assets are mainly financial assets at amortised cost.

Financial liabilities are classified at initial recognition in accordance with how they are subsequently measured, as follows:

- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit or loss.

The Company's financial liabilities are mainly financial liabilities at amortised cost.

Financial assets at amortised cost

On initial recognition, financial assets at amortised cost are recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Discounting is omitted where the effect of discounting is immaterial.

Financial assets at amortised cost are subsequently carried at amortised cost using the effective interest method less impairment losses, if any. Gain or losses are recognised in profit or loss when the asset is derecognised, modified, or impaired.

The Company's financial assets under this classification include loans receivable, other receivables, and cash at banks.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) on debt instruments that are classified as financial assets at amortised cost. 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.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime ECL).

Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially recognised at fair value, net of transaction cost and are subsequently measured at amortised cost using the effective interest method. All interest-related charges under the interest amortisation process are recognised in profit or loss.

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities at amortised cost - continued

On derecognition, the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, are recognised in profit or loss.

Financial liabilities under this classification include borrowings and trade and other payables.

Offsetting financial assets and financial liabilities

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

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.

Ordinary shares

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

Tax

The tax charge/(credit) 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.

Deferred income tax is provided using the 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

Transactions underlying items in these financial statements are measured in the Company's functional currency, which is the currency of the primary economic environment in which the entity operates.

Transactions in foreign currencies have been converted into Euro at the rates of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Euro at the rates of exchange ruling at the end of reporting period. All resulting differences are taken to profit or loss.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

4. SIGNIFICANT JUDGEMENTS AND CRITICAL ESTIMATION UNCERTAINTIES

The preparation of financial statements in conformity with IFRS as adopted by the EU 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.

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 the income approach using the discounted cash flows (DCF) method prepared by an external independent valuer. The fair value is dependent on inherent assumptions made by the valuer including assumptions relating to the discount rate, annual growth rate and capitalisation rate. These assumptions are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision.

Expected credit losses on loans receivable

In assessing the recoverability of the amounts owed by the fellow subsidiary, the directors took into consideration the expected future outcome of the fellow subsidiary which is currently in the initial period of operations.

As a result of the above assessment, the directors consider that the amounts owed by the fellow subsidiary as at 31 December 2019 are not impaired and are fully recoverable.

5. REVENUE

	01.01.2019	17.01.2018
	to	to
	31.12.2019	31.12.2018
	€	€
Rental income	1,752,000	1,251,332

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

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

6. OPERATING PROFIT

The operating profit is stated after charging:

	01.01.2019 to 31.12.2019	17.01.2018 to 31.12.2018
	€	€
Auditors' remuneration	6,000	6,000
Directors' fees	39,657	27,804
Formation costs	-	770

Fees charged by the auditor for services rendered during the financial year/period ended 31 December are as follows:

	01.01.2019 to 31.12.2019	17.01.2018 to 31.12.2018
	€	€
Annual statutory audit	6,000	6,000
Tax compliance	600	-

7. INTEREST INCOME

	01.01.2019 to 31.12.2019	Restated 17.01.2018 to 31.12.2018
	€	€
Interest on loans receivable	52,942	-
Effect of effective interest (i)	-	3,811,166
	<u>52,942</u>	<u>3,811,166</u>

(i) The effect of effective interest related 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
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

8. INTEREST EXPENSE

	Restated
01.01.2019	17.01.2018
to	to
31.12.2019	31.12.2018
€	€
Interest on bonds	154,795
Nominal interest on amounts owed to the parent company	-
Amortisation discount on amounts owed to the parent company	756,474
	<u>911,269</u>
	<u>1,210,237</u>

9. TAXATION

The tax charged to profit or loss comprised of the following:

	Restated
01.01.2019	17.01.2018
to	to
31.12.2019	31.12.2018
€	€
Current tax charge	-
Deferred tax charge	-
	<u>-</u>
	<u>3,803,744</u>

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

	Restated
01.01.2019	17.01.2018
to	to
31.12.2019	31.12.2018
€	€
Profit before tax	3,958,588
Theoretical tax expense at 35%	1,385,506
Tax effect of:	
Disallowed expenses	67,425
Non-taxable income	(1,070,974)
Maintenance allowance	(87,593)
Loss surrendered by fellow subsidiary	(296,195)
Different tax rate	1,831
Tax charge	<u>-</u>
	<u>3,803,744</u>

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

10. INVESTMENT PROPERTY

	2019	Restated 2018
	€	€
At fair value		
Opening balance	32,039,041	-
Additions	-	32,039,041
Fair value increase	<u>12,960,959</u>	-
	<u>45,000,000</u>	<u>32,039,041</u>

The investment property is a hotel and is being leased out to a fellow subsidiary and is carried at fair value.

Rental income from investment property for the year ended 31 December 2019 amounted to €1,752,000 (period ended 31 December 2018: €1,251,332). The Company has not incurred direct operating expenses arising from its investment property.

The Company has no restrictions on the realisability of its investment property and no contractual obligations to purchase, construct, or develop investment properties or for repairs, maintenance and enhancements.

The fair value of the investment property is calculated annually based on an independent assessment by a warranted architect having recent experience in the location and category of investment property being valued. The valuation approach applied in assessing the fair value is the income approach using discounted cash flows (DCF) method. Under the DCF method, the property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows on the property. To this projected cash flow series, a discount rate is applied to establish the present value of the income stream associated with the property.

The fair value hierarchy of investment property is that of Level 3. The level valuation inputs for the valuation of the property and sensitivity are as follows:

Valuation input	Range (weighted average)	Sensitivity	Impact
EBIDTA series (2020-2028)	€3.5m - €4.3m/year (€3.9m/year)	+ / - 5.0%	+€1.1m / -€1.2m
Discount rate	8%	+ / - 0.5%	-€2.3m / +€2.4m
Growth rate (2029-2039)	1%	+ / - 0.5%	+€0.7m / -€0.4m
Exit yield	6.7%	+ / - 0.5%	-€974k / +€1.1m

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

11. LOANS RECEIVABLE

	2019	2018
	€	€
Loans receivable	<u>2,325,035</u>	-

The loans receivable pertain to the credit facility and loan facility granted by the Company to a fellow subsidiary company.

The credit facility has a monthly drawdown of €128,093. The credit facility is unsecured, bears interest at 5% per annum and will mature on 18 May 2023. As at 31 December 2019, the loan balance from this credit facility consists of outstanding principal balance of €1,024,744 and €19,214 interest accrued thereon.

The loan facility pertains to the €1,472,014 original loan granted to a fellow subsidiary company. The loan is unsecured, bears interest at 5% per annum and will mature on 19 May 2023. As at 31 December 2019, the loan balance from this loan consists of an outstanding principal balance of €1,247,350 and €33,727 interest accrued thereon.

12. OTHER RECEIVABLES

	2019	2018
	€	€
Amounts owed by related parties (i)	20,392	-
Accrued income	-	664,135
	<u>20,392</u>	<u>664,135</u>

(i) The amounts owed by related parties are unsecured, interest-free and repayable on demand.

The Company's exposure to credit risk related to other receivables is disclosed in Note 20.

13. SHARE CAPITAL

	2019	Restated 2018
	€	€
Authorised, issued and fully paid up		
149,999 Ordinary A shares at €1 each	149,999	149,999
1 Ordinary B share at €1	1	1
	<u>150,000</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
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

14. BORROWINGS

	2019	Restated 2018
	€	€
Amounts owed to the parent company (i)	24,257,628	23,920,308
5,000,000 5% bond, 2023-2028 (ii)	5,000,000	5,000,000
	<u>29,257,628</u>	<u>28,920,308</u>

(i) The amounts owed to the parent company which are in relation to the acquisition of the investment property, are unsecured, of which, €16,975,000 is subject to 4% interest per annum accruing from 30 January 2019, and the remaining €10,000,000 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 carrying amount as at 31 December 2019 is net of the discounting of €2,717,372 (2018: €3,054,692) based on a discount rate of 4% per annum. The nominal amount owed to the parent company amounts to €26,975,000. As explained in Note 21 the amount due to the parent company has been revised from €29,975,000 to €26,975,000.

(ii) In 2018, 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 2019 of the bonds was €100 (2018: €102).

15. DEFERRED TAX LIABILITY

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period.

The balance at 31 December represents temporary differences attributable to:

	2019	2018
	€	€
Fair valuation of investment property	<u>3,600,000</u>	-

The recognised deferred tax liability is not expected to be settled before at least twelve months from the end of the reporting period.

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

16. TRADE AND OTHER PAYABLES

	2019	2018
	€	€
Interest payable	777,212	154,795
VAT payable	129,936	36,976
Trade payables	4,179	1,888
Accruals	7,250	6,000
Directors' fees payable	3,827	3,132
Other taxes	2,049	947
	<u>924,453</u>	<u>203,738</u>

The Company's exposure to liquidity risk related to trade and other payables as disclosed in Note 20.

17. EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share at 31 December 2019 is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year/period, as follows:

		Restated
	2019	2018
Profit for the financial period	9,682,303	3,958,588
Weighted average number of ordinary shares	149,999	126,583
Basic earnings per share	<u>64.55</u>	<u>31.27</u>

Diluted earnings per share

The calculation of diluted earnings per share for the year/period is based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year/period.

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

17. EARNINGS PER SHARE - continued

Diluted earnings per share - continued

	2019	2018
Profit for the financial year/period	9,682,303	3,958,588
Interest on convertible debts	280,730	(2,997,615)
<i>Profit attributable to ordinary shareholders (diluted)</i>	9,963,033	960,973
Weighted average number of ordinary shares, beginning of period	149,999	126,583
Effect of conversion of convertible loan	10,000,000	8,333,333
<i>Weighted average number of ordinary shares (diluted)</i>	10,149,999	8,459,916
Diluted earnings per share	0.98	0.11

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 14.

18. 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:

	2019	2018
	€	€
Bank balances	431,289	529,458

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

19. RELATED PARTY TRANSACTIONS

The Company has related party relationships with companies under common control and over which the directors exercise significant influence. Transactions are carried out with related parties on a regular basis and in the ordinary course of the business. The following are the transactions with related parties during the year / period:

	01.01.2019 to 31.12.2019 €	Restated 17.01.2018 to 31.12.2018 €
Rental income		
Fellow subsidiary company	<u>1,752,000</u>	1,251,332
Interest income/(expense)		
Fellow subsidiary company	52,942	-
Parent company	<u>(622,417)</u>	-
Acquisition of investment property		
Parent company	-	<u>32,000,000</u>
Loans		
Fellow subsidiary	<u>(2,272,093)</u>	-
Borrowings		
Parent company	-	<u>26,975,000</u>
Remuneration		
Directors	<u>39,657</u>	27,804

The outstanding balances arising from the above transactions are disclosed in Notes 11, 12, 14 and 16 to these financial statements.

20. FINANCIAL RISK MANAGEMENT

At year end, the Company's main financial assets in the statement of financial position comprise of loans receivable and other receivables. There were no off-balance sheet financial assets.

At year end, the Company's main financial liabilities in the statement of financial position comprise borrowings, trade and other payables. There were no off-balance sheet financial liabilities.

Exposure to credit and liquidity risks arise in the normal course of the company's operations.

Timing of cash flows

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

NOTES TO THE FINANCIAL STATEMENTS - continued

20. FINANCIAL RISK MANAGEMENT - continued

Capital risk management

HH Finance plc 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 Company's strategy remains unchanged from 2018.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 14, and equity attributable to equity holders, comprising issued share capital and retained earnings as disclosed in Note 13 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 loans receivable, other receivables and cash at bank.

The loans receivable and other receivables are mainly receivables from a fellow subsidiary. The exposure of the Company to credit risk from this related party are the carrying amounts as disclosed in Notes 11 and 12 to these financial statements. The directors have evaluated the credit risk of the fellow subsidiary taking into consideration its financial position, financial performance and cash flow projections. Accordingly, the directors have concluded that no significant increase in credit risk has been noted since initial recognition and that the credit risk remains low. Consequently, the resulting expected credit loss has been assessed to be not material to these financial statements and thus was not recognised.

The credit risk relating to cash at bank is considered to be low in view of management's policy of placing it with reputable 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 a position to meet its commitments as and when they fall due. Moreover, financing from the parent company is readily available in order to support the Company in meeting its obligations when they fall due.

The following table analyses the Company's contractual cash flow maturities of the Company's financial liabilities:

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS - continued

20. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

	Trade and other payables	Bonds	Amounts due to parent company	Total
	€	€	€	€
Financial year ended 31 December 2019				
Due within one year	139,991	250,000	-	389,991
Due after one year but within five years	-	1,000,000	-	1,000,000
Due after five years	-	6,000,000	33,086,000	39,086,000
	<u>139,991</u>	<u>7,250,000</u>	<u>33,086,000</u>	<u>40,475,991</u>
Financial period ended 31 December 2018				
Due within one year	42,943	250,000	-	292,943
Due after one year but within five years	-	1,000,000	-	1,000,000
Due after five years	-	6,250,000	33,086,000	39,336,000
	<u>42,943</u>	<u>7,500,000</u>	<u>33,086,000</u>	<u>40,628,943</u>

Fair values

The carrying amounts of cash at bank, other receivables, trade and other payables are stated their face values which approximates their fair values due to their short-term maturities.

The carrying amounts of loan receivable and borrowings are stated at their amortised cost, which is equivalent to their present values using the effective interest method and thus a reasonable approximation of the fair values as at the end of the reporting period.

21. RESTATEMENT OF COMPARATIVE FIGURES

Correction of cost of investment property and corresponding liability

Subsequent to the year-end, the directors became aware that the legal title relating to a part of the Company's investment property which makes up to circa six rooms of the current 161 guest-rooms was defective. Having obtained legal counsel on the matter, it is the Board's opinion that the original deed of transfer transferring this part of the hotel to the Company is defective such as to render the relative part of the original deed of transfer null and void. Accordingly, the Company recognises that the legal title attaching to this part of the tenement still sits with the original seller – that is with Hugo's Hotel Limited – a company in the same Group of companies of which the Issuer forms part. Hence the Company entered into a correctory deed with its parent company whereby it was clarified that the legal title for this part of the hotel was not transferred to the Company, and consequently, the originally agreed purchase price was reduced by €3,000,000 to €32,000,000.

NOTES TO THE FINANCIAL STATEMENTS - continued

21. RESTATEMENT OF COMPARATIVE FIGURES - continued

Correction of cost of investment property and corresponding liability - continued

As a result, a prior period adjustment was passed to reduce the purchase price of the investment property by €3,000,000 and the corresponding liability owed to the parent company was also reduced by €3,000,000. The notional interest and amortisation of such on the amount payable to the parent company in respect of the consideration was also amended. The impact on the statement of comprehensive income was to decrease the total comprehensive income reported in 2018, and the reported retained earnings by €5,231.

Reclassification of comparative information

In addition to the correction of the above, comparative figures for the amortisation discount on amounts owed to the parent company disclosed in prior year as net of effect of effective interest within interest income has been reclassified to interest expense to conform with the current year's presentation for the purpose of providing more comparable information.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

Following the onset of the Coronavirus and rapid contagion across Europe as well as the countermeasures applied to restrain and limit contagion in Malta by the relevant Health authorities, including amongst other things the institution of physical distancing measures, the closure of the airport and recreational and catering establishments, the lessee moved to close the hotel operations and therefore halted the provision of rooms to guests on 16 March 2020. That notwithstanding the lessee was able to retain staff crucial to the operation of the hotel through means and with the assistance made available by Government schemes namely the Wage Supplement, which has proven crucial to ensure preparedness for restart when restrictive measures applied are lifted and operations are able to restart. In the meantime the lessee has continued to maintain the property in proper operational condition ensuring its maintenance and hygienic preparedness in anticipation of an eventual reopening in terms of sanitary and industry standards. With the withdrawal of some restrictive measures sanctioned on the 22 May 2020 the lessee partially opened some of its facilities including Infinity by Hugo's, Hugo's Burger Bar and Hugo's Terrace.

With the further withdrawal of additional measures announced by the Government of Malta as of Friday 5 June 2020 the lessee has further resolved to open its doors for business in Hugo's Pub.

This notwithstanding the hotel operator has not as yet definitively resolved to open and make available the full extent of its operations including and most importantly the provision of rooms on a continuous and daily basis before the Airport is reopened and an assessment of the return of inbound Tourism by air can be made.

The Group is also in the process of obtaining banking facilities to enable the lessee to continue to meet its obligations.

HH FINANCE PLC
Supplementary Statement - 31 December 2019

ADMINISTRATIVE EXPENSES

	2019	2018
	€	€
Accountancy fees	7,000	5,714
Auditors' remuneration	6,000	6,000
Bank charges	229	35
Bond issue costs	-	109,165
Company registration fee	600	-
Directors' fees	39,657	27,804
Fines and penalties	35	-
Formation costs	-	770
Legal and professional fees	9,995	31,559
Other expenses	5,716	11,594
Promotions	385	-
	<hr/> 69,617	<hr/> 192,641