

Date of Announcement: 19 August 2020

Reference: 19/2020



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 Interim Unaudited Financial Statements and Information to the Market related to Variances

QUOTE

The Company hereby announces that during its meeting held earlier today, the Board of Directors approved the Company's interim unaudited financial statements for the six-month period ended 30 June 2020. The interim financial statements are attached to this announcement and are also available for viewing and downloading in the Investors section on the Company's website: <http://www.hhfinance.com.mt/investor-relations/>.

Whilst the Company has not hitherto ever published projections in relation to a six-month period and thus cannot at this time make any representations on any material variances from projections previously prepared on the basis of a full financial year, it can, that notwithstanding, today and on the occasion of the publication of the unaudited interim financial statements, again inform and remind the market – also in terms of such representations made on the occasion of the publication of the audited financial statements for the year 2019 (Company Announcement Ref: 15/2020, MSE Ref: HHF35) – that the year 2020 is likely to see the Company close its accounts and financials with the following variances relative to full year 2020 projections previously published (Company Announcement Ref: 20/2019, MSE Ref: HHF20) including:

1. An increase in the valuation of the investment property held by the Company (*H Hotel*, situated at Triq Santu Wistin, Paceville, St Julian's Malta), projected at thirty-five million Euro (€35,000,000) and revalued at forty-five million Euro (€45,000,000), thus resulting in a ten million Euro (€10,000,000) difference. This was occasioned by a valuation of the property in terms of the relevant disclosures made in the financial statements for the financial year ended 31 December 2019;
2. A reduction of the non-current liabilities versus projections made, in particular a reduction in the intra-group payables owed to Hugo's Hotel Limited by three million Euro (€3,000,000) in line with representations made in Company Announcement Ref: 16/2020, MSE Ref: HHF36;

3. The above explains the higher net assets and total shareholder equity the Company expects to close the year 2020 with;
4. Finally, and in conclusion, the Company expects for Revenues in 2020 to be approximately 30% higher than that projected for the year 2020 due to a change in accounting policy of the Company following advice from its Auditors and the necessary adjustments being made. This in relation to and by reason of the accounting treatment of rental income generated from the investment property and allowing for its recognition on a straight-line basis during the course of the lease.

The Company would also like to update the market on the continued adverse effects of the COVID-19 pandemic on the core business of the Lessee of the investment property (hotel business) and the measures applied by the health authorities to reduce contagion, including restrictive measures relating to travel and gatherings of a certain size. It is undeniable that the protraction and uninterrupted duration of such conditions and the consequential stresses on the tourism industry locally continue to weigh on the operations and business of the Lessee and shall continue to contribute to the adverse conditions on the business. Whilst the Company has no reason at this time to doubt that the Company and Lessee shall be able to continue servicing their obligations over the coming months, the uncertainty relating to the return to normality of the tourism industry and a global resolution to the pandemic-related crisis has heightened sensibility of the Company for prudence and vigilance of unforeseeable and, or accelerative triggers of an adverse nature and outside of the Company's control. As this volatile situation related to contagion, locally and abroad, as well as public health measures, continue to evolve – and their incidence on the business of the Company and the Lessee become actual and material – the Company will update the Market accordingly.

UNQUOTE

By order of the Board.



Dr Emma Grech
Company Secretary

19 August 2020

HH FINANCE PLC

Reg. No.: C 84461

Unaudited Half-Yearly Financial Report

For the period ended 30th June 2020

CONTENTS

	Page
Interim directors' report	2
Directors' statement	3
Financial statements:	
Condensed statement of comprehensive income	4
Condensed statement of financial position	5
Condensed statement of changes in equity	6
Condensed statement of cash flows	7
Notes to the condensed financial statements	8 - 12

Interim directors' report pursuant of Prospectus Rule 4.11.12

For the period ended 30th June 2020

This Half-Yearly report is being published in terms of Chapter 4 of the Prospectus Rules of the Malta Stock Exchange. The Half-Yearly report comprises the reviewed unaudited condensed interim financial statements for the period ended 30th June 2020 prepared in accordance with IAS 34, 'Interim Financial Reporting'.

Principal activity

The Company's principal activity is to own, manage, administer and dispose of property of any kind.

Review of business development and financial position

During the period under review, profit before taxation amounted to €436,929 while accrued bond interest payable amounted to €126,588 based on the unaudited Half-Yearly financial report for the period ended 30th June 2020.

Dividend

No interim dividends are being proposed.

Approved by the Board of Directors on 19th August 2020 and signed by:



Mr. Luke Chetcuti
Director



Mr. Kari Pisani
Director

Directors' statement on condensed financial statements

We hereby confirm that, to the best of our knowledge, the condensed set of financial statements for the period ended 30th June 2020, which have been prepared in accordance with IAS 34, '*Interim Financial Reporting*', gives a true and fair view of the financial position and the financial performance and cash flows of HH FINANCE PLC and that the interim directors' report includes a fair review of the information.

Signed by:



Mr. Luke Chetcuti
Director



Mr. Kari Pisani
Director

Registered address:
2, St Georges Court A,
St. Augustine Street,
St Julians

Condensed statement of comprehensive income

For the period ended 30th June 2020

	Note	30 th June 2020 (unaudited) €	30 th June 2019 (unaudited) €
Turnover	3	1,035,453	876,000
Administrative expenses		(54,708)	(33,476)
Profit before interest and taxation		980,745	842,524
Finance costs		(611,741)	(459,685)
Finance income		67,925	1,601
Profit before taxation		436,929	384,440
Tax charge for the period		(126,796)	(84,390)
Profit after taxation		310,133	300,050

Condensed statement of financial position as at 30th June 2020

	Notes	30 th June 2020 (unaudited) €	31 st December 2019 (audited) €
Assets			
Non-current assets			
Investment property	4	45,000,000	45,000,000
Loans receivable	6	3,161,519	2,325,035
Total non-current assets		48,161,519	47,325,035
Current assets			
Other receivables	5	1,008,225	20,392
Cash and cash equivalents	10	205,816	431,289
Total current assets		1,214,040	451,681
Total assets		49,375,559	47,776,716
Equity			
Share capital	7	150,000	150,000
Retained earnings		14,852,879	13,640,891
Total equity		15,002,879	13,790,891
Liabilities			
Provisions for liabilities and charges			
Deferred tax		3,600,000	3,600,000
Non-current Liabilities			
Borrowings	8	29,403,281	29,257,628
Total non-current liabilities		29,403,281	29,257,628
Current Liabilities			
Trade and other payables	9	1,049,290	924,453
Tax payable		320,109	203,744
Total current liabilities		1,369,399	1,128,197
Total liabilities		34,372,680	33,985,825
Total equity and liabilities		49,375,559	47,776,716

The financial statements on pages 4 to 12 were approved by the directors on 19th August 2020 and signed by:



Mr. Luke Chetcuti
Director



Mr. Kari Pisani
Director

HH FINANCE PLC

6

Condensed statement of changes in equity

For the period ended 30th June 2020

	Called up issued share capital €	Retained earnings €	Total €
Balance as at 1 January 2020	150,000	13,640,891	13,790,891
Profit for the period	-	310,133	310,133
Prior year adjustments	-	901,855	901,855
Balance as at 30 June 2020	<u>150,000</u>	<u>14,852,879</u>	<u>15,002,879</u>
Balance as at 1 January 2019	150,000	3,958,588	4,108,588
Profit for the year	-	9,682,303	9,682,303
Balance as at 31 December 2019	<u>150,000</u>	<u>13,640,891</u>	<u>13,790,891</u>

Condensed statement of cash flows

For the period ended 30th June 2020

	30 th June 2020 (unaudited) Note	31 st December 2019 (audited)
	€	€
Cash flow from operating activities		
Operating profit for the year	436,929	13,486,047
Add back:		
Interest expense	611,741	1,210,237
Interest income	(67,925)	(52,942)
Unrealised fair value loss on investment property	-	(12,960,959)
	-----	-----
Profit from operations	980,745	1,682,383
Movements in working capital:		
Trade and other receivables	(194,503)	643,743
Trade and other payables	222,931	(11,702)
	-----	-----
Net cash flows before interest and tax	1,009,173	2,314,424
Cash flow from financing activities		
Repayments from fellow subsidiaries	-	224,664
Advances to fellow subsidiaries	(768,559)	(2,496,757)
Payments of interest classified as financing	(611,741)	(135,270)
Proceeds from loan from parent company	145,653	(5,230)
	-----	-----
Net cash outflow used in financing activities	(1,234,646)	(2,412,593)
	-----	-----
Movement in cash and cash equivalents	(225,473)	(98,169)
Cash and cash equivalents at the beginning of the year	431,289	529,458
	-----	-----
Cash and cash equivalents at the end of the period	10 205,816	431,289
	=====	=====

Notes to the condensed financial statements**For the period ended 30th June 2020****1 Basis of preparation****1.1 Basis of measurement and statement of compliance**

The interim condensed financial statements of HH FINANCE PLC have been prepared in accordance with International Accounting Standard 34, '*Interim Financial Reporting*' and in terms of Rule 4.11.12 of Prospects which is operated and regulated by the Malta Stock Exchange.

The financial information has been extracted from the Company's unaudited interim financial statements for period ended 30th June 2020.

1.2 Functional and presentation currency

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

2 Significant accounting policies**2.1 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.

2.2 Financial instruments

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.

Notes to the condensed financial statements**For the period ended 30th June 2020****2 Significant accounting policies (Cont'd)****2.3 Ordinary shares**

Ordinary shares issued by the Company are classified as equity.

2.4 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.

2.5 Income taxes

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.

3 Turnover

Turnover represents lease income from a fellow subsidiary on the lease of the hotel. Lease income is recognised on a straight-line basis over the term of the lease.

Notes to the condensed financial statements

For the period ended 30th June 2020

4 Investment property

	As at 30 June 2020 (unaudited) €	As at 31 December 2019 (audited) €
At fair value		
Opening balance	45,000,000	32,039,041
Fair value increase	-	12,960,959
	----- 45,000,000 =====	----- 45,000,000 =====

5 Other receivables

Other receivables consist of:

	As at 30 June 2020 (unaudited) €	As at 31 December 2019 (audited) €
Accrued income	952,783	-
Amount owed by related parties	55,442	20,392
	----- 1,008,225 =====	----- 20,392 =====

6 Loans receivable

	As at 30 June 2020 (unaudited) €	As at 31 December 2019 (audited) €
Loans receivable	3,161,519	2,325,035
	----- 3,161,519 =====	----- 2,325,035 =====

Notes to the condensed financial statements

For the period ended 30th June 2020

7 Share capital

	As at 30 June 2020 €
Authorised	
149,999 ordinary 'A' shares of €1 each	149,999
1 ordinary 'B' share of €1 each	1

	150,000
	=====
Issued and 100% paid up	
149,999 ordinary 'A' shares of €1 each	149,999
1 ordinary 'B' share of €1 each	1

	150,000
	=====

8 Borrowings

Borrowings consists of:

	As at 30 June 2020 (unaudited) €	As at 31 December 2019 (audited) €
Amount owed to parent company	24,403,281	24,257,628
5,000,000 5% bond, 2023-2028	5,000,000	5,000,000
	-----	-----
	29,403,281	29,257,628
	=====	=====

9 Trade and other payables

Trade and other payables consist of:

	As at 30 June 2020 (unaudited) €	As at 31 December 2019 (audited) €
Interest payable	882,217	777,212
VAT payable	126,202	129,936
Trade payables	6,750	4,179
Accruals	12,917	7,250
Directors' fees payable	6,752	3,827
Other taxes	1,039	2,049
Other payables	13,414	-
	-----	-----
	1,049,290	924,453
	=====	=====

Notes to the condensed financial statements

For the period ended 30th June 2020

10 Cash and cash equivalents

	As at 30 June 2020 (unaudited) €	As at 31 December 2019 (audited) €
Cash at bank	205,816	431,289
	-----	-----
	205,816	431,289
	=====	=====

11 Financial risk management

Financial assets include cash held at bank and in hand. Financial liabilities include creditors and other borrowings.

Risk management policies

- a) Credit risk on amounts receivable is limited through the systematic monitoring of outstanding balances, and the presentation of receivables net of allowances for doubtful debts, where applicable. The loans receivable and other receivables are mainly receivables from a fellow subsidiary. Cash is placed with reputable banks. The resulting expected credit loss has been assessed to be not material to this financial report.
- b) Liquidity risk is limited as the company has the ability to raise finance to meet its financial obligations as they arise. Moreover, financing from the parent company is readily available in order to support the Company in meeting its obligations when they fall due.

12 Related parties

The Company had related party transactions with related companies which are related by virtue of being under common control, by having common significant shareholders. Balances with related companies are shown in notes 5, 6 and 8.