

Date of Announcement: 27 April 2022

Reference: 3/2022



The following is a company announcement issued by HH Finance plc (the "Company"), bearing company registration number C-84461, pursuant to the Prospects MTF Rules.

Approval of Annual Report and Financial Statements and Disclosure of Material Variances

QUOTE

At its meeting held earlier today, the Board of Directors of the Company approved for publication its Annual Report and the audited financial statements for the year ended 31 December 2021 and resolved to propose the same for the approval of the shareholders at the Annual General Meeting of the Company. The Annual Report and financial statements, audited by RSM Malta, are attached to this announcement, and are also available for viewing at the registered office of the Company and in the Investor Relations section on the Company's website, <http://www.hhfinance.com.mt/>.

Reference is also made to the financial projections made by the Company in its Financial Sustainability Forecasts, published via company announcement on 27 April 2021 (MSE Ref: HHF46), in respect of the year ended 31 December 2021. In terms of the obligation of the Company under Rule 4.11.12 (Table 1, Item 4) of the Prospects MTF Rules, the Company draws attention to the only material variance that has come to light as between the said projections and the actual numbers published in the audited financial statements for the year ended 31 December 2021, being the variance arising principally as a consequence of the valuation of *H Hotel*, situated at Triq Santu Wistin, Paceville, St. Julian's, Malta, of which property the Company is proprietor. In this regard, it is to be noted that said valuation was carried out by the Company in terms of a fair value assessment which resulted in: (i) an appreciation of the value of said property by an additional €3 million (from €36 million to €39 million); as well as (ii) a consequent effect in terms of deferred tax.

UNQUOTE

By order of the Board.

Dr Emma Grech
Company Secretary
27 April 2022

Company Registration No.: C 84461

HH FINANCE PLC

**Annual Report
and
Financial Statements**

31 December 2021

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HH FINANCE PLC

Annual Report and Financial Statements - 31 December 2021

GENERAL INFORMATION

Registration

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

Directors

Luke Chetcuti
Cheryle Falzon Chetcuti
Kari Pisani
Tonio Depasquale

Company secretary

Emma Grech

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

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2021.

Principal activity

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

Review of the business

For the year ended 31 December 2021, the Company made an operating profit of €1,982,116 (2020: €1,967,844). For the same period, the Company reported a profit before tax amounting to €3,969,826 primarily as a result of a revaluation increase amounting to €3,000,000 on the fair value of the investment property. 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 is exposed to a variety of financial risks, including market risk, credit risk and liquidity risk. The Company's financial risk management is disclosed in Note 19 to the financial statements.

Related Party Transactions

During the financial year, the Company conducted transactions with related parties. These are disclosed in Note 18 to the financial statements.

DIRECTORS' REPORT - continued

Directors

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

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

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 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 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 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. 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 2021

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 2021, and of its financial performance and its 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

27 April 2022



Kari Pisani
Director

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

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

With the exceptions mentioned hereunder, the Company adopts the Code of Principles of Good Corporate Governance (the "Code"), which is in turn appended to Chapter 5 of the Capital Markets Rules of the Malta Financial Services Authority. The Board of Directors of the Company (or the "Board") notes that the Code does not dictate nor prescribe mandatory rules, but instead recommends principles of good practice. Nonetheless, the Board strongly maintains that the Principles are in the best interest of the Company and its investors taken as a whole, since they seek to ensure that the directors adhere to internationally recognised and high standards of corporate governance.

The Board of Directors sets the strategy and direction of the Company and retains direct responsibility for appraising and monitoring the Company'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 Company 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 Company's compliance with its continuing obligations in terms of the Rules.

The Company's financial statements are to be subject to an annual audit by the Company's external auditors. Moreover, the non-executive Directors will have direct access to the external auditors of the Company 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, the external auditors, as well as other professionals and service providers, as required.

The Board

The Board of Directors of the Company is responsible for the overall long-term direction and strategy of the Company, the review of the performance of the Company's executive functionaries, the ascertainment that financial reporting is carried out to the highest attainable standards, that control systems suitable to the Company are implemented, and that the Company maintains open communication channels with the market and stakeholders.

Clear internal and external reporting lines are established with a view to ensuring that the Board can properly discharge its obligation to take decisions in the best interests of the Company. As mentioned earlier, all directors have access to independent professional advice, at the expense of the Company, should they so require.

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;

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Board - continued

- 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; and
- 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.

Board Meetings

Board meetings concentrate mainly on the Company's strategy, operational and financial performance as well as maintenance of the Company's obligations including the Rules. The Board of the Company typically meets quarterly but may meet more frequently if necessitated by the business and/or the general circumstances of the Company.

Board members are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting reading materials, which are circulated well in advance of the meeting. After each Board meeting and before the next, Board minutes that faithfully record attendance, key points of discussion, as well as the decisions made, are sent to the directors.

Current Directors

Mr Luke Chetcuti (Executive and 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.

During the course of 2021 the Board of Directors met three times, with a 100% attendance of the directors at all of these meetings.

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 process of appointment of Directors is transparent, and is laid out in the Company's Articles of Association. It is conducted during the Company's annual general meeting, where the shareholders of the Company are entitled to participate in the voting process to elect the Board of Directors.

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

Furthermore, in terms of the Company's Memorandum and Articles of Association, a Director is prohibited from voting on any contract or arrangement in which he has an interest. The Company is also aware of the applicable rule as arising in terms of article 145 of the Companies Act, whereby every Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company is under the duty to fully declare his interest in the relevant transaction to the Board at the first possible opportunity, and he will not be entitled to vote on matters relating to the proposed transaction. Accordingly, only parties who do not have any conflict in considering the matter will participate in the consideration of the proposed transaction (unless the Board finds no objection to the presence of such Director having a conflict of interest).

Audit Committee

The Audit Committee is a sub-committee of the Board and is directly responsible and accountable to the Board. The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibility by reviewing the Company's financial statements and disclosures, monitoring the system of internal control established by management, as well as the audit process. The Audit Committee is also responsible for monitoring, scrutinising and advising on related party transactions.

The Company has 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 and Managing Director

During the course of 2021 the Audit Committee met four times with a 100% attendance of the Audit Committee members at all of those meetings except for Mr Luke Chetcuti who was not able to attend two of these meetings, at which particular meetings the other Audit Committee members were however present.

By virtue of its Terms of Reference which govern its day-to-day operations, the Audit Committee also has appropriate processes and systems in place to allow for the declaration, identification and management of conflicts of interest that may arise.

Relations with the Market

The Company is cognisant of the importance of ensuring that investors are kept up-to-date so that they are able to make fair and informed decisions.

The Company maintains communication with the market on an ongoing basis by ensuring that its website is updated from time to time, in particular via the publication of its Annual Report and Financial Statements, its results on a six-monthly basis during the year, and through the requisite company announcements.

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

Remuneration Committee and Nomination 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, nor a nomination committee. The directors received in aggregate €51,036 for services rendered during 2021. The remuneration has been approved by the Audit Committee.

Evaluation of the Board's Performance

The Board considers its current composition, the contribution made and expertise brought by each of its members to be adequate and enables the Board to execute its function and oversee the business effectively. The Board also considers the time availability and commitment of each of its members to be adequate and to meet the demands of the Company and the business.

Risk Management and Internal Control

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

The Board maintains sound risk management and internal control systems 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.

The Board establishes formal and transparent arrangements to apply risk management and internal control principles, as well as maintain an appropriate relationship with the Company's auditors.

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

27 April 2022



Kari Pisani
Director

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 16 - 37, which comprise the statement of financial position as at 31 December 2021, 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 2021, 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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("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 5 to the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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 €39 million. 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 in prior year. The valuation report of the third party was based on information provided by the Company and assumptions and valuation model used by the valuer. During the year, the Company updated the projections and certain assumptions to reflect the current circumstances. 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.

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 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 2021, the Company had loans receivable amounting to €5,354,025.

Our procedures in relation to the recoverability of receivables included:

- Reviewing the terms surrounding the receivable to the agreements; and
- Assessing 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, except as explicitly stated under the Report on other Legal and Regulatory Requirements.

In connection with our audit of the financial statements, our responsibility is to read the other information 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 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 the directors 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 the directors, 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

Under the Companies Act (Cap. 386), we are also responsible 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 in this regard.

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 years thereafter. The period of uninterrupted engagement as statutory auditor of the Company is four financial years.

This copy of the audit report has been signed by

A handwritten signature in blue ink that reads 'Rwestfalzon'.

Roberta West Falzon (*Principal*)
for and on behalf of

RSM Malta
Certified Public Accountants

27 April 2022

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2021

STATEMENT OF COMPREHENSIVE INCOME

	Note	2021 €	2020 €
Revenue	4	2,070,905	2,070,905
Administrative expenses		<u>(88,789)</u>	(103,061)
Operating profit	5	1,982,116	1,967,844
Interest income	6	219,667	154,523
Interest expense	7	(1,231,957)	(1,220,305)
Change in fair value of investment property	9	<u>3,000,000</u>	(9,000,000)
Profit/(loss) before tax		3,969,826	(8,097,938)
Taxation	8	<u>(593,910)</u>	389,065
Profit/(loss) for the financial year		<u>3,375,916</u>	(7,708,873)
Total comprehensive income/(loss) for the year		<u>3,375,916</u>	(7,708,873)
 Earnings/(Loss) per share			
Basic		22.51	(51.39)
Diluted	16	<u>0.36</u>	(0.73)

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2021

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Note	2021 €	2020 €
ASSETS			
Non-current assets			
Investment property	9	39,000,000	36,000,000
Loans receivable	10	5,354,025	3,903,505
Other receivables	11	1,431,140	1,112,235
		45,785,165	41,015,740
Current assets			
Other receivables	11	3,219	2,755
Cash and cash equivalents	17	107,514	136,094
		110,733	138,849
TOTAL ASSETS		45,895,898	41,154,589
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	150,000	150,000
Retained earnings		9,823,598	6,447,682
TOTAL EQUITY		9,973,598	6,597,682
Provisions for liabilities and charges			
Deferred tax liabilities	14	3,620,900	3,269,283
Non-current liabilities			
Borrowings	13	29,851,890	29,548,933
Other payables	15	1,980,417	1,301,417
		31,832,307	30,850,350
Current liabilities			
Trade and other payables	15	226,800	217,781
Current tax payable		242,293	219,493
		469,093	437,274
TOTAL LIABILITIES		35,922,300	34,556,907
TOTAL EQUITY AND LIABILITIES		45,895,898	41,154,589

The financial statements on pages 16 - 37 have been authorised for issue by the Board of Directors on 27 April 2022 and were signed on its behalf by:



Luke Chetcuti
 Director



Kari Pisani
 Director

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2021

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total equity
	€	€	€
Financial year ended 31 December 2020			
Balance at 1 January 2020	150,000	14,156,555	14,306,555
Total comprehensive loss for the year:			
<i>Loss for the financial year</i>	-	(7,708,873)	(7,708,873)
Balance at 31 December 2020	150,000	6,447,682	6,597,682
Financial year ended 31 December 2021			
Balance at 1 January 2021	150,000	6,447,682	6,597,682
Total comprehensive income for the year:			
<i>Profit for the financial year</i>	-	3,375,916	3,375,916
Balance at 31 December 2021	150,000	9,823,598	9,973,598

HH FINANCE PLC
Annual Report and Financial Statements - 31 December 2021

STATEMENT OF CASH FLOWS

	Note	2021 €	2020 €
Cash from operating activities:			
Profit/(loss) before tax		3,969,826	(8,097,938)
Adjustment for:			
Interest expense		1,231,957	1,220,305
Interest income		(219,667)	(154,523)
Change in fair value of investment property		(3,000,000)	9,000,000
Profit from operations		1,982,116	1,967,844
Increase in other receivables		(319,369)	(301,268)
Increase/(decrease) in trade and other payables		9,019	(84,255)
Cash from operating activities		1,671,766	1,582,321
Payment of income taxes		(219,493)	(203,569)
Net cash flows from operating activities		1,452,273	1,378,752
Cash flows from investing activities:			
Advances to a fellow subsidiary		(1,537,116)	(1,598,429)
Repayments from a fellow subsidiary		306,263	174,482
Net cash flows used in investing activities		(1,230,853)	(1,423,947)
Cash flows from financing activities:			
Payments of interest		(250,000)	(250,000)
Net cash flows used in financing activities		(250,000)	(250,000)
Net cash decrease in cash and cash equivalents		(28,580)	(295,195)
Cash and cash equivalents at beginning of year		136,094	431,289
Cash and cash equivalents at end of year	17	107,514	136,094

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. 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 also the Company's functional currency.

New or revised standards, interpretations and amendments adopted

The Company adopted several new or revised interpretations or 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.

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 in the pages that follow have been applied consistently to all periods presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. 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.

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.

3. 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT JUDGEMENTS AND CRITICAL ESTIMATION UNCERTAINTIES - continued

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Company based on known information. This consideration extends to the nature and operations of the sole lessee of the Company, the operations of the bigger group which the Company is a part of, and the sector in which the Company, its lessee, and group companies operate. The COVID-19 pandemic has inevitably resulted in a significant and substantial disruption to the tourism industry in Malta for over a year, which has significantly impacted the business of the lessee. Whilst it is expected for mass vaccination efforts locally and abroad to support the gradual revival of the tourism industry and the business of the lessee, a return to pre-COVID levels is not expected in 2022 or the immediate future. That notwithstanding, the lessee continues to benefit from Government sanctioned business support schemes and the support of the wider group in the continued sustenance of its business and obligations.

Fair value of investment property

The fair value of the Company's investment property is determined by using valuation techniques. This was based on the income approach using the discounted cash flows (DCF) method prepared by the management. The fair value is dependent on inherent assumptions made 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. This year, with the effects and the uncertainties on the revival of the tourism industry from the COVID-19 pandemic, these assumptions involved a higher element of significant judgement.

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 whose operations were impacted by the effects of the COVID-19 pandemic. The fellow subsidiary has taken measures to reduce its costs and also benefitted from the COVID-19 wage supplement for its employees. To compensate for the reduction in inflows, the Group continued to support the fellow subsidiary to be able to meet its financial obligations. In fact, in the past year, the fellow subsidiary has duly continued to honour its obligations to the Company.

As a result of the above assessment, the directors consider that there has not been a significant increase in the credit risk on the amounts owed by the fellow subsidiary as at 31 December 2021 and any expected credit losses are deemed not material to be recognised in these financial statements.

4. REVENUE

	2021	2020
	€	€
Rental income	<u>2,070,905</u>	<u>2,070,905</u>

Revenue represents lease income from a fellow subsidiary from the lease of the investment property.

NOTES TO THE FINANCIAL STATEMENTS - continued

5. OPERATING PROFIT

The operating profit is stated after charging:

	2021	2020
	€	€
Auditors' remuneration	6,930	6,300
Directors' remuneration	51,036	51,036
	<hr/> 51,036	<hr/> 51,036

Fees charged by the auditor for services rendered during the financial year are as follows:

	2020	2019
	€	€
Annual statutory audit	6,930	6,300
Tax compliance	600	600
	<hr/> 7,530	<hr/> 6,900

6. INTEREST INCOME

	2021	2020
	€	€
On related party loans	219,667	154,523
	<hr/> 219,667	<hr/> 154,523

7. INTEREST EXPENSE

	2021	2020
	€	€
Interest on bonds	250,000	250,000
Interest on related party borrowings	679,000	679,000
Effective interest amortisation on related party borrowings	302,957	291,305
	<hr/> 1,231,957	<hr/> 1,220,305

NOTES TO THE FINANCIAL STATEMENTS - continued

8. TAXATION

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

	2021	2020
	€	€
Local income tax - current period tax charge	242,293	219,493
Adjustment relating to tax charge of prior year	-	(175)
Deferred tax charge/(credit)	351,617	(608,383)
	<u>593,910</u>	<u>(389,065)</u>

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

	2021	2020
	€	€
Profit/(loss) before tax	<u>3,969,826</u>	<u>(8,097,938)</u>
Theoretical tax expense/(credit) at 35%	1,389,439	(2,834,278)
Tax effect of:		
Disallowed expenses	137,111	138,028
Maintenance allowance	(122,640)	(122,640)
Adjustment relating to tax charge of prior year	-	(175)
Different tax rate	(810,000)	2,430,000
	<u>593,910</u>	<u>(389,065)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

9. INVESTMENT PROPERTY

	2021	2020
	€	€
At fair value		
Opening balance	36,000,000	45,000,000
Change in fair value	3,000,000	(9,000,000)
	<u>39,000,000</u>	<u>36,000,000</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 2021 amounted to €2,070,905 (2020: €2,070,905). The Company has not incurred direct operating expenses arising from its investment property.

The fair value of the investment property is reviewed annually by the directors. 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.

In deriving the fair value of the investment property as at 31 December 2021, the directors used an updated cash flow forecasts and also updated the assumptions with respect to the discount rate, growth rate, and exit yield from that of the last independent valuation which was carried out on 31 December 2019. In developing the updated cash flow forecasts, the directors took into account the higher accommodation revenue generated during 2021 which was better than originally projected. As a result, the fair value of the investment property increased to €39,000,000.

The Company's investment property is secured by means of a general and special hypothec for banking facilities of the ultimate parent company.

NOTES TO THE FINANCIAL STATEMENTS - continued

9. INVESTMENT PROPERTY - continued

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	Year-end	Range (weighted average)	Sensitivity	Impact
EBITDA evolution	2021:	€1.0 - €4.1 (€3.3) million/year	+ / - 5.0%	€1.0 / (€1.0) million
	2020:	€0.1 - €4.1 (€3.3) million/year	+ / - 5.0%	€0.8 / (€0.4) million
Discount rate	2021:	8.6%	+ / - 0.5%	(€2.0) / €2.2 million
	2020:	8.0%	+ / - 0.5%	(€1.9) / €2.4 million
Growth rate	2021:	1.5%	+ / - 0.5%	€2.0 / (€1.8) million
	2020:	1.0%	+ / - 0.5%	€1.0 / (€0.2) million
Exit yield	2021:	7.1%	+ / - 0.5%	(€1.0) / €1.1 million
	2020:	6.7%	+ / - 0.5%	(€0.8) / €1.3 million

Minimum lease commitments receivable but not recognised in the financial statements are as follows:

	2021	2020
	€	€
Within 12 months	1,752,000	1,752,000
After one year but within five years	8,176,000	7,884,000
After five years	16,354,000	18,398,000
	26,282,000	28,034,000

10. LOANS RECEIVABLE

	2021	2020
	€	€
Loans receivable	5,354,025	3,903,505

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 2021, the loan balance from this credit facility consists of outstanding principal balance of €4,098,976 (2020: €2,561,860) and €282,313 (2020: €112,424) 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 2021, the loan balance from this loan consists of an outstanding principal balance of €827,918 (2020: €1,134,181) and €144,818 (2020: €95,040) interest accrued thereon.

The Company's exposure to credit risk related to loans receivable is disclosed in Note 19.

NOTES TO THE FINANCIAL STATEMENTS - continued

11. OTHER RECEIVABLES

	2021	2020
	€	€
Non-current		
Accrued income (i)	<u>1,431,140</u>	1,112,235
Current		
Amounts owed by related parties (ii)	51	51
Prepayments	<u>3,168</u>	2,704
	<u>3,219</u>	<u>2,755</u>

(i) Accrued income pertains to the accumulated excess lease income recognised on a straight-line basis over the lease payments. This will be utilised beginning 2028 when the lease payment exceeds the lease income recognised on a straight-line basis.

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

The Company's exposure to credit risk related to other receivables is disclosed in Note 19.

12. SHARE CAPITAL

	2021	2020
	€	€
Authorised, issued and fully paid up		
149,999 Ordinary A shares at €1 each	149,999	149,999
1 Ordinary B share at €1	<u>1</u>	<u>1</u>
	<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.

NOTES TO THE FINANCIAL STATEMENTS - continued

13. BORROWINGS

	2021	2020
	€	€
Amounts owed to the parent company (i)	24,851,890	24,548,933
€5,000,000 bonds, 5%, 2023-2028 (ii)	5,000,000	5,000,000
	29,851,890	29,548,933

- (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 2021 is net of the discounting of €2,123,110 (2020: €2,426,067) based on a discount rate of 4% per annum. The nominal amount owed to the parent company amounts 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.

14. 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 represents temporary differences attributable to:

	2021	2020
	€	€
Accrued income	500,900	389,283
Fair valuation of investment property	3,120,000	2,880,000
	3,620,900	3,269,283

NOTES TO THE FINANCIAL STATEMENTS - continued

15. TRADE AND OTHER PAYABLES

	2021	2020
	€	€
Non-current		
Accrued interest	<u>1,980,417</u>	<u>1,301,417</u>
Current		
Trade payables	2,950	4,721
Accrued interest	154,795	154,795
Amounts due to related party	2,360	-
Accruals	9,419	9,305
Other taxes	1,892	1,038
VAT payable	51,327	46,595
Other payables	4,057	1,327
	<u>226,800</u>	<u>217,781</u>

The Company's exposure to liquidity risk related to trade and other payables as disclosed in Note 19.

16. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

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

	2021	2020
Profit/(Loss) for the financial year	€ 3,375,916	€ (7,708,873)
Weighted average number of ordinary shares	149,999	149,999
Basic earnings/(loss) per share	<u>€ 22.51</u>	<u>€ (51.39)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

16. EARNINGS/(LOSS) PER SHARE - continued

Diluted earnings/(loss) per share

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

	2021	2020
Profit/(Loss) for the financial year	€ 3,375,916	€ (7,708,873)
Interest on convertible debts	302,957	291,305
<i>Profit/(Loss) attributable to ordinary shareholders (diluted)</i>	€ 3,678,873	€ (7,417,568)
Weighted average number of ordinary shares, beginning of period	149,999	149,999
Effect of conversion of convertible loan	10,000,000	10,000,000
<i>Weighted average number of ordinary shares (diluted)</i>	10,149,999	10,149,999
Diluted earnings/(loss) per share	€ 0.36	€ (0.73)

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/(loss) per share. Details relating to this amount due to the parent company are set out in Note 13.

17. 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:

	2021	2020
	€	€
Bank balances	107,514	136,094

NOTES TO THE FINANCIAL STATEMENTS - continued

18. 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:

	2021	2020
	€	€
Rental income		
Fellow subsidiary company	<u>2,070,905</u>	2,070,905
Interest income/(expense)		
Fellow subsidiary company	219,667	154,523
Parent company	<u>(679,000)</u>	(679,000)
Loans		
Fellow subsidiary	<u>(1,537,116)</u>	(1,537,116)
Remuneration		
Directors	<u>51,036</u>	51,036

The outstanding balances arising from the above transactions are disclosed in Notes 10, 11, 13 and 15 to these financial statements.

19. 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. Except as disclosed in Note 9, there were no other 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

19. 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 2020.

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 12 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 10 and 11 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

19. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

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

	Trade and other payables	Bonds	Amounts due to parent company	Total
	€	€	€	€
Financial year ended 31 December 2021				
Due within one year	62,586	250,000	-	312,586
Due after one year but within five years	-	1,000,000	-	1,000,000
Due after five years	-	5,500,000	33,086,000	38,586,000
	62,586	6,750,000	33,086,000	39,898,586
Financial year ended 30 December 2020				
Due within one year	53,681	250,000	-	303,681
Due after one year but within five years	-	1,000,000	-	1,000,000
Due after five years	-	5,750,000	33,086,000	38,836,000
	53,681	7,000,000	33,086,000	40,139,681

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

20. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those which cash flows were, or future cash flows will be, classified in the Company's statement of cash flow as cash flow from financing activities.

	Balance at 01 January 2021	Non-cash changes Effective interest	Balance at 31 December 2021
	€	€	€
Loan from parent company	24,548,933	302,957	24,851,890
€5,000,000 bonds, 5%, 2023-2028	5,000,000	-	5,000,000
	29,548,933	302,957	29,851,890

	Balance at 01 January 2020	Non-cash changes Effective interest	Balance at 31 December 2020
	€	€	€
Loan from parent company	24,257,628	291,305	24,548,933
€5,000,000 bonds, 5%, 2023-2028	5,000,000	-	5,000,000
	29,257,628	291,305	29,548,933

21. CONTINGENT LIABILITY

The Company has provided a first general hypothec guarantee over the Company's present and future assets and a first special hypothec on the hotel for the amount of €15,000,000 in favour of Bank of Valletta plc on behalf of the ultimate parent company.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

In subsequent period, the Russia - Ukraine Crisis has erupted, triggering extensive sanctions by Western Hemisphere countries, including the EU - of which Malta is a member. These sanctions have predominantly been addressed at sectors of the Russian economy and Russian and Belarus individuals. The consequences of these sanctions have had inevitable effects on those respective tourist markets for Malta and thus potentially the business of the lessee. That notwithstanding, the Company is informed that these restrictive consequences and effects on travel into the EU, including Malta - for residents of those countries, have not had any material effect on the business of the lessee in fact, and are also not foreseen to have any, since these markets have never been core markets of the lessee.