Company Registration No. C 56012

VBL PLC

Annual Report
and
Consolidated Financial Statements

31 December 2022

CONTENTS

GENERAL INFORMATION

Registration

VBL Plc is registered in Malta as a public limited liability company under the Companies Act (Cap. 386). The company's registration number is C 56012. Since last publication, there were no changes to the name of the reporting entity.

Place of domiciliation

Malta

Principal place of business

Malta

Directors

Dr. Andrei Imbroll	
Dr. Geza Szephalmi	
Mr. Julian Tzvetkov	
Mr. Arthur Haze	
Mr. David Galea Souchet	
Ms. Isabella Vella	
Dr. Csaba Bato	(retired on 20 April 2022)

Company secretaries

Dr. Joe Borg Bartolo and Dr. Mikiel Calleja	(appointed on 1 March 2022)
Dr. David Meli	(resigned on 1 March 2022)

Registered office

54,
Marsamxett Road
Valletta VLT 1852
Malta

Principal Bankers

Bank of Valletta p.l.c.
184 Triq In-Naxxar
San Gwann SGN 9030
Malta

Auditors

RSM Malta
Mdina Road
Zebbug ZBG 9015
Malta

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of VBL Plc ("the Company") and its subsidiaries (together, "the Group" or the "VBL Group") for the year ended 31 December 2022.

Principal activities

The Company and its fully owned subsidiaries forming the VBL Group, is involved in the full process of real estate acquisitions, integrated real estate development, property management, operations, utilization (rental) and disposal of properties. The Group's main market of operation is Valletta, which is a UNESCO world heritage site, and is a protected, unique and fortified city, the political and administrative centre of Malta.

Over the course of its ten years of operations, the Group has established itself as one of the most active investors in immovable property in Valletta (based on the number of acquired and developed units, and the number of operated/managed properties in Valletta). VBL Group has a successful track record of identifying, acquiring, developing and managing real estate all around Valletta.

The Group's principal areas of activities are as follows:

A. Identification and acquisition of real estate assets in the city of Valletta, and the consolidation of acquired properties to achieve sizeable development projects, spanning the planning and permitting stage to the preparation and development of the projects.
B. Execution, on a project-by-project basis, of the restructuring, conceptualisation, re-development and renovation of acquired real estate assets, including regeneration and improvement of related areas, neighbourhoods or districts of the city, improving overall quality of life for the local community and residents, creating modern, liveable community areas and supporting development of social and cultural activities.
C. Operation and management of commercial and residential real estate assets with a view to generating growing recurring rental income; or sale, and occasionally management for the new owners, of the re-developed assets, where the commercial opportunity to dispose of the asset secures higher margins than its on-going operation. This operational area also includes the management of other third-party real estate assets for accommodation, commercial and office space and the provision of professional operation and management of established hotels and hostels, by leveraging on VBL's existent operational structures and highly skilled management team, while providing high value-added services and overall solution to owners of such assets.

The Group has developed fully integrated skills and management structure with large range of in-house capabilities in each of the principal activities undertaken by the Group, spanning the asset acquisition, asset development, management and operation activities. The Group has established a vertically integrated business process, based on a very well defined and focused target market, where it has proven skills to deliver on all aspects the whole cycle, whereby ensuring the high quality of products and/or services based on established in-house systems and structures, supported by a selection of trusted long-term business partners and sub-contractors to ensure efficiency and to reduce dependency on more vulnerable, short-term commercial relations, thus also ensuring that maximum benefit is derived from all margins.

Review of Business Development and Financial Position of the Financial Year 2022

The financial performance of the Group has remained stable and has shown fast recovery from the previous years, which were significantly impacted by the implications of the uncertainty of COVID-19 restrictions and limitations. In the first 4 months of the reporting year, the operations were still impacted by restricted travel and other government restrictions impacting operations, however, once these were removed, a fast recovery in all areas of operations was realised. During the reporting period, the Group managed to increase significantly its rental revenues compared to the previous year, resulting in more than doubling 2021 revenues, whilst both the operational profitability and EBITDA volume have also shown significant growth. The Group's operations were still dependent on overall market trends, such as airline seat capacity limitations, consumer prices, services inflation and labour market supply challenges.

DIRECTORS' REPORT - continued

Review of Business Development and Financial Position of the Financial Year 2022 - continued

During the reporting period, the Group has remained successful in terms of consolidation of the Valletta hospitality market adding new 3rd party managed units to its hospitality operations. The Group has retained focus on its core market, by restructuring its acquisitions and asset base. The Group has continued its expansion into the hotel management segment in 2022, as continuous demand from owners of smaller establishments is ever increasing.

In the reporting period, the Group has concluded and obtained ownership and possession of a new landmark asset, the Coliseum Shopping Arcade (also known as "the Coliseum") together with overlaying property, which has resulted in significant increase in the value of Investment Property.

In the last quarter of 2022, the Group has obtained a long-term bank financing facility, structured to meet the development financing needs and tailored to the Group's cash-flow generation ability, and thus allowing the VBL to enter its most intense development phase since inception.

The core activity and the most significant value driver for the VBL Group is real estate acquisitions and development, which accounts for the most significant value changes in the Group's accounts. The Group therefore - similarly to its peer companies - assesses and reflects the investment income under the total revenues, which in the reporting period has reached €6,874,185 (2021: €6,342,211), representing a 8% growth.

Overall, the financial performance of the Group resulted in consolidated revenues of €2,316,112 (2021: €1,063,113) and a consolidated EBITDA of €7,132,976 (2021: €6,517,684). EBITDA adjusted to reflect operations shows an increase of 47% in the reporting period amounting to €258,791 (2021: €175,473) and profit after tax on the Group's activities for the year amounted to €6,323,035 after tax (2021: €5,791,177).

	ACTUAL Jan - Dec 2022	**ACTUAL Jan - Dec 2021**	**VARIANCE 2022 ACTUAL VS 2021 ACTUAL**	
	€	**€**	**€**	**%**
Revenue	2,316,112	1,063,113	1,252,999	118%
Investment Income	6,874,185	6,342,211	531,974	8%
Cost of Sales	(1,168,215)	(511,643)	(656,572)	128%
Gross Profit/(Loss)	**8,022,082**	**6,893,681**	**1,128,401**	**16%**
GOP Margin	87%	93%	(6%)	
Other Operating Income	**8,230**	**174,483**	**(166,253)**	**(95%)**
Total Operating Costs	**(897,336)**	**(550,480)**	**(346,856)**	**63%**
EBITDA	**7,132,976**	**6,517,684**	**615,292**	**9%**
EBITDA Margin	78%	88%	(10%)	
EBITDA (Operational)	***258,791***	***175,473***	***83,318***	***47%***
EBITDA Margin (Operational)	*11%*	*17%*	*(6%)*	

Notes
(1) Operational EBITDA and Operational EBITDA margin is calculated without investment income.

DIRECTORS' REPORT - continued

Dividends and Reserves

A final dividend of €180,000 is proposed by the Directors for the year 2022, which corresponds to 0.0726 Euro Cents per share dividend. A total dividend of €160,000 was distributed to the shareholders for the year ended 31 December 2021 (corresponding to 0.065 Euro Cents per share).

Listed Company Status and New Share Issue

VBL Plc., as the principal company of the VBL Group, is a listed entity at the Malta Stock Exchange ("MSE"). In the reporting year, there was a new share issue of 3,571,428 shares allocated as non-cash consideration for the acquisition of an investment property.

As at 31 December 2022, 100% of the Group's equity and issued share capital is listed on the MSE, with total number of shares in issue standing at 248,042,645. All shares of the Group are ordinary shares, with nominal value of €0.20 cents each, and have the same shareholders' rights.

The authorised share capital of the Group remains unchanged at €66,000,000.

Events After the End of Reporting Period

There were no specific materially important events affecting the Group's long-term outlooks which occurred since the end of the accounting year. The long-term effects however of the current global economic situation, war in Ukraine, post-pandemic effects and related local and global restrictions might have a continuing impact on the VBL Group's business recovery to pre-pandemic levels in the course of year 2023.

Future Developments

The VBL Group plans to continue its dynamic growth by implementing its announced development programme of its owned assets that have full development permits in hand, as well as improve further the utilisation of developed assets in line with its long-term business strategy and financial plans.

Going Concern Statement Pursuant to Capital Markets Rule 5.62

Currently, the Directors are of the opinion that the global and local market trends deliver a turbulent short- and mid-term forecast. The Group's financial performance will benefit from its existing inflation-resistant portfolio of prime real estate assets, located in the historic city of Valletta, which is providing excellent positions for delivering a solid long-term growth. The Group is on the path of quick recovery from the short-term impact of the pandemic related restrictions and consecutive operational interruptions, while it is assumed that the general economic environment will stabilise in mid to long term and the Group's results will keep on following this trend.

The currently ongoing development projects are expected to continue as communicated, subject to the current known market and economic factors remaining constant or improved.

The current relatively low level of the Group's total debt compared to the Group's (total) assets and the existence of unencumbered properties provide for a better than average resistance to internal and external industrial or financial challenges, while the increasing inflationary and interest rate pressure is mostly affecting companies with a less strong balance sheet and less resistant asset base.

The current economic landscape and market conditions present new opportunities, which the VBL Group plans to continue to explore, to further enhance its core product together with maintaining its very clear strategy and unique market focus.

Directors expect that the Group will not face a going concern issue due to current market conditions on the local or international landscape.

DIRECTORS' REPORT - continued

Principal Risks and Uncertainties

The key risk factors VBL Group is facing, have been categorised under five main categories, according to whether the risk factors relate to:

(i) risks relating to the acquisition and disposal of immovable property;
(ii) risks relating to construction and development of immovable property;
(iii) risks relating to management and operation of immovable property;
(iv) risks relating to the change of interest rates and the conditions of financing deriving from the overall global economy, local financial market, European inflationary environment, and Euro-based interest rates and
(v) risks relating to the general business and operations of the Group. The latter category of risk factors is intended to encapsulate those risk factors that concern the day-to-day operations and activities of the Group, regardless of the line of operations concerned and are, therefore, considered to apply equally to each of the individual business lines referred to in categories (i) to (iii). In addition, the Board of Directors considers that in view of the concentration of the Group's immovable properties in Valletta, it is appropriate to identify those specific risks that are attributable to, or associated with, the market for immovable property situated in Valletta, taking into account the unique characteristics of the Valletta market, its historic and political/administrative background. Those risks relating specifically to the Valletta immovable property market that are identifiable at the date hereof have been included within the main categories referred to above respectively.

If any of the risks described were to materialise and could not be mitigated under reasonable terms, they could have a serious effect on the Group's financial results, financial condition, operational performance, business and/or trading prospects. The risks and uncertainties discussed above are those identified as such by the Board of Directors as at the date of this Report, but these risks and uncertainties may not be the only ones that the Group faces or could face. Additional risks and uncertainties, including any which the Board of Directors are not currently aware of, or that the Board of Directors currently deem immaterial or remote, individually or cumulatively, may well result in a material impact on the financial results, financial condition, operational performance, and/or trading of the Group.

Board of Directors

The Board of Directors of the Group currently consists of the following Directors:

Dr. Andrei Imbroll, Chairman and Executive Director
Dr. Geza Szephalmi, Executive Director
Mr. Julian Tzvetkov, Executive Director
Ms. Isabella Vella, Non-Executive Director, Chairperson of the Audit Committee
Mr. Arthur Haze, Non-Executive Director, Member of the Audit Committee
Mr. David Galea Souchet, Non-Executive Director, Member of the Audit Committee

Dr. Csaba Bato, formerly a Non-Executive Director and Chairperson of the Audit Committee has retired from this position at the annual general meeting, held on the 20th April 2022.

Under the provisions of the Group's Memorandum and Articles of Association, the appointment of directors happens at the Group's general meeting.

Auditors

A proposal will be submitted to the Annual General Meeting to re-appoint RSM Malta as Auditor to the Group for year 2023 and to set their remuneration for the period.

DIRECTORS' REPORT - continued

Statement of directors' responsibilities

The Companies Act (Cap. 386), enacted in Malta, requires the Directors to prepare consolidated financial statements for each financial year which give a true and fair view of the financial position of the Group as at the end of the financial year and of the profit or loss for that year.

In preparing the consolidated financial statements, the Directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the Group 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 accrual basis;
- value separately the components of asset and liability items;
- report comparative figures corresponding to those of the preceding accounting period; and
- prepare the consolidated financial statements in accordance with generally accepted accounting principles as defined in the Companies Act (Cap. 386) and in accordance with the provision of the same Act.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable the directors to ensure that the consolidated financial statements comply with the Companies Act (Cap. 386). This responsibility includes designing, implementing and maintaining such internal control as the Directors determine is necessary to enable the preparation of consolidated 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Shareholding Structure of the Group Pursuant to Capital Markets Rule 5.64

The issued share capital of the Group as at the date of this report is 248,042,645 ordinary shares with a nominal value of €0.20 per share. All shares are listed on the Malta Stock Exchange and hold the same rights.

The Group's shareholders holding 5% or more in direct or indirect shareholding are:

Shareholder's Name	Number of Shares (owned directly)
VBLM Limited	46,000,010
Raniark Limited	44,010,815
Geza Szephalmi	40,433,395
Andrei Imbroll	36,919,655
Sorbusenco Enterprises Limited	22,635,560
Petrolsped (Malta) Ltd	14,997,045
Julian Tzvetkov	12,005,245

VBLM Limited is a management company, which has entered into a Management Services Agreement with the Group, pursuant to which VBLM Limited provides the Group with, *inter alia,* senior executive and strategic management and other support services.

Shareholders holding 10% or more direct shareholding are locked-in from trading with their shares for a period of 24 months from the date of Listing, as this is described in detail and defined in the Prospectus published by the Group, dated 23 July 2021.

DIRECTORS' REPORT - continued

Powers of the Board Members Pursuant to Capital Markets Rule 5.64.9

The powers of the Directors are outlined in Article 49 of the Articles of Association of the Group.

Disclosure of Material Contracts Pursuant to Capital Markets Rule 5.70.1

The Group is party to a number of material value contracts, including contracts entered into in connection with the acquisition or disposal of real estate assets, the renovation or development of real estate assets, and the subsequent lease and operating agreements in connection with real estate assets, which are considered contracts in the ordinary course of business. All of those contracts have been entered into in the ordinary course of the Group's business and are considered to be at arm's length and under the general business and ethical standards applied by peer companies, globally.

As at the date of this Report, the Board of Directors considers that the only material contract entered into outside the ordinary course of business of the Group is the Management Services Agreement with VBLM Limited, details of which have been published in Section 4.5 of the Registration Document (Prospectus), published by the Group on the 23 July 2021.

Company Secretary and Registered Office of the Company Pursuant to Capital Markets Rule 5.70.2

Dr. Joe Borg Bartolo and Dr. Mikiel Calleja
54, Marsamxett Road, Valletta VLT 1852 Malta

Statement of Responsibility Pursuant to Capital Markets Rule 5.68

The Directors declare that to the best of their knowledge, the consolidated financial statements included in the Annual Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union and as amended from time to time and these statements give in all material aspects a true and fair view of the assets, liabilities, financial position and results of the Group and that this report includes a fair review of the development and performance of the business and position of the Group, together with a description of the principal risks and uncertainties that it faces.

Explanatory Note to the Special Business Proposed to the Annual General Meeting of the Company

Proposed Ordinary Resolution – Special Business – Indemnification of the Directors and Senior Management

Text of the Ordinary Resolution:

''It is hereby approved to indemnify the members of the Board of Directors and Senior Management of the Company from liabilities and expenses to which any such person(s) may become a party as a result of such individual's acts carried out for and on behalf of the Company, or any of its associated companies, subsidiaries or affiliates, limitedly in so far as such acts are carried out in the individual's capacity as a Director or Senior Manager, as applicable".

Explanatory Note: The purpose of this resolution is to obtain shareholder approval in order to allow for an indemnity to be provided by the Company to directors and senior management of the Company. This results in the said person/s being protected (within the limits of the law) for any liabilities and expenses that may arise as a result of their duties being exercised for and on behalf of the Company or associated companies, subsidiaries or affiliates.

Signed on behalf of the Group's Board of Directors on 21 April 2023 by Dr. Andrei Imbroll (Director, Chairman of the Board) and Dr. Geza Szephalmi (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Consolidated Financial Statements.

REMUNERATION REPORT AND STATEMENT OF THE DIRECTORS

In line with the Capital Markets Rules ("**Rules**"), as set out in Chapter 12 of the Rules, the Company is subject to drawing up a **Remuneration Report** in line with the requirements as detailed in the Appendix 12.1 of the Chapter 12, providing an overview of the remuneration to directors of the Company.

The Company is also subject to the Code of Principles (the "**Code**") forming part of the Capital Markets Rules, and in terms of the respective Rule (8.A.4) the Company is to include a **Remuneration Statement** in its Annual Report with the details of the remuneration policy of the Company and the remuneration of the Directors.

In terms of the effective Remuneration Policy of the Company ("**Remuneration Policy**"), and the principles presented in the Company's IPO Listing Prospectus dated 23rd July 2021, and in alignment and compliance with the MFSA Guidelines[1], the Board has reviewed the principles and the relevant guidelines and has concluded that based on the assessment made of the size, the internal organisation, and the nature, scope and complexity of the activities of the Company, the significance of the Company in terms of its size and that of its operations, clients, the structure of its internal organisation, and the nature, scope and complexity of the activities of the Company, the Company does not require a separate Remuneration Committee to be set-up and the responsibilities attributed to overseeing the Remuneration Policy of the Company shall be performed by the Board of Directors. This Remuneration Policy is reviewed regularly or as required and any material amendments thereto shall be submitted to the General Meeting as per the relevant regulations. In line with the relevant Rules, the existing Remuneration Policy of the Company has been presented to the Shareholders, and approved on the 20th April 2022. In the reporting period there were no changes to the Remuneration Policy.

In accordance with the Code provisions 8.A.4.7, the following contracts are in place with each Director, with the following terms, based on which the received fixed remuneration of each director is as per below:

Name of Director	Contract type	Signed / Valid	Annual fee in 2022
Dr. Andrei Imbroll	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Dr. Geza Szephalmi	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Mr. Julian Tzvetkov	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Mr. Arthur Haze	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Mr. David Galea Souchet	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Ms. Isabella Vella	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross

The foregoing amounts are all fixed remuneration. There are no variable remuneration considerations nor share options. Remuneration paid to Directors is not performance-related.

Remuneration related to the Directors, in accordance with the Remuneration Policy

Directors' Fee

The resolution by the Shareholders of the Company at the Annual General Meeting held on 20 April 2022, approved the aggregate total annual remuneration of the Board of Directors, set the directors' fee for one year at a total of €70,000.

[1] https://www.mfsa.mt/wp-content/uploads/2019/02/Code-of-Principles-of-Good-Corporate-Governance-for-Listed-Entities.pdf, Code provisions 8.A.2

REMUNERATION REPORT AND STATEMENT OF THE DIRECTORS – continued

Remuneration related to the Directors, in accordance with the Remuneration Policy - continued

Directors' Fee - continued

The Company being listed in October 2021, the reporting period ending 31 December 2022 is the first full year since listing. The directors' fee is a fixed fee and there has been no change in the individual directors' remuneration with regards to the fixed fee in the reporting period. There are no variable remuneration considerations nor share options payable under the directors' agreements executed.

The total directors' fees paid during the financial year 2022 to the Board of Directors was €65,000. According to the existing Policy, the Directors are not entitled to other remuneration or benefits related to their directors' position within the Company from any parent or sister company in their capacity as directors. Under the disclosure requirements pursuant to Capital Market Rules 8.A.5., it is hereby reported that the Directors of the Company have not been granted any shares or shares options, pension benefits, termination payments, annual bonus schemes and similar, from the Company in the reporting period.

After an assessment of the market conditions and the particularities of the Company, the Directors have concluded that the remuneration of the Board of Directors of the Company is considered to be in line with the size of its operations and general applicable industry standards, and the nature, scope and complexity of its activities and in compliance with the Remuneration Policy with no deviations from the procedure for the implementation of the Remuneration Policy. The Company considers that the total remuneration paid to Directors contributes towards the long-term performance of the Company as it incentivises and promotes their commitment towards achieving the best interests of the Company.

Since the current period is the first reporting period following the adoption of the Remuneration Policy by the Company's annual general meeting in 2022, the comparative analysis required by Appendix 12.2 of the Capital Markets Rules paragraph (b) cannot be presented to the shareholders yet.

In accordance with Capital Markets Rules, Appendix 12.1 it is hereby disclosed that in the reporting period:

- No remuneration is received by the directors from any undertaking belonging to the same group (parent and subsidiary)
- No share options were granted or offered to directors and CEO or other executives of the Company;
- No variable remuneration is part of the directors' remuneration and there is no possibility to reclaim variable remuneration (if any);
- No deviations from the procedure for the implementation of the Remuneration Policy are relevant in the reporting period.

Executive Management and Services

Executive management services are provided to the Company under a management agreement, with a dedicated management company, which remains unchanged to the previous reporting period and has been introduced in detail in the Listing Prospectus dated 27th July 2021 and further disclosed below.

Since its foundation, the VBL Group has been managed by a dedicated management company, VBLM Ltd ("**VBLM**"). As declared before and presented in the Listing Prospectus, VBLM is also a significant shareholder of the Company and is itself owned, managed and controlled by the Executive Directors of the Company. Its sole activity is the management of the VBL Group.

The provision of management services by VBLM to the VBL Group is based on the existing and established practice dating back to foundation of the Group and has been formalised by means of a management and services agreement ("Management Services Agreement") entered into between VBLM and the principal company of the VBL Group. The nature and content of this relationship and the Agreement itself has been described in detail in the Listing Prospectus. Pursuant to the Management Services Agreement, VBLM provides the Company and its subsidiaries with executive, operational and strategic management and support services.

REMUNERATION REPORT AND STATEMENT OF THE DIRECTORS - continued

Executive Management and Services - continued

The remuneration payable by the Company to VBLM under the Management Services Agreement is comprised of a combination of fixed and variable parts, consisting of a Retainer Fee (fixed annual fee, adjusted annually in line with the official inflation index published by the NSO), a Variable Fee (ranging from 50% to 100% of the Retainer Fee, and linked to achievement of pre-defined specific tasks, which is only payable following evaluation and approval by the non-executive Directors); and a Performance Fee (related to the achievement of the mid- and long-term value growth realised by the Company, as described in detail in the Listing Prospectus). The terms and conditions of the Management Services Agreement, evaluation and the payable Variable and Performance fees is monitored and controlled by the non-Executive Directors of the Company.

The Management Services Agreement is aimed at ensuring that the senior Executive Management team, which has steered VBL in attaining successful growth and development since the inception of the VBL Group a decade ago, and who have been key to establishing sound and stable operations that has resulted in the prevailing financial and strategic market positioning of the Company, are aligned with the Shareholders' and Company's interests and remains fully committed to deliver the strategic objectives of the Company in line with announced growth and development plans. This element of continuity is considered by the Board of Directors to be in the best interest of the Company and the VBL Group, supporting the continuation and evolvement of its existing well-established structure, and to further implement the Company's business strategy and growth, while mitigating risks associated with key personnel and senior management. The current Management Services Agreement is effective as from 1st January 2021 and is valid for period of three years. This agreement may be extended thereafter, subject to agreement between the parties.

For the purposes of the Remuneration Statement and in accordance with the Capital Market Rule provision 8.A.5 and for the purposes of provisions 8.4.8 and 8.4.9., in accordance with the disclosures made in the Prospectus, and based on the Management Services Agreement, during 2022, the total emoluments paid by the Company were a fixed fee paid to VBLM for the executive, operational and strategic management and other services provided to the Company of €400,000 exclusive of VAT. No variable fee has been paid in the reporting period, nor any shares or shares options granted or due, no pension benefits, no other termination payments or similar are due from the Company in the reporting period.

Other than the directors' fee and the management services fee, the Company does not provide any other pay, remuneration or alike to its directors for their services. Any changes to the terms of the Management Services Agreement are subject to the vetting and approval of the Audit Committee and the non-executive directors of the Company.

In terms of Chapter 12, the contents of the remuneration report have been checked by the Auditors of the Company.

Signed on behalf of the Group's Board of Directors on 21 April 2023 by Dr. Andrei Imbroll (Director, Chairman of the Board) and Dr. Geza Szephalmi (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Consolidated Financial Statements.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Group is subject to the Code of Principles of Good Corporate Governance (the "Code") forming part of the Capital Markets Rules. Listed companies are required under the Capital Markets Rules issued by the Malta Financial Services Authority to include a Statement of Compliance with the Code in their Annual Report, accompanied by a report of the independent auditors.

The Board of Directors of the Group ("BOD", "Board" or "Directors") restate their support for the Code and consider that they have taken such measures as are necessary in order for the Group to comply with the requirements of the Code to the extent that these were considered appropriate and complementary to the size, nature and operations of the Group.

Basic Principles, in Compliance with Code Provisions:

1. The managing body of the Group is an effective Board in terms of Code Provision 1, which is responsible for accountability, monitoring, strategy formulation and policy development as specified in Code Provision 4;
2. The Chairman of the Board does not also occupy the role of Chief Executive Officer, as envisaged in Code Provision 2;
3. The Board is originally composed of seven directors, including four (4) non-executives of whom three (3) are independent in terms of Code Provision 3; thus retaining a healthy mix between executive and non-executives in the composition of the Board of Directors. Following the annual general meeting the number of directors was six, with one non-executive director not continuing in office;
4. Members of the Board of Directors are all seasoned professionals, with significant local and international professional track record and proven experience in applying the highest level of corporate governance standards, obtained in running large public and private companies;
5. The Board of Directors meets regularly and all Directors are given ample opportunity to discuss the agenda and convey their opinions as specified in Code Provision 5;
6. The Group recognises the importance of professional development and seeks to ensure that there are adequate schemes in place for professional development of management and employees in accordance with Code Provision 6;
7. Of the members of the Board of Directors, the Audit Committee has been set up, previously consisting of four (4) members. In the reporting year, following the annual general meeting, the Audit Committee members were three (3). This body has the task, inter alia, of managing conflicts of interest in terms of Code Provision 11. Conflicts of interest are also managed in terms of the Group's Articles of Association;
8. The Group has not appointed a Remuneration Committee. The Board believes that the size of the Group and the Board itself does not warrant the setting up of an ad hoc committee to establish the remuneration packages of individual directors, as all directors are remunerated equally for their directorship, and relies on the constant scrutiny of the Board itself, the Group's shareholders, the market and the rules by which the Group is regulated as a listed Group. The Board shall retain this matter under review over the coming years;
9. The Nomination Committee has been appointed by the Board of Directors with majority of non-executive directors, as members. The Nomination Committee is responsible to run a transparent nomination process for the election/re-election of any members, as required, and as detailed and specified in the Memorandum and Articles of Association;
10. The Group recognises the importance of its role in the corporate social, health and environmental responsibility arena and seeks to ensure that in its development projects and ongoing operations are respectful. The Directors are also aware of the importance of having good relations with stakeholders and strive to work together with them in order to invest in human capital, health and safety issues and to adopt environmentally responsible practices, in line with Code Provision 12;
11. Pursuant to the Group's statutory obligations, the annual report and financial statements, declaration of dividends, election of directors and appointment of auditors and authorisation of the directors to set the auditors' fees are proposed and approved at the Group's annual general meeting. The Board of Directors properly serves the legitimate interests of all shareholders and is accountable to all shareholders, particularly through the representation of the shareholders on the Board itself. This ensures compliance with Code Provision 9.

In the light of the factors mentioned above, the Board is of the view that the Group is in compliance with the Code.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Specific Corporate Governance principles

The Group, its Directors, its Management and Employees believe that good corporate governance is a key element for business success and supporting the integrity and efficiency of the Group and its Subsidiaries, operations and long-term success. VBL is committed to establishing, maintaining and following strong corporate governance principles in line with best local and international practices, as a basic requirement for delivering the Group's planned financial and business goals, achieving its expected business potential, and protecting the Group's investors, employees, partners, customers and reputation.

The Group's Directors are committed to ensure the openness and willingness to establish and follow the basic principles set by the best practices in corporate governance, regularly disclose financial performance figures which are truthful and accurate, provide timely and accurate information about the Group's goals, activities and strategy to the investors and business partners. This is considered key in allowing the market to be able to assess and evaluate the various foreseeable or unpredicted risks and issues related to the implementation of the Group's business strategy. Among others, the Group has adopted and follows the basic principles of the Code, in order to establish strong business and governance ethics and apply those in its daily practice.

The five key specific principles adopted by VBL's governing bodies are:

i. Fairness - Fair and ethical behaviour in all dealings is fundamental to the success of VBL's business. Today, the Group already has an established image and proven operational principles of which a fundamental part is to act and deal in a fair and correct manner. As a result, VBL enjoys the trust and support of its partners, peers, customers and suppliers. The Group is committed to continue acting in accordance with the highest ethical and professional standards.
ii. Accountability - The Board's and management's commitment to accountability refers to the obligation and responsibility of VBL to always act responsibly and be able to give clear explanations or rationale for the Group's actions and conduct.
iii. Responsibility - The Board of Directors and management are given authority, as defined in the Articles and relevant regulations, to act on behalf of the Group, therefore they accept full responsibility for the powers that they are given and the authority that they exercise.
iv. Transparency - This is a key principle of responsible behaviour and good governance expected by a number of stakeholders, particularly the shareholders. The Board of Directors and Management ensure that the various bodies or structures of VBL operate and act in a transparent and accountable manner, provide timely and accurate reporting, and address in an open and transparent manner any issues or matters which are faced by the Group.
v. Corporate Social and Environmental Responsibility - In addition to the above four basic corporate governance principles, the Board of Directors and Management seek to adopt and follow the increasingly important principles of the corporate social and environmental responsibility in the day-to-day management practices at the Group.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Administrative, Management and Supervisory Bodies and Senior Management

The Board

The Group is managed by the Board of Directors consisting of not less than 4 (four) and not more than 8 (eight) directors. Since the last Annual General Meeting, there have been six directors, of which three are non-executive, all of whom are entrusted with the overall direction, administration and management of the Group.

Each Director declares that he/she undertakes to

i. maintain in all circumstances his/her independence of analysis, decision and action;
ii. not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
iii. clearly express his/her opposition in the event that he/she finds that a decision of the Board may harm the Group.

The Board of Directors of the Group consists of the following persons:

Name	Designation
Andrei Imbroll	Chairman and Executive Director
Geza Szephalmi	Chief Executive Officer and Executive Director
Julian Tzvetkov	Chief Operating Officer and Executive Director
Isabella Vella	Independent non-executive Director and member of the Audit Committee, Chairperson
Artur Haze	Non-executive Director, member of the Audit Committee
David Galea Souchet	Independent, Non-executive Director, member of the Audit Committee

Dr Csaba Bato acted as a non-executive director of the Group as well as Chairperson of the Audit Committee until 20 April 2022, when he had retired and ceased to be a member of the Board of Directors.

At the end of the reporting period, the Secretaries appointed are Dr Joe Borg Bartolo and Dr Mikiel Calleja.

Board Meetings

During the year 2022, there have been 5 (five) Board meetings held in person and several decision by written resolution. The number of Board members has reduced in number from seven to six as of 20 April 2022.

The number of Board meetings attended by Directors for the year under review is as follows:

Members	Attended	
Andrei Imbroll	5	
Geza Szephalmi	5	
Julian Tzvetkov	5	
Artur Haze	5	
David Galea Souchet	5	
Isabella Vella	5	
Csaba Bato	2	(retired from Board on 20 April 2022)

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Information and Professional Development

The Group ensures that it provides its Directors with relevant information to enable them effectively contribute to board decisions. The Group is committed to provide adequate and detailed information to its Directors who are newly appointed to the Board. The Group pledges to make available to the Directors all information as required.

Appointment and Removal of Directors

The Directors of the Group are appointed by the Shareholders in accordance with the provisions of the Articles of Association of the Group. The procedure for the appointment of Directors shall be as detailed and described in the Articles.

The Group shall grant a period of at least 14 days to Shareholders holding in aggregate 10% or more of the Shares to nominate one candidate for appointment as Director for every 10% held as aforesaid. Such notice may be given by the publication of an advertisement in at least two daily newspapers. All such nominations, including the candidate's acceptance to be nominated as director, shall on pain of disqualification be made on the form to be prescribed by the Directors from time to time and shall reach the Office not later than 14 days after delivery of the said notice.

Whenever in terms of these Articles, an election is necessary amongst candidates nominated for appointment as Directors, such election shall be conducted in the manner prescribed by the Articles or in such manner as close as practicably possible thereto as the Directors may consider equitable in the circumstances.

Any Director may be removed at any time by the Group in general meeting pursuant to the provisions of Article 140 of the Act. Without prejudice to the provisions of the Act, the office of a Director shall ipso facto be vacated:

- if, by notice in writing to the Group, he resigns from the office of director; or
- if he violates in a proven way the declaration of secrecy required of him under the Articles and the Board of Directors pass a resolution that he has so violated the declaration of secrecy; or
- if he is prohibited by or under any law from being a director;
- if he is removed from office pursuant to the Articles or the Act.

A retiring Director shall be eligible for re-election or re-appointment.

Powers of Directors

The Directors are empowered to act on behalf of the Group in accordance with the Memorandum and Articles of Association, which powers may be widened or restricted from time to time by the Shareholders in general meeting.

The general administration and management of the Group is entrusted with the Board of Directors, who are empowered and authorised to delegate any of its executive functions relating to the Group to members of the Group's management.

Any one or more members of the Board of Directors may also occupy the position of Chief Executive Officer of the Group and may also occupy the position of members of the board of directors of subsidiaries or affiliate companies of the Group from time to time.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Evaluation of the Board's Performance

The Board undertakes an annual evaluation of its performance and of its committees. The performance evaluation of each Board member shall be done by the Board of Directors, excluding the Board member being evaluated. The Chairman takes action on the result of the performance evaluation process in order to ascertain the strengths and to address the weaknesses, and reports to the Board and where appropriate to the AGM.

Remuneration of Directors

The remuneration of the Directors in any one financial year, and any changes thereto, is determined by the general meeting of the Group.

At the time of the current reporting year under review, the Directors are each entitled to a gross annual remuneration of €10,000 from the date of the appointment.

Executive Directors

The Executive Directors have representation and execution rights on behalf of the Group to the extent permitted and as defined by the Memorandum of Association of the Group. In this respect, and in line with the good governance standards and internal control procedures implemented by the Group, the Memorandum of Association ties the legal representation and the signatory rights of the Group to predefined monetary threshold, with enhanced safeguards applicable to transactions of higher monetary value. The Group applies a dual signatory policy as determined in the Articles of the Group and other relevant Group regulations.

Any one Executive Director of the Group shall represent the Group in judicial proceedings, provided that no proceedings may be instituted by the Group without the approval of the Board of Directors of the Group.

Chief Executive Officer

In terms of article 65 of the Articles of Association, the Directors may from time to time appoint any person to the office of Chief Executive Officer (CEO) of the Group for such period and on such terms as they deem fit. In the current reporting period, Dr Geza Szephalmi continued to occupy the post of CEO of the Group.

The Directors may entrust to and confer upon a CEO any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may deem fit and may from time to time revoke, withdraw, alter or vary all or any of such powers.

Currently the CEO and the executive management are functions which are provided under the Management Services Agreement with VBLM, as it has been detailed in this report and the Listing Prospectus of the Group dated 23 July 2021.

The CEO is responsible for the Group's operative management and direction in accordance with the Articles, the resolutions adopted by the general meeting and the Board of Directors. The CEO has the right to decide on the Group's organisational structure and internal rules and regulations according to the Articles of the Group.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Declaration

None of the Directors, members of the board committees or members of management have, in the last five years:

i. been the subject of any convictions in relation to fraudulent offences;
ii. been associated in any form with bankruptcies, receiverships or liquidations (other than voluntary) or companies put into administration in respect of entities in respect of which they were members of administrative, management or supervisory bodies, partners with unlimited liability (in the case of a limited partnership with a share capital), founders or members of senior management;
iii. been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies);
iv. been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Board Practices

The Directors have constituted the following committees, the terms of reference of which are determined by the Board from time to time with the purpose of fulfilling the below mentioned purposes:

Audit Committee

The primary objective of the Audit committee is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structure. The first Audit Committee of the Group was established by the Annual General Meeting of the Shareholders held on 23 March 2021, and the members have been elected among the Board members, as defined in the Articles and relevant regulation. The Committee oversees the conduct of the annual audit process and acts to facilitate communication between the Board, the Management and the Group's appointed auditors.

The Audit Committee is composed of three members - Ms Isabella Vella (Chairperson), Mr Artur Haze, and Mr David Galea Souchet. Mr Artur Haze and Mr David Galea Souchet are the Audit Committee members who are considered by the Board of Directors to be competent in accounting and/or auditing in terms of the Capital Markets Rules. The Committee is responsible for reviewing the financial reporting processes and policies, the system of internal control, management of financial risk, audit process, any transactions with related parties and the Group's process for monitoring compliance with laws and regulations. When the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on the action needed to address the issue or make improvements.

The Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the Group. Its primary objective is to assist the Board in dealing with issues of risk, control and governance and in reviewing the Group's reporting processes, financial policies and internal control structure. The Audit Committee also oversees the conduct of the annual financial audit and facilities communication between the Group's Board, management and appointed auditors.

The Audit Committee's main role and responsibilities are:

a) to review procedures and assess the effectiveness of the internal control systems, including financial reporting;
b) to assist the Board in monitoring the integrity of the financial statements, the internal control structures, the financial reporting processes and financial policies of the Group;
c) to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor following appointment by the shareholders in general meeting;

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Audit Committee - continued

d) to monitor and review the external audit functions, including the external auditor`s independence, objectivity and effectiveness;
e) to monitor and review the internal procedures and to monitor these on a regular basis;
f) to establish and maintain access between the internal and external auditors of the Group and to ensure that this is open and constructive;
g) to review and challenge where necessary, the actions and judgements of management, in relation to the interim (if applicable) and annual financial statements before submission to the Board, focusing particularly on:
   i. critical accounting policies and practices and any changes in them;
   ii. decisions requiring a major element of judgement;
   iii. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
   iv. the clarity of disclosures and compliance with International Financial Reporting Standards;
   v. significant adjustments resulting from the audit;
   vi. compliance with stock exchange (as applicable) and other legal requirements; and
   vii. reviewing the Group's statement on Corporate Governance prior to endorsement by the Board;
h) to gain an understanding of whether significant internal control recommendations made by internal and external auditors have been implemented by management;
i) to establish and exercise oversight upon the internal audit function of the Group, and to review its plans, activities, staffing and organisational structure;
j) to monitor the statutory audit of the annual and consolidated accounts;
k) to discuss Group policies with respect to risk assessment and risk management, review contingent liabilities and risks that may be material to the Group; and
l) to consider other matters that are within the general scope of the Committee that are referred to it by the Board of Directors.

During 2022, the Audit Committee met 7 times in person or via video conference, out which on 3 meetings were with the Group's appointed auditors were present and attended the meetings.

The number of Audit Committee meetings attended by Members for the year under review is as follows:

Members	Attended	
Artur Haze	7	
David Galea Souchet	7	
Isabella Vella	7	
Csaba Bato	4	(retired from Board on 20 April 2022)

Nomination Committee

The Board of Directors has formed a nomination committee, which was functional in the reporting period. The forming and operation of the Nomination Committee was in compliance with the principle of the Code. The proposals of the nomination committee were put forward for decisions of the Board of Directors and presented to the shareholders, accordingly.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Executive Management Committee (EMC)

The Executive Management Committee consists of the CEO, the Executive Board Members and any other managers of the Group appointed by the CEO to the EMC.

The EMC is the main operational body of the Group, ensuring smooth and efficient day-to-day operations and control, in line with the strategic operational decisions of the Board. The EMC is responsible to, and reports to the Chief Executive Officer. Within the EMC, there is a clear division of responsibilities between the members, covering all areas of the executive responsibility for the running of the Group’s business. The EMC ensures that no one individual or small group of individuals has an unlimited power of decision in day-to-day operations.

Relations with Shareholders and with the Market

The Group is highly committed to having an open and communicative relationship with all its shareholders. In this respect, over and above the statutory and regulatory requirements relating to the Annual General Meeting, the publication of consolidated financial statements and Group announcements, the Group seeks to keep an updated and informative website, and to address any information needs of the shareholders, in various ways.

The Group has announced a Shareholders’ Loyalty Programme which is regularly updated and communicated with the Shareholders.

Since the Group was listed on the Malta Stock Exchange in 2021, the required financial reports and Group announcements are regularly issued and published through the Malta Stock Exchange, at are simultaneously published on the Investors’ section of the Group’s website.

Conflict of Interest

The Board is fully aware of its obligations regarding dealings in securities of the Group as required by the Capital Markets Rules and the related required disclosures in case of such dealings. Related party contracts and dealings are disclosed regularly as required by the applicable rules and presented in the Annual Financial Statements as well.

Signed on behalf of the Group’s Board of Directors on 21 April 2023 by Dr. Andrei Imbroll (Director, Chairman of the Board) and Dr. Geza Szephalmi (Director) as per the Directors’ Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Consolidated Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2022 €	2021 €
Revenue	3	**2,316,112**	1,063,113
Investment income	5	**6,874,185**	6,342,211
Cost of sales	8	**(1,168,215)**	(511,643)
Gross profit		**8,022,082**	6,893,681
Other operating income	4	**8,230**	174,483
Administrative expenses	8	**(897,336)**	(550,480)
Earnings before interest, tax, depreciation and amortisation		**7,132,976**	6,517,684
Depreciation and amortisation	8	**(280,459)**	(300,894)
Operating income		**6,852,517**	6,216,790
Interest income	6	**7,084**	3,299
Impairment on inventory	8	**(65,618)**	-
Finance costs	7	**(190,446)**	(138,286)
Profit before income tax		**6,603,537**	6,081,803
Income tax expense	9	**(280,502)**	(290,626)
Profit for the year		**6,323,035**	5,791,177
Total comprehensive income for the year		**6,323,035**	5,791,177
Earnings per share	25	**0.0258**	0.0248

STATEMENT OF FINANCIAL POSITION

	Notes	2022 €	2021 €
ASSETS			
Non-current assets			
Intangible assets	12	**114,644**	152,879
Property, plant and equipment	13	**852,618**	877,644
Investment properties	14	**73,663,640**	59,991,129
Investment in a subsidiary	15	**1,200**	1,200
Loans receivable		**113,711**	107,470
Deferred tax assets	10	**225,451**	209,930
		74,971,264	61,340,252
Current assets			
Non-current asset held for sale	16	**510,000**	-
Inventory	17	**271,176**	-
Current tax receivable		**14,968**	968
Trade and other receivables	18	**402,429**	1,580,811
Cash and cash equivalents	19	**1,347,348**	1,947,792
		2,545,921	3,529,571
TOTAL ASSETS		**77,517,185**	64,869,823
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	**49,608,529**	48,894,243
Share premium	20	**1,017,446**	731,733
Other reserves	20	**352,646**	375,397
General reserves	20	**1,218**	1,218
Retained earnings	20	**12,625,816**	6,427,779
TOTAL EQUITY		**63,605,655**	56,430,370
Non-current liabilities			
Borrowings	21	**7,877,586**	1,297,204
Lease liabilities	22	**286,253**	299,791
Deferred tax liability	11	**4,165,673**	3,889,901
Trade and other payables	23	**88,775**	46,385
		12,418,287	5,533,281
Current liabilities			
Borrowings	21	**337,671**	2,328,699
Lease liabilities	22	**13,538**	11,443
Trade and other payables	23	**1,142,034**	566,030
		1,493,243	2,906,172
TOTAL LIABILITIES		**13,911,530**	8,439,453
TOTAL EQUITY AND LIABILITIES		**77,517,185**	64,869,823

Signed on behalf of the Group's Board of Directors on 21 April 2023 by Dr. Andrei Imbroll (Director, Chairman of the Board) and Dr. Geza Szephalmi (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Consolidated Financial Statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital €	Share premium €	Other reserves €	General reserves €	Retained earnings €	Total €
Balance at 1 January 2021	46,000,000	802	398,148	1,218	751,600	47,151,768
Total comprehensive income						
- Profit for the year	-	-	-	-	5,791,177	5,791,177
	-	-	-	-	5,791,177	5,791,177
Transactions with owners						
- Issuance of shares	1,475,640	297,959	-	-	-	1,773,599
- Conversion of borrowings to shares	1,418,603	432,972	-	-	-	1,851,575
- Dividends declared during the period (Note 20)	-	-	-	-	(150,000)	(150,000)
	2,894,243	730,931	-	-	(150,000)	3,475,174
Transfer from revaluation reserve to retained earnings, net of deferred tax	-	-	(22,751)	-	35,002	12,251
Balance at 31 December 2021	**48,894,243**	**731,733**	**375,397**	**1,218**	**6,427,779**	**56,430,370**
Balance at 1 January 2022	48,894,243	731,733	375,397	1,218	6,427,779	56,430,370
Total comprehensive income						
- Profit for the year	-	-	-	-	6,323,035	6,323,035
	-	-	-	-	6,323,035	6,323,035
Transactions with owners						
- Issuance of shares	714,286	285,713	-	-	-	999,999
- Dividends declared during the period (Note 20)	-	-	-	-	(160,000)	(160,000)
	714,286	285,713	-	-	(160,000)	839,999
Transfer from revaluation reserve to retained earnings, net of deferred tax	-	-	(22,751)	-	35,002	12,251
Balance at 31 December 2022	**49,608,529**	**1,017,446**	**352,646**	**1,218**	**12,625,816**	**63,605,655**

STATEMENT OF CASH FLOWS

	Notes	2022 €	2021 €
Cash flows from operating activities			
Profit before tax		**6,603,537**	6,081,803
Depreciation and amortisation	8	**280,459**	300,894
Provision for expected credit losses	18	**39,055**	-
Investment income	5	**(6,874,185)**	(6,342,211)
Impairment on inventory	8	**65,618**	-
Gain on disposal of subsidiary	4	**-**	(174,483)
Interest income	6	**(7,084)**	(3,299)
Interest expense	7	**190,446**	138,286
Cash generated before working capital changes		**297,846**	990
Increase in inventories		**(271,176)**	-
Increase in trade and other receivables		**(22,225)**	(1,136,762)
Increase in trade and other payables		**618,396**	216,297
Net cash generated/(used in) operating activities		**622,841**	(919,475)
Cash flows from investing activities			
Purchase of intangible assets	12	**-**	(150,000)
Purchase of property, plant and equipment	13	**(14,664)**	(43,864)
Proceeds from sale of investment		**-**	200,000
Proceeds from sale of investment property	14	**850,000**	-
Acquisition of investment properties	14	**(6,278,086)**	(174,630)
Acquisition of a subsidiary		**-**	(66,517)
Movement in loans receivable		**-**	(104,171)
Net cash used in investing activities		**(5,442,750)**	(339,182)
Cash flows from financing activities			
Net proceeds from issuance of share capital		**-**	1,616,208
Interest paid		**(170,214)**	(80,790)
Withholding tax paid	9	**(8,000)**	-
Dividends paid		**(160,000)**	(150,000)
Movement in borrowings		**4,589,354**	140,903
Payment of lease liabilities	22	**(31,675)**	(31,555)
Net cash generated from financing activities		**4,219,465**	1,494,766
Net (decrease)/increase in cash and cash equivalents		**(600,444)**	236,109
Cash and cash equivalents at the beginning of the year		**1,947,792**	1,711,683
Cash and cash equivalents at end of year	19	**1,347,348**	1,947,792

Significant non-cash transactions

During the year ended 31 December 2022, the Group issued 3,571,428 €0.20 par value ordinary shares at €0.28 each amounting to €999,999 as non-cash consideration for the acquisition of an investment property.

During the year ended 31 December 2021, the convertible loans paid to the Group in cash before the listing, amounting to €1,815,000, and the interest accrued thereon amounting to €36,575, were converted into ordinary shares in accordance with the original loan agreements, as described in the Prospectus dated 23 July 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements are prepared under the historical cost convention, except for revaluation of investment properties that are measured at fair value at end of each reporting period. These consolidated financial statements are prepared in accordance with the provisions of the Companies Act (Cap. 386), enacted in Malta and with the requirements of International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

Functional and presentation currency

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

New or revised standards, interpretations and amendments adopted

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and all its active subsidiaries that it controls. Subsidiaries are companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the operations, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

These consolidated financial statements comprise the Group and its wholly-owned active subsidiary, VREM Limited. Silver Horse Block Limited is an inactive project company, not consolidated and has no material impact on the consolidated financial statements.

The financial statements of the subsidiaries are prepared for the same reporting year as the Group, using uniform accounting policies for like transactions and other events in similar circumstances. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with the Group's accounting policies. All material intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the value of goods sold and services provided, net of sales rebates and taxes in the normal course of business, net of value added tax and discounts where applicable.

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

Sales of investment property

Revenue is normally recognised when legal title passes to the buyer. However, in some jurisdictions the equitable interests in a property may vest in the buyer before legal title passes and therefore the risks and rewards of ownership are transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognised as the facts are performed. An example is a building or other facility on which construction has not been completed.

Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

Interest income

Interest income is accrued on a time basis, by reference to the principle outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimate future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Foreign currencies

Transactions underlying items in these consolidated financial statements are measured in the Group’s functional currency, which is the currency of the primary economic environment in which the Group operates.

Transactions in foreign currencies have been converted into Euro at the rates of exchange ruling on the date of the transaction. There are no monetary assets and liabilities denominated in foreign currencies. However, if there would be, they would 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.

Tax

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Tax - continued

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profits, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially 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 unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Cost includes expenditure directly attributable to the acquisition of the items as well as transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Depreciation is provided on all items of property, plant and equipment, except freehold land and assets under construction, at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Building improvements	2% Straight Line
Office equipment	20% Straight Line
Furniture and fixtures	20% Straight Line
Other assets	20% Straight Line

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each end of the reporting period. The carrying amount of an asset is written down immediately to its recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably.

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value at the date of the valuation, less any subsequent accumulated depreciation (Note 14). Gains and losses arising from changes in fair values are recorded in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties - continued

The fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The estimation of fair values does not assume that either the underlying assets are marketed for sale at the reporting date or that there is an intention to sell it in the near future.

The objective is to estimate the exchange price at which hypothetical market participants would agree to transact.

The fair value of investment properties is largely based on estimates using property appraisal techniques as outlined in Notes 2 and 14 to these consolidated financial statements. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal proceeds, if any, and the carrying amount and are recognised in profit or loss in the period of derecognition.

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the fair valued amount, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Improvements	2% Straight Line
Furniture, fixtures and fittings	20% Straight Line

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its cost or fair value at the reclassification date becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until development is complete. Thereafter it is classified and accounted for as an investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under International Accounting Standards ('IAS') 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the profit or loss.

Intangible assets

Trademark and licences

Trademarks and licences are valued at cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 10 years.

Non-compete rights

The non-compete rights are valued at cost and are amortised over the period of 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Brand

The value of brand name is recognised following acquisition. Brand name acquired over the past period (together with other assets, in complex transaction), has been valued to assess the actual incremental value it provides to the Group's operations and its value has been based on estimated income. The brand name is being amortised over 5 years.

Investment in subsidiaries

Subsidiaries are all those entities over which the Group has control, i.e., when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Investment in subsidiaries is initially recognised at cost, being the fair value of the consideration given, including acquisition costs and are subsequently carried at cost less accumulated impairment losses, if any.

Dividend income is recognised when the Group's right to receive payment is established.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Non-current assets held for sale

Non-current assets (or disposals comprising assets and liabilities) are classified as assets held for sale if it is highly probable that their carrying amounts will be recovered primarily through a sale transaction which is expected to be completed within one year from the date of the classification, rather than through continuing use.

Such assets, or disposals, are generally measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal), excluding finance costs and income tax expense. Impairment losses on initial classification as held-for-sale or held for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, investment properties and property, plant and equipment are no longer amortised or depreciated.

Non-current assets held for sale are presented as current assets in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

Properties are classified as inventory where the objective is for resale purposes or where there is a change in use of investment property when there is an intention to sell. Such property would be reclassified at the deemed cost, which is the fair value at the date of reclassification. Inventories are carried at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the property together with other costs incurred during the subsequent development, including costs incurred on demolition, site clearance, excavation, construction and other related activities. Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and selling expenses.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities, Equity instruments are recorded at the proceeds received, net of direct issue costs.

Trade and other receivables

Trade receivables are classified with current assets and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Bank loans are carried at face value considering the market rate of interest.

Trade and other payables

Trade payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

Ordinary Shares issued by the Group

Ordinary shares issued by the Group are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included as borrowings under current liabilities.

Leases

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liability

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Related parties

Related parties are those persons or bodies of persons having relationships with the Group as defined in IAS 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

2. SIGNIFICANT JUDGEMENTS AND CRITICAL ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in Note 1, the management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical and other factors, including expectations of future events that are believed to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods.

The most significant estimates and judgments made in preparing these consolidated financial statements, under IFRS as adopted by the EU, is as follows:

Fair value of investment properties

Determining the fair value of investment property is established, considering various valuation approaches, and reflecting the present market conditions. The properties are mainly being valued on a market value basis, based on the principles defined by the Royal Institute of Chartered Surveyors ('RICS') Standards and applicable adjustments, which are made for property specific conditions, namely development project status or operational conditions. Where the valuation assessment requires an estimation of the value in use of the cash-generating units, the value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. As fair value of the Investment property, the Group uses a conservative approach and is established based on the valuations prepared regularly by independent valuers and further detailed in Note 14 to these consolidated financial statements. The fair value of Investment property of the Group at the end of the reporting period was €73,663,640 (2021: €59,991,129) as detailed in Note 14 to these consolidated financial statements. It is important to note, that in line with IFRS principles, the above value does not recognise actual market value of the various property-related contracts (e.g. pre-sale agreements) of the Group, which due to the nature of the Group's operations might be significant. Such assets are only reflected at cost. This incremental value is conservatively left out of the book value of the Group, and only recognised following final acquisition of the asset.

In the opinion of the Directors, except for matters disclosed above, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their disclosure in terms of the requirements of IAS 1.

3. REVENUE

	2022	2021
	€	€
Rental income	**2,165,750**	1,037,090
Management fees	**79,620**	15,441
Other revenue	**70,742**	10,583
	2,316,112	1,063,113

4. OTHER OPERATING INCOME

	2022	2021
	€	€
Miscellaneous income	**8,230**	-
Gain on sale of investment in subsidiary	**-**	174,483
	8,230	174,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

5. INVESTMENT INCOME

	2022	2021
	€	€
Increase in fair value of investment property	**7,666,656**	6,342,211
Realised loss on sale of investment property	**(724,933)**	-
Impairment on property held for sale	**(67,538)**	
	6,874,185	6,342,211

The €7,666,656 (2021: €6,342,211) relates to an increase in fair value of investment property resulting from concluded acquisitions, ongoing development activity and applicable adjustments, which are considering property specific conditions, namely development project status or operational conditions.

6. INTEREST INCOME

	2022	2021
	€	€
Loan interest	**7,084**	3,299

7. FINANCE COSTS

	2022	2021
	€	€
Interest on bank loan	**102,926**	1,256
Interest on convertible loans	**-**	36,575
Interest on third party borrowing	**67,288**	79,534
Interest on lease liabilities	**20,232**	20,921
	190,446	138,286

8. EXPENSES BY NATURE

	2022	2021
	€	€
Direct costs	**1,168,370**	511,644
Staff costs (i)	**418,021**	195,922
Auditors' remuneration		
Audit fee	**16,500**	15,950
Other non-assurance services	**950**	950
Impairment	**65,618**	-
Depreciation and amortisation	**280,459**	300,894
Other administrative expenses	**461,710**	337,657
	2,411,628	1,363,017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

8. EXPENSES BY NATURE - continued

(i) Staff costs

	2022	2021
	€	€
Salaries and wages	**289,944**	207,636
Social security and maternity fund contributions	**21,752**	10,702
Outsourced personnel	**165,266**	32,151
Capitalised salaries	**(58,941)**	(54,567)
	418,021	195,922
Average number of employees	**14**	12

During the year 2022, staff salaries of €58,941 have been capitalised to investment property (2021: €54,567).

9. INCOME TAX EXPENSE

Tax is provided for at the rate of 35% for Group profits, except for certain bank interest receivable which is taxed at 15% and sale of property which is taxed at 5%.

	2022	2021
	€	€
Current year tax		
Income tax on the taxable income for the year	**-**	-
Final withholding tax	**8,000**	-
Deferred tax		
Movement in deferred tax asset (Note 10)	**(15,524)**	(191,368)
Movement in deferred tax liability (Note 11)	**275,775**	312,352
Movement in revaluation reserve	**12,251**	12,251
Movement in general reserve	**-**	157,391
	280,502	290,626

Tax applying the statutory domestic income tax rate and the income tax expense for the year are reconciled as follows:

	2022	2021
	€	€
Profit on ordinary activities before tax	**6,603,537**	6,081,803
Theoretical tax expense at 35%	**2,311,239**	2,128,631
Tax effect of:		
Provisions disallowable for tax purposes	**652,593**	381,769
Movement in the effect of fair value gain on investment property	**(2,683,330)**	(2,219,774)
	280,502	290,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

10. DEFERRED TAX ASSETS

The asset for deferred tax is analysed as follows:

	2022	2021
	€	€
Excess of capital allowances over depreciation	**(72,310)**	(2,217)
Unabsorbed tax losses and capital allowances	**297,761**	212,147
	225,451	209,930

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Provision was made for deferred tax for all temporary differences, except of fair value adjustment for investment property, on the basis of the liability method using a principal tax rate of 35%. The deferred tax asset movement is made up of:

	2022	2021
	€	€
Balance at beginning of the year	**209,930**	18,562
Movement in the excess of capital allowances over depreciation	**(15,221)**	37,508
Movement in unabsorbed tax losses and capital allowances	**30,742**	153,860
Balance at end of year	**225,451**	209,930

11. DEFERRED TAX LIABILITY

	2022	2021
	€	€
Effect of fair value movement on investment property	**4,165,673**	3,889,901

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Provision was made for deferred tax for all temporary differences on the basis of the liability method using a principal tax rate at 35%/5%.

	2022	2021
	€	€
Balance at beginning of the year	**3,889,901**	3,577,549
Movement of investment property fair value	**275,772**	312,352
Balance at end of year	**4,165,673**	3,889,901

The Group is calculating its deferred tax liability on investment property at 5%, being the rate applied if it had to sell its properties within 5 years of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

12. INTANGIBLE ASSETS

	Licences	Non-compete rights	Brand	Total
	€	€	€	€
Cost				
At 1 January 2022	349	150,000	41,000	191,349
Additions	-	-	-	-
At 31 December 2022	**349**	**150,000**	**41,000**	**191,349**
Provision for diminution value				
At 1 January 2022	270	30,000	8,200	38,470
Amortisation for the year	35	30,000	8,200	38,235
At 31 December 2022	**305**	**60,000**	**16,400**	**76,705**
Net book value				
At 31 December 2021	79	120,000	32,800	152,879
At 31 December 2022	**44**	**90,000**	**24,600**	**114,644**

13. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Building improve-ments	Office equipment	Furniture and fixtures	Other assets	Total
	€	€	€	€	€	€
Cost						
At 1 January 2022	987,481	100,806	36,827	43,104	219,956	1,388,174
Additions	-	-	750	-	13,914	14,664
Transfers from investment property	47,888	-	-	-	-	47,888
At 31 December 2022	**1,035,369**	**100,806**	**37,577**	**43,104**	**233,870**	**1,450,726**
Depreciation						
At 1 January 2022	263,326	18,822	26,639	24,312	177,431	510,530
Charge for the year	46,016	2,016	5,300	1,256	20,220	74,808
Transfers from investment property	12,770	-	-	-	-	12,770
At 31 December 2022	**322,112**	**20,838**	**31,939**	**25,568**	**197,651**	**598,108**
Net book value						
At 31 December 2021	724,155	81,984	10,188	18,792	42,525	877,644
At 31 December 2022	**713,257**	**79,968**	**5,638**	**17,536**	**36,219**	**852,618**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES

	Right-of-use assets €	Investment properties €	Total €
Fair Value			
At 1 January 2022	2,147,267	58,873,723	61,020,990
Additions	5,316	7,272,769	7,278,085
Transfer from other current assets	-	993,507	993,507
Transfers to non-current assets held for sale	-	(532,236)	(532,236)
Transfers to property, plant and equipment	(47,888)	-	(47,888)
Disposals	-	(1,644,482)	(1,644,482)
Fair value movement	(1,008,026)	8,674,682	7,666,656
At 31 December 2022	**1,096,669**	**73,637,963**	**74,734,632**
Provision			
At 1 January 2022	98,241	931,620	1,029,861
Depreciation	16,198	151,218	167,416
Transfers to non-current assets held for sale	-	(22,236)	(22,236)
Transfers to property, plant and equipment	(12,770)	-	(12,770)
Disposals	-	(91,279)	(91,279)
At 31 December 2022	**101,669**	**969,323**	**1,070,992**
Net book value			
At 31 December 2021	2,049,026	57,942,103	59,991,129
At 31 December 2022	**995,000**	**72,668,640**	**73,663,640**

Depreciation relates to the depreciation of improvements and furniture currently included in Investment Property. The depreciable amount is allocated on a systematic basis to each accounting period over its useful life.

Fair value of investment property

The book value of the property held by the Group has been increased by €7,666,656 to reflect the established fair value as at 31 December 2022, reflecting several different factors and adjustments to the individual property values, including the downward adjustment to certain property categories resulting from the market changes and developments of the past two years, and reflecting improvements and additions to the portfolio during the year, resulting from the acquisition and development activity of the Group.

It is important to note that the Group has not recognised any value over the costs incurred for its contracts and promises of sale of property which have not yet been fully acquired, but binding contracts are existing, and is conservatively left out of the book value of the Group.

Valuation process

As is usually done by the Group, on an annual basis, during the reporting year it has carried out a full property valuation exercise, performed by an independent professional valuer to assess the market value of its assets, whether these are owned or leased. The report was prepared by Edwin Mintoff Architects (EMA) in their capacity of a warranted architect and civil engineers, as independent asset valuers. This full valuation report was prepared based on the principles defined by the Royal Institute of Chartered Surveyors (‘RICS’) Standards and applicable adjustments, which are made for property specific conditions, namely development project status or operational conditions and completed in January 2023, as part of the annual asset valuation exercise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES - continued

Valuation process - continued

On this basis, the Board of Directors has made its own assessment which has considered the overall valuation values of the independent reports but was also assessing the various specific developments and adjusted for property-specific status of the ongoing development projects, as well as the investment value potential for the VBL asset portfolio. The assessment of the fair market value of the Group's asset portfolio performed by the Board of Directors as at the end of the reporting period is considered conservative and is based on careful assessment of the available independent valuation reports, market information and consideration of the actual market conditions and forecasts.

Valuation techniques

It should be noted that the actual price (liquidation value) which the Group might obtain, if forced to sell all properties in the short term, might be lower than the estimated figures accepted as fair market value of the specific assets, as this is usual in similar cases. In addition, there are several risks and discount factors associated specifically with the nature and operation of VBL's strategy and its line of business, which were taken into account in establishing the fair market value of the properties and related assets reflected in the Directors assessment, namely:

- Ability to match the forecasted schedule and development budgets;
- Securing the necessary finance for all development related expenses (beyond the currently available funds) for all the projects within a short time frame might prove difficult;
- Securing the necessary development and operational permits within a relatively short time frame for all the planned development projects might not materialise in time, resulting in delays or undue strain on resources and finance and overall increased development costs and delayed proceeds from operation;
- Finding prospective buyers or partners or operators for some or all the projects within a short time frame might not be possible at the forecasted terms and conditions;
- The development and execution risks required to make some of these properties operational (particularly the Silver Horse Block Phase 2 project) are considered high; and
- The impact of changing general market conditions and regulatory risks associated with the operation of finished and managed properties is a risk itself.

Directors' assessment

As of the end of year 2022, the Directors' Valuation Report of VBL Plc. represents conservatively updated values for each of the assets of the Group, but adjusted for the specific developments of some properties which are under development or change in legal status (contracts), as also recommended by the Guidance Note of Kamara tal-Periti (KtP) and as usual under the standard industry practices. The Directors' valuation has not reflected any additional value of pre-sale agreements, or new management contracts signed in 2022.

Nevertheless, based on independent experts' opinions and other available information, the Directors are at the opinion that the Valletta property market is significantly less vulnerable to the short-term volatility than other property markets in Malta and there is no material adverse change experienced in market values as of the date of this report.

Given the above, as of 31 December 2022, the Directors approved a total value of the properties of the Group amounting to €73,663,640 (2021: €59,991,129). It is to be noted that the Directors established their valuation report considering the recommendations of the independent valuers' report for adjustments of the fair market value in specific assets of the Group's owned properties, as a result of the market changes and current conditions experienced in the Valletta property market. Projects under development, or completed but not yet operational at the time of the valuation were reflected based on the actual estimated project value, at the time, with values of fully developed assets to be realised at full completion. The Directors have also confirmed that the long-term operational expectations remain unchanged in terms of projected long-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

term achievable revenues and operational profitability from operation or sale of the fully developed assets of the Group.

14. INVESTMENT PROPERTIES - continued

Directors' assessment - continued

The Group uses the application of IFRS 16 which permits the recognition of leased properties in the statement of financial position. Also, the Group considers managed properties at the same approach as leased, based on the long-term contracts with owners and de facto control of these properties.

It is important to note, that in line with the IFRS recommendations, the Group has not recognised any value over the costs incurred for its contracts and promises of sale of property which has not yet been acquired, but binding contracts for the sellers are existing. This potentially incremental value is conservatively left out of the book value of the Group.

15. INVESTMENT IN SUBSIDIARIES

Subsidiary	**Registered address**	**Class of shares**	**% of ownership**	
			2022	2021
VREM Ltd	54, Marsamxett Road Valletta VLT 1853 Malta	Ordinary Shares	**100**	100
Silver Horse Ltd Block Ltd	54, Marsamxett Road Valletta VLT 1853 Malta	Ordinary Shares	**100**	100

VREM Ltd was established in 2016 to be the hospitality operator of the Group and manages all the short-let and long-let hospitality properties of the Group on the retail market. VREM's financial results and financial position are consolidated in these financial statements.

Silver Horse Block Ltd was established in 2017 as a SPV for development projects, currently holding no material assets, not commencing any activity nor being inactive. The Group recognises the investment in Silver Horse Block Ltd at its cost of €1,200 (immaterial for group and hence, not consolidated).

16. NON-CURRENT ASSETS HELD FOR SALE

During the year, the Group has decided to dispose some of its non-core assets, which were not part of the development plans or not in the city of Valletta, and as such not representing a strategic value. For some of these properties, a promise of sale agreement was signed in December 2022, and transaction closing envisaged in year 2023.

17. INVENTORY

During the year, the Group has decided to dispose some of its assets in the city of Valletta. For some of these properties, promises of sale agreements were signed and the transactions closed in the first quarter of year 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

18. TRADE AND OTHER RECEIVABLES

	2022	2021
	€	€
Trade receivables (i)	**283,310**	70,819
VAT refundable	**14,015**	82,452
Other receivables	**25,902**	1,286,947
Prepayments and accrued income	**118,257**	140,593
	441,484	1,580,811
Provision for expected credit losses	**(39,055)**	-
	402,429	1,580,811

(i) Trade receivables are non-interest bearing and are generally on a 30-day term.

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	2022	2021
	€	€
Cash at bank and in hand	**1,347,348**	1,947,792

20. SHARE CAPITAL AND RESERVES

	2022	2021
	€	€
Share Capital		
Authorised:		
330,000,000 Ordinary shares of €0.20 each	**66,000,000**	66,000,000
Issued and fully paid:		
248,042,645 Ordinary shares in 2022 and		
244,471,217 Ordinary shares in 2021 of €0.20 each	**49,608,529**	48,894,243

The issued share capital of the Group currently consists of 248,042,645 ordinary shares (2021: 244,471,217), of €0.20 each (2021: €0.20). The authorised share capital currently consists of 330,000,000 Ordinary shares, of €0.20 each.

During the year ended 31 December 2022, the Group issued 3,571,428 ordinary shares at €0.20 each as non-cash consideration for the acquisition of an investment property.

As of 31 December 2022, the market price of the ordinary shares on the Malta Stock Exchange was €0.26 (2021: €0.30) each.

The Ordinary shares of the Group participate equally in any payment of dividends or any distribution and return of capital and carry identical rights and voting rights, as specified in the Memorandum and Articles of Association the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

20. SHARE CAPITAL AND RESERVES - continued

The following describes the nature and purpose of each reserve within equity:

Share premium	The amount subscribed for share capital in excess of par value.
General reserve	The amount of the issued share capital reduction after the restructuring of the Group completed in 2019, retained in the Group, not distributed to the shareholders.
Other reserves	Non-distributable reserves for fair value revaluation on the office building.
Retained earnings	All other net earnings or profit after accounting for dividends.

The Directors propose a final dividend of €180,000 for the year 2022. During the year ended 31 December 2022, dividends amounting to €160,000 (2021: €150,000) were paid.

21. BORROWINGS

	2022	2021
	€	€
Non-current		
Bank borrowings	**7,877,586**	1,297,204
Current		
Bank borrowings	**337,671**	328,699
Third party borrowings	**-**	2,000,000
Bank borrowings	**337,671**	2,328,699

Bank borrowings

The Group has obtained a bank loan under the MDB-guarantee scheme provided to support businesses following the Covid-19 outbreak, which has a subsidised interest rate, in compliance with the MDB loan programme and relevant EU regulations, which results in effective interest rate significantly below market rate. The loan is being amortised as planned.

During the year 2022, the Group has secured a long-term loan facility of €14.5m, structured to reflect the Group's financing needs, and to secure the necessary funding for its development and acquisitions programme. This loan facility is repayable over a period of 15 years, and is structured into specific, dedicated utilisation purposes. During year 2022, this facility has only been partly drawn. The facility bears a market interest rate linked to the Euro Interbank Offered Rate (EURIBOR).

The loan facility is secured by a general hypothec over the Group's assets, and special hypothecs over the properties developed under the facility.

The applicable costs of the banking facilities (e.g. processing fees, commitment fees, legal and professional fees directly related to the facility), were recognised in the Consolidated Statement of Comprehensive Income during the year.

The carrying amounts of the bank borrowings are reasonable approximations of their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

22. LEASE LIABILITIES

The Group leases properties which are utilised in the operations or operated as investment properties, under agreements of between ten to twenty-five years, in some cases with options to extend. The lease contracts have various escalation clauses. On renewal, the terms of the leases are renegotiated.

	2022	2021
	€	€
Minimum lease payments		
Due after more than five years	**222,466**	237,616
Due after one year but within five years	**63,787**	62,175
Due within one year	**13,538**	11,443
	299,791	311,234

Movements in lease liabilities during the year are as follows:

	2022	2021
	€	€
At 1 January	**311,234**	321,868
Interest expense	**20,232**	20,921
Gross lease payments	**(31,675)**	(31,555)
At 31 December	**299,791**	311,234

23. TRADE AND OTHER PAYABLES

	2022	2021
	€	€
Non-current		
Amounts due to third parties (i)	**16,385**	46,385
Deposits on lease agreements	**72,390**	-
	88,775	46,385
Current		
Trade payables (ii)	**512,287**	223,727
Accruals and other payables	**272,176**	312,303
Deposits on properties	**54,571**	-
Amounts due to shareholder (iii)	**273,000**	-
Amounts due to third parties (i)	**30,000**	30,000
	1,142,034	566,030

(i) The amounts due to third parties represent - among others - balances due arising from the purchase of properties. The balance payable is reflected in the Group's accounts.

(ii) Trade payables are non-interest bearing and are normally on 30 to 60 day term.

(iii) The amounts owed to shareholder are fees owed for executive management services based on a service contract. These are unsecured, interest-free, and repayable on demand.

24. RELATED PARTY TRANSACTIONS

The Group has related party relationships with some of its investors or companies 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

24. RELATED PARTY TRANSACTIONS - continued

In the opinion of the Directors, there is no ultimate controlling party of the Group, since no shareholder of VBL Plc has more than 25% of voting rights.

During the year ended 31 December 2022, transactions related to VBLM Limited are included in the related party transactions as detailed below.

During the year, the Group entered into transactions with related parties as set below.

	2022	2021
	€	€
Rental revenue - Gold Landlord	**58,272**	31,341
Directors travel reimbursement	**1,129**	1,625
Management fees expenses - VBLM	**100,000**	45,624
Capitalised property development expenses - VBLM	**300,000**	316,876

The outstanding amounts arising from transactions with the related parties are disclosed in Note 21 to these consolidated financial statements.

25. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Profit attributable to equity holders of the Group	**€6,323,035**	€5,791,177
Weighted average number of shares in issue	**245,036,691**	233,171,774
Basic and diluted earnings per share	**€0.0258**	€0.0248

The Group has no instruments or arrangements which give rise to potential ordinary shares and accordingly diluted earnings per share is equivalent to basic earnings per share.

26. FINANCIAL RISK MANAGEMENT

The Group’s activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market risk

Market risk is the risk that changes in market prices (e.g. foreign exchange rates, interest rates and equity prices) will affect the Group’s income or the value of its holdings of financial instruments. The Group’s currency of operation is Euro, all revenues and payables are defined, contracted and accounted in Euro.

The Group is exposed to changes in equity prices and interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

26. FINANCIAL RISK MANAGEMENT - continued

Equity price change risk

The Group is exposed to changes in equity prices ("price risk") in respect of its listed shares, which is not a Group-specific risk, but it is a risk of the equity investors and shareholders. Therefore, the price risk is a relevant risk from the point of view of the Group's shareholders (investors), holding the listed securities.

The price risk is significantly dependent on the local and global stock market's specifics, the equity trading trends, actual trading volumes and other specifics of the equity market at the Malta Stock Exchange (MSE), and it is less dependent on the Group's actual financial or market performance. This fact is proven by the developments of year 2022, when during the period the Group's revenues, profitability and net assets have increased significantly, while the share prices have decreased, amidst negligible trading volume compared to the Group's actual book value (the total trade volume in the reporting period was ca. 0.3% of the Group's total asset value).

The investments in listed equity securities are considered as long-term strategic investment and is regulated and monitored by local and EU level regulation and authorities. The Directors continuously monitor the stock prices of the Group and assess the impact of potential stock price changes to the Group.

While the experienced trading volumes and cumulative trade in the Group's shares during the year were very low compared to the Group's book value, the following table illustrates the theoretical sensitivity and change of market capitalisation to a possible change in market price.

	Change	Increase/ (decrease) in profit for the year	Increase/ (decrease) in equity
	%	€	€
2022	**-€0.04**	**-**	**(€9,921,706)**
2021	+€0.02	-	€4,889,424

Interest rate risk

The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to changes in market interest rates through its bank borrowings which incur variable interest rates.

The following table illustrates the sensitivity to a reasonably possible change in interest rates. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Change	Increase/ (decrease) in profit for the year	Increase/ (decrease) in equity
	Basis points	€	€
EURIBOR			
2022	+10	8,215	8,215
	-10	(8,215)	(8,215)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

26. FINANCIAL RISK MANAGEMENT - continued

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash at bank and receivables. The Group's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution, to the extent possible. The Group has appropriate policies to ensure that sales of properties and provision of services are made to customers with appropriate credit history, or where this is not possible or practical, alternative risk mitigating practices are applied. In this respect, credit risk with respect to receivables is monitored continuously and the Group places a specific provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible, and, in this respect, the Group has no significant concentration of credit risk. The Group’s calculated expected credit losses is immaterial.

	Aging	2022	2021
		€	€
Financial asset			
Loans receivable	June-2024	**113,711**	107,470

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity by maintaining adequate reserves and banking facilities to meet its abilities when due, under both normal and stressed conditions. The Directors do not foresee and are unaware of any circumstances whereby the Group would not honour its commitment.

	Within one year	One to five years	More than five years
	€	€	€
2022			
Financial assets:			
Cash and cash equivalents	**1,347,348**	**-**	**-**
Trade and other receivables	**402,429**	**-**	**-**
	1,749,777	**-**	**-**
Financial liabilities:			
Bank borrowings	**337,671**	**-**	**7,877,586**
Third party borrowings	**-**	**-**	**-**
	337,671	**-**	**7,877,586**
2021			
Financial assets:			
Cash and cash equivalents	1,947,792	-	-
Trade and other receivables	1,580,811	-	-
	3,528,603	-	-
Financial liabilities:			
Bank borrowings	328,699	1,297,204	-
Third party borrowings	2,000,000	-	-
	2,328,699	1,297,204	-

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

26. FINANCIAL RISK MANAGEMENT - continued

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists mainly of cash and cash equivalents as disclosed in Note 19, items presented within equity in the statement of financial position and borrowings as disclosed in Note 20 and Note 21, respectively.

The Group's Directors manage the Group's capital structure and make adjustments to it, in the light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the Directors, the Group balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group monitors capital using the gearing ratio. This ratio is calculated as total net borrowings divided by total capital. The Group considers total capital to be equity and total net borrowings.

The Group's overall strategy remains unchanged from the prior year.

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	CLA related borrowings €	Bank borrowings (Note 21) €	Third party borrowings (Note 21) €	Total €
Balance at 01 January 2021	1,600,000	1,700,000	2,000,000	5,300,000
Advances/(repayments)	215,000	(74,097)	-	140,903
Interest paid	-	(1,256)	(79,534)	(80,790)
Non-cash transactions:				
Interest expense	36,575	1,256	79,534	117,365
Conversion to ordinary shares	(1,851,575)	-	-	(1,851,575)
Balance at 31 December 2021	**-**	**1,625,903**	**2,000,000**	**3,625,903**

	Bank borrowings (Note 21) €	Third party borrowings (Note 21) €	Total €
Balance at 01 January 2022	1,625,903	2,000,000	3,625,903
Drawdowns	6,839,234	-	6,839,234
Repayments	(249,880)	(2,000,000)	(2,249,880)
Interest paid	(102,926)	(67,288)	(170,214)
Non-cash transactions:			
Interest expense	102,926	67,288	170,214
Balance at 31 December 2022	**8,215,257**	**-**	**8,215,257**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued

28. FAIR VALUE MEASUREMENT

Fair value is 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.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Unobservable inputs for the asset or liability.

There were no transfers between levels during the year.

The valuation of investment properties at fair value is categorised as level 3. Details of the valuation techniques are disclosed in Note 14.

29. CAPITAL COMMITMENTS

The Group’s mid-term projected capital commitments are detailed in the Prospectus dated 23 July 2021, under the chapter of Prospective Financial Information, and reflects the Directors expectation with respect to the future operation of the Group for the 5-year financial period. The basis of preparation and key underlying assumptions are also detailed in the said Prospectus. These are materially unchanged and implemented along the originally projected timeframes, with slight adjustments to reflect the expected market and other impacts resulting from the development activity.

30. COMPARATIVE INFORMATION

Certain amounts in the comparative information have been reclassified to conform with the current year presentation.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of VBL Plc

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of VBL Plc ("the Company") and its subsidiaries (together, "the Group") set out on pages 20 - 46, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2022, and of the Group's financial performance and 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 our 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 Group 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.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group 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 Group are disclosed in Note 8 to these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Consolidated Financial Statements - continued

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 Properties

The Group's investment properties are carried at fair value of €73,663,640 as at 31 December 2022.

Further detail is included in Note 14 to these consolidated financial statements.

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 limitations 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 and the Board of Directors' assessment which considers various specific developments and adjusted for property-specific status of the ongoing development projects, as well as the investment value potential for the VBL asset portfolio.

Audit Response

We understood and evaluated the assessment performed by management on the basis of the revaluations performed by a professional qualified valuer and the Board of Directors' assessment to ascertain the fair value of the investment properties.

Our audit procedures included amongst others:

- Considering the objectivity, independence, competence and capabilities of the external valuer.
- Considering the objectivity, competence and capabilities of the management and directors.
- Reviewing the methodology used by the external valuer and management to estimate the value of the property.
- Assessing and challenging the significant unobservable inputs and assumptions that were applied in the valuations made.
- Assessing the reasonableness of the valuations by reference to market evidence of transactions for similar properties.
- Conducting discussions with the independent professional valuer, management and directors.

We concluded, based on our audit work, that the outcome of the assessment is reasonable.

In addition, we reviewed the adequacy of disclosures made in Note 14 to these consolidated financial statements and concluded that these are adequate.

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INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Consolidated Financial Statements - continued

Other Information

The directors are responsible for the other information. The other information comprises the general information, directors' report, remuneration report and statement by the directors on compliance with the Code of Principles of Good Corporate Governance. Our opinion on the financial statements does not cover the other information.

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 on which the financial statements are had been prepared is consistent with the financial statements; and
- in light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

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

RSM

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Consolidated Financial Statements - continued

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

RSM

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Financial Statements - continued

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements

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

The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles. The Capital Markets 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 consolidated 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 with the Principles of Good Corporate Governance set out on pages 12 – 19 has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority.

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INDEPENDENT AUDITORS' REPORT - continued

Report on Other Legal and Regulatory Requirements - continued

Report on the Remuneration Statement

The Capital Markets Rules issued by the Malta Financial Services Authority requires the directors to prepare a remuneration statement. We are required to consider whether the information that should be provided under the Remuneration Statement has been included.

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

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

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive (the "ESEF Directive 6") on the annual financial report of VBL plc for the year ended 31 December 2022, entirely prepared in a single electronic reporting format.

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

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

Our procedures included:

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

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

Opinion

In our opinion, the annual financial report for the year ended 31 December 2022 has been prepared in XHTML format in all material respects.

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 required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- proper returns have not been received from branches we have not visited; or
- the consolidated financial statements are not in agreement with the accounting records and returns; or
- we were unable to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

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

We have nothing to report in this regard.

Appointment

We were first appointed to act as auditors of the Group by the shareholders of the Company on 14 December 2021 for the year ended 31 December 2021, and we were subsequently reappointed by the shareholders at the Company's general meeting for the financial year thereafter. The period of uninterrupted engagement as statutory auditor of the Group is two financial periods.

This copy of the audit report has been signed by
Conrad Borg *(Principal)*
for and on behalf of

RSM Malta
Registered Auditors
Mdina Road
Zebbug ZBG 9015
Malta

21 April 2023

Company Registration No. C 56012

VBL PLC

Annual Report
and
Financial Statements

31 December 2022

CONTENTS

GENERAL INFORMATION

Registration

VBL Plc is registered in Malta as a public limited liability company under the Companies Act (Cap. 386). The company's registration number is C 56012. Since last publication there were no changes to the name of the reporting entity.

Place of domiciliation

Malta

Principal place of business

Malta

Directors

Dr. Andrei Imbroll	
Dr. Geza Szephalmi	
Mr. Julian Tzvetkov	
Mr. Arthur Haze	
Mr. David Galea Souchet	
Ms. Isabella Vella	
Dr. Csaba Bato	(retired on 20 April 2022)

Company secretaries

Dr. Joe Borg Bartolo and Dr. Mikiel Calleja	(appointed on 1 March 2022)
Dr. David Meli	(resigned on 1 March 2022)

Registered office

54,
Marsamxett Road
Valletta VLT 1852
Malta

Principal Bankers

Bank of Valletta p.l.c.
184 Triq In-Naxxar
San Gwann SGN 9030
Malta

Auditors

RSM Malta
Mdina Road
Zebbug ZBG 9015
Malta

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of VBL Plc ("the Company") for the year ended 31 December 2022.

Principal activities

The Company is involved in the full process of real estate acquisitions, integrated real estate development, property management, operations, utilisation (rental) and disposal of properties. The Company's main market of operation is Valletta, which is a UNESCO world heritage site, and is a protected, unique and fortified city, the political and administrative centre of Malta.

Over the course of its ten years of operations, the Company has established itself as one of the most active investors in immovable property in Valletta (based on the number of acquired and developed units, and the number of operated/managed properties in Valletta). The Company has a successful track record of identifying, acquiring, developing and managing real estate all around Valletta.

The Company's principal areas of activities are as follows:

A. Identification and acquisition of real estate assets in the city of Valletta, and the consolidation of acquired properties to achieve sizeable development projects, spanning the planning and permitting stage to the preparation and development of the projects;
B. Execution, on a project-by-project basis, of the restructuring, conceptualisation, re-development and renovation of acquired real estate assets, including regeneration and improvement of related areas, neighbourhoods or districts of the city, improving overall quality of life for the local community and residents, creating modern, liveable community areas and supporting development of social and cultural activities.
C. Operation and management of commercial and residential real estate assets with a view to generating growing recurring rental income; or sale, and occasionally management for the new owners, of the re-developed assets, where the commercial opportunity to dispose of the asset secures higher margins than its on-going operation. This operational area also includes the management of other third-party real estate assets for accommodation, commercial and office space and the provision of professional operation and management of established hotels and hostels, by leveraging on VBL's existent operational structures and highly skilled management team, while providing high value-added services and overall solution to owners of such assets.

The Company has developed fully integrated skills and management structure with large range of in-house capabilities in each of the principal activities undertaken by the Company, spanning the asset acquisition, asset development, management and operation activities. The Company has established a vertically integrated business process, based on a very well defined and focused target market, where it has proven skills to deliver on all aspects the whole cycle, whereby ensuring the high quality of products and/or services based on established in-house systems and structures, supported by a selection of trusted long-term business partners and sub-contractors to ensure efficiency and to reduce dependency on more vulnerable, short-term commercial relations, thus also ensuring that maximum benefit is derived from all margins.

Review of Business Development and Financial Position of the financial year 2022

The financial performance of the Company has remained stable and has shown fast recovery from the previous years, which were significantly impacted by the implications of the uncertainty of COVID-19 restrictions and limitations. In the first 4 months of the reporting year, the operations were still impacted by restricted travel and other government restrictions impacting operations, however, once these were removed, a fast recovery in all areas of operations was realised. During the reporting period, the Company managed to increase significantly its rental revenues compared to the previous year, whilst both the operational profitability and EBITDA volume have also shown significant growth. The Company's operations were still dependent on overall market trends, such as airline seat capacity limitations, consumer prices, services inflation and labour market supply challenges.

DIRECTORS' REPORT - continued

Review of Business Development and Financial Position of the financial year 2022 - continued

During the reporting period, the Company has remained successful in terms of expanding on the Valletta property market, adding new properties to its portfolio and continuing with the execution of the development projects.

In the reporting period, the Company has concluded and obtained ownership and possession of a new landmark asset, the Coliseum Shopping Arcade (also known as "the Coliseum") together with overlaying property, which has resulted in significant increase in the value of Investment Property.

In the last quarter of 2022, the Company has obtained a long-term bank financing facility, structured to meet the development financing needs and tailored to the Company's cash-flow generation ability, and thus allowing the Company to enter its most intense development phase since inception.

The core activity and the most significant value driver for the Company is real estate acquisitions and development, which accounts for the most significant value changes in the Company's accounts. The Company therefore - similarly to its peer companies - assesses and reflects the investment income under the total revenues, which in the reporting period has reached €6,874,185 (2021: €6,342,211), representing a 8% growth.

Overall, the financial performance of the Company resulted in total revenues of €672,392 (2021: €413,904) and an EBITDA of €7,059,687 (2021: €6,584,997). Profit after tax on the Company's activities for the year amounted to €6,283,437 (2021: €5,846,256).

	ACTUAL	**ACTUAL**	**VARIANCE 2022 ACTUAL VS 2021 ACTUAL**	
	Jan - Dec 2022	**Jan - Dec 2021**		
	€	**€**	**€**	**%**
Revenue	672,392	413,904	258,488	62%
Investment Income	6,874,185	6,342,211	531,974	8%
Cost of Sales	(10,023)	(18,601)	8,578	(46%)
Gross Profit	**7,536,554**	**6,737,514**	**799,040**	**12%**
GOP Margin	99%	99%	-	
Other Operating Income	**35,730**	**211,730**	**(176,000)**	**(83%)**
Total Operating Costs	**(512,597)**	**(364,247)**	**(148,350)**	**41%**
EBITDA	**7,059,687**	**6,584,997**	**474,690**	**7%**
EBITDA Margin	94%	97%	(3%)	
EBITDA (Operational)	**185,502**	**242,786**	***(57,284)***	***(24%)***
EBITDA Margin (Operational)	*2%*	*4%*	*(2%)*	

Notes:

(1) Operational EBITDA and Operational EBITDA margin are calculated without investment income.

DIRECTORS' REPORT - continued

Dividends and Reserves

A final dividend of €180,000 is proposed by the Directors for the year 2022, which corresponds to 0.0726 Euro Cents per share dividend. A total dividend of €160,000 was distributed to the shareholders for the year ended 31 December 2021 (corresponding to 0.065 Euro Cents per share).

Listed Company Status and New Share Issue

VBL Plc., as the principal company of the VBL Group, is a listed entity at the Malta Stock Exchange ("MSE"). In the reporting year, there was a new share issue of 3,571,428 newly issued shares allocated for non-cash consideration related to the acquisition of an investment property.

As at 31 December 2022, 100% of the Company's equity and issued share capital is listed on the MSE, with total number of shares in issue standing at 248,042,645. All shares of the Company are ordinary shares, with nominal value of €0.20 cents each, and have the same shareholders' rights.

The authorised share capital of the Company remains unchanged at €66,000,000.

Events After the End of the Reporting Period

There were no specific materially important events affecting the Company's long-term outlooks which occurred since the end of the accounting year. However, the long-term effects of the current global economic situation, war in Ukraine, post-pandemic impacts and related local and global restrictions might have a continuing impact on the VBL Group's business recovery to pre-pandemic levels in the course of year 2023.

Future Developments

The Company plans to continue its dynamic growth by implementing its announced development programme of its owned assets that have full development permits in hand, as well as improve further the utilisation of developed assets in line with its long-term business strategy and financial plans.

Going Concern Statement Pursuant to Capital Markets Rule 5.62

Currently, the Directors are of the opinion that the global and local market trends deliver a turbulent short and mid-term forecast. The Company's financial performance will benefit from its existing inflation-resistant portfolio of prime real estate assets, located in the historic city of Valletta, which is providing excellent positions for delivering a solid long-term growth. The Company is on the path of quick recovery from the short-term impact of the pandemic related restrictions and consecutive operational interruptions, while it is assumed that the general economic environment will stabilise in mid to long term and the Company's results will keep on following this trend.

The currently ongoing development projects are expected to continue as communicated, subject to the current known market and economic factors remaining constant or improved.

The current relatively low level of the Company's total debt compared to the Company's total assets and the existence of unencumbered properties provide for a better than average resistance to internal and external industrial or financial challenges, while the increasing inflationary and interest rate pressure is mostly affecting companies with a less strong balance sheet and less resistant asset base.

The current economic landscape and market conditions present new opportunities, which the VBL Group plans to continue to explore, to further enhance its core product together with maintaining its very clear strategy and unique market focus.

Directors expect that the Company will not face a going concern issue due to current market conditions on the local or international landscape.

DIRECTORS' REPORT - continued

Principal Risks and Uncertainties

The key risk factors the Company is facing have been categorised under five main categories, according to whether the risk factors relate to:

(i) risks relating to the acquisition and disposal of immovable property;
(ii) risks relating to construction and development of immovable property;
(iii) risks relating to management and operation of immovable property;
(iv) risks relating to the change of interest rates and the conditions of financing deriving from the overall global economy, local financial market, European inflationary environment, and Euro-based interest rates; and
(v) risks relating to the general business and operations of the Company. The latter category of risk factors is intended to encapsulate those risk factors that concern the day-to-day operations and activities of the Company, regardless of the line of operations concerned and are, therefore, considered to apply equally to each of the individual business lines referred to in categories (i) to (iii). In addition, the Board of Directors considers that in view of the concentration of the Company's immovable properties in Valletta, it is appropriate to identify those specific risks that are attributable to, or associated with, the market for immovable property situated in Valletta, taking into account the unique characteristics of the Valletta market, its historic and political/administrative background. Those risks relating specifically to the Valletta immovable property market that are identifiable at the date hereof have been included within the main categories referred to above respectively.

If any of the risks described were to materialise and could not be mitigated under reasonable terms, they could have a serious effect on the Company's financial results, financial condition, operational performance, business and/or trading prospects. The risks and uncertainties discussed above are those identified as such by the Board of Directors as at the date of this Report, but these risks and uncertainties may not be the only ones that the Company faces or could face. Additional risks and uncertainties, including any which the Board of Directors are not currently aware of, or that the Board of Directors currently deem immaterial or remote, individually or cumulatively, may well result in a material impact on the financial results, financial condition, operational performance, and/or trading of the Company.

Board of Directors

The Board of Directors of the Company currently consists of the following Directors:

Dr. Andrei Imbroll, Chairman and Executive Director
Dr. Geza Szephalmi, Executive Director
Mr. Julian Tzvetkov, Executive Director
Ms. Isabella Vella, Non-Executive Director, Chairperson of the Audit Committee
Mr. Arthur Haze, Non-Executive Director, Member of the Audit Committee
Mr. David Galea Souchet, Non-Executive Director, Member of the Audit Committee

Dr. Csaba Bato, formerly a Non-Executive Director and Chairperson of the Audit Committee has retired from this position at the annual general meeting, held on the 20 April 2022.

Under the provisions of the Company's Memorandum and Articles of Association, the appointment of the Directors happens at the Company's general meeting.

Auditors

A proposal will be submitted to the Annual General Meeting to re-appoint RSM Malta as Auditor to the Company for year 2023 and to set their remuneration for the period.

DIRECTORS' REPORT - continued

Statement of directors' responsibilities

The Companies Act (Cap. 386), enacted in Malta, requires the Directors to prepare financial statements for each financial year 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 year.

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 accrual basis;
- value separately the components of asset and liability items;
- report comparative figures corresponding to those of the preceding accounting period; and
- prepare the financial statements in accordance with generally accepted accounting principles as defined in the Companies Act (Cap. 386) and in accordance with the provision of the same Act.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable the Directors to ensure that the financial statements comply with the Companies Act (Cap. 386). 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.

Shareholding Structure of the Company Pursuant to Capital Markets Rule 5.64

The issued share capital of the Company as at the date of this report is 248,042,645 ordinary shares with a nominal value of €0.20 per share. All shares are listed on the Malta Stock Exchange and hold the same rights.

The Company's shareholders holding 5% or more in direct or indirect shareholding are:

Shareholder's Name	Number of Shares (owned directly)
VBLM Limited	46,000,010
Raniark Limited	44,010,815
Geza Szephalmi	40,433,395
Andrei Imbroll	36,919,655
Sorbusenco Enterprises Limited	22,635,560
Petrolsped (Malta) Ltd	14,997,045
Julian Tzvetkov	12,005,245

VBLM Limited is a management company, which has entered into a Management Services Agreement with the Company, pursuant to which VBLM Limited provides the Company, and other entities falling within the Group, with, *inter alia,* senior executive and strategic management and other support services.

Shareholders holding 10% or more direct shareholding are locked-in from trading with their shares for a period of 24 months from the date of Listing, as this is described in detail and defined in the Prospectus published by the Company, dated 23 July 2021.

DIRECTORS' REPORT - continued

Powers of the Board Members Pursuant to Capital Markets Rule 5.64.9

The powers of the Directors are outlined in Article 49 of the Articles of Association of the Company.

Disclosure of Material Contracts Pursuant to Capital Markets Rule 5.70.1

The Company is party to a number of material value contracts, including contracts entered into in connection with the acquisition or disposal of real estate assets, the renovation or development of real estate assets, and the subsequent lease and operating agreements in connection with real estate assets, which are considered contracts in the ordinary course of business. All of those contracts have been entered into in the ordinary course of the Company's business and are considered to be at arm's length and under the general business and ethical standards applied by peer companies, globally.

As at the date of this Report, the Board of Directors considers that the only material contract entered into outside the ordinary course of business of the Company is the Management Services Agreement with VBLM Limited, details of which have been published in Section 4.5 of the Registration Document (Prospectus), published by the Company on the 23 July 2021.

Company Secretary and Registered Office of the Company Pursuant to Capital Markets Rule 5.70.2

Dr. Joe Borg Bartolo and Dr. Mikiel Calleja
54, Marsamxett Road, Valletta VLT 1852 Malta

Statement of Responsibility Pursuant to Capital Markets Rule 5.68

The Directors declare that to the best of their knowledge, the financial statements included in the Annual Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union and as amended from time to time and these statements give in all material aspects a true and fair view of the assets, liabilities, financial position and results of the Company and that this report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

Explanatory Note to the Special Business Proposed to the Annual General Meeting of the Company

Proposed Ordinary Resolution – Special Business - Indemnification of the Directors and Senior Management

Text of the Ordinary Resolution:

"It is hereby approved to indemnify the members of the Board of Directors and Senior Management of the Company from liabilities and expenses to which any such person(s) may become a party as a result of such individual's acts carried out for and on behalf of the Company, or any of its associated companies, subsidiaries or affiliates, limitedly in so far as such acts are carried out in the individual's capacity as a Director or Senior Manager, as applicable".

Explanatory Note: The purpose of this resolution is to obtain shareholder approval in order to allow for an indemnity to be provided by the Company to directors and senior management of the Company. This results in the said person/s being protected (within the limits of the law) for any liabilities and expenses that may arise as a result of their duties being exercised for and on behalf of the Company or associated companies, subsidiaries or affiliates.

Signed on behalf of the Company's Board of Directors on 21 April 2023 by Dr. Andrei Imbroll (Director, Chairman of the Board) and Dr. Geza Szephalmi (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements.

REMUNERATION REPORT AND STATEMENT OF THE DIRECTORS

In line with the Capital Markets Rules ("**Rules**"), as set out in Chapter 12 of the Rules, the Company is subject to drawing up a **Remuneration Report** in line with the requirements as detailed in the Appendix 12.1 of the Chapter 12, providing an overview of the remuneration to the directors of the Company.

The Company is also subject to the Code of Principles (the "**Code**") forming part of the Capital Markets Rules, and in terms of the respective Rule (8.A.4) the Company is to include a **Remuneration Statement** in its Annual Report with the details of the remuneration policy of the Company and the remuneration of the Directors.

In terms of the effective Remuneration Policy of the Company ("**Remuneration Policy**"), and the principles presented in the Company's IPO Listing Prospectus dated 23rd July 2021, and in alignment and compliance with the MFSA Guidelines[1], the Board has reviewed the principles and the relevant guidelines and has concluded that based on the assessment made of the significance of the Company in terms of its size and that of its operations, clients, the structure of its internal organisation, and the nature, scope and complexity of the activities of the Company, the Company does not require a separate Remuneration Committee to be set-up and the responsibilities attributed to overseeing the Remuneration Policy of the Company shall be performed by the Board of Directors. This Remuneration Policy is reviewed regularly or as required and any material amendments thereto shall be submitted to the General Meeting as per the relevant regulations. In line with the relevant Rules , the existing Remuneration Policy of the Company has been presented to the Shareholders, and approved on the 20 April 2022. In the reporting period there were no changes to the Remuneration Policy.

In accordance with the Code provisions 8.A.4.7, the following contracts are in place with each Director, with the following terms, based on which the received fixed remuneration of each director is as per below:

Name of Director	Contract type	Signed / Valid	Annual fee in 2022
Dr. Andrei Imbroll	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Dr. Geza Szephalmi	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Mr. Julian Tzvetkov	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Mr. Arthur Haze	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Mr. David Galea Souchet	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross
Ms. Isabella Vella	Director Service Agreement	14 Jan, 2021 Until the Director is in office	€10,000 gross

The foregoing amounts are all fixed remuneration. There are no variable remuneration considerations nor share options. Remuneration paid to Directors is not performance-related.

Remuneration related to the Directors, in accordance with the Remuneration Policy

Directors' Fee

The resolution by the Shareholders of the Company at the Annual General Meeting held on 20 April 2022, approved the aggregate total annual remuneration of the Board of Directors, set the directors' fee for one year at a total of €70,000.

[1] https://www.mfsa.mt/wp-content/uploads/2019/02/Code-of-Principles-of-Good-Corporate-Governance-for-Listed-Entities.pdf, Code provisions 8.A.2

REMUNERATION REPORT AND STATEMENT OF THE DIRECTORS - continued

Remuneration related to the Directors, in accordance with the Remuneration Policy - continued

Directors' Fee - continued

The Company being listed in October 2021, the reporting period ending 31 December 2022 is the first full year since listing. The directors' fee is a fixed fee and there has been no change in the individual directors' remuneration with regards to the fixed fee in the reporting period. There are no variable remuneration considerations nor share options payable under the directors' agreements executed.

The total directors' fees paid during the financial year 2022 to the Board of Directors was €65,000. According to the existing Policy, the Directors are not entitled to other remuneration or benefits related to their directors' position within the Company from any parent or sister company in their capacity as directors. Under the disclosure requirements pursuant to Capital Market Rules 8.A.5., it is hereby reported that the Directors of the Company have not been granted any shares or shares options, pension benefits, termination payments, annual bonus schemes and similar, from the Company in the reporting period.

After an assessment of the market conditions and the particularities of the Company, the Directors have concluded that the remuneration of the Board of Directors of the Company is considered to be in line with the size of its operations and general applicable industry standards, and the nature, scope and complexity of its activities and in compliance with the Remuneration Policy with no deviations from the procedure for the implementation of the Remuneration Policy. The Company considers that the total remuneration paid to Directors contributes towards the long-term performance of the Company as it incentivises and promotes their commitment towards achieving the best interests of the Company.

Since the current period is the first reporting period following the adoption of the Remuneration Policy by the Company's annual general meeting in 2022, the comparative analysis required by Appendix 12.2 of the Capital Markets Rules paragraph (b) cannot be presented to the shareholders yet.

In accordance with Capital Markets Rules, Appendix 12.1 it is hereby disclosed that in the reporting period:

- No remuneration is received by the directors from any undertaking belonging to the same group (parent and subsidiary)
- No share options were granted or offered to directors and CEO or other executives of the Company;
- No variable remuneration is part of the directors' remuneration and there is no possibility to reclaim variable remuneration (if any);
- No deviations from the procedure for the implementation of the Remuneration Policy are relevant in the reporting period.

Executive Management and Services

Executive management services are provided to the Company under a management agreement, with a dedicated management company, which remains unchanged to the previous reporting period and has been introduced in detail in the Listing Prospectus dated 27th July 2021 and further disclosed below.

Since its foundation, the VBL Group has been managed by a dedicated management company, VBLM Ltd ("**VBLM**"). As declared before and presented in the Listing Prospectus, VBLM is also a significant shareholder of the Company and is itself owned, managed and controlled by the Executive Directors of the Company. Its sole activity is the management of the VBL Group.

The provision of management services by VBLM to the VBL Group is based on the existing and established practice dating back to foundation of the Group and has been formalised by means of a management and services agreement ("Management Services Agreement") entered into between VBLM and the principal company of the VBL Group. The nature and content of this relationship and the Agreement itself has been described in detail in the Listing Prospectus. Pursuant to the Management Services Agreement, VBLM provides the Company and its subsidiaries with executive, operational and strategic management and support services.

REMUNERATION REPORT AND STATEMENT OF THE DIRECTORS - continued

Executive Management and Services - continued

The remuneration payable by the Company to VBLM under the Management Services Agreement is comprised of a combination of fixed and variable parts, consisting of a Retainer Fee (fixed annual fee, adjusted annually in line with the official inflation index published by the NSO), a Variable Fee (ranging from 50% to 100% of the Retainer Fee, and linked to achievement of pre-defined specific tasks, which is only payable following evaluation and approval by the non-executive Directors); and a Performance Fee (related to the achievement of the mid- and long-term value growth realised by the Company, as described in details in the Listing Prospectus). The terms and conditions of the Management Services Agreement, evaluation and the payable Variable and Performance fees is monitored and controlled by the non-Executive Directors of the Company.

The Management Services Agreement is aimed at ensuring that the senior Executive Management team, which has steered VBL in attaining successful growth and development since the inception of the VBL Group a decade ago, and who have been key to establishing sound and stable operations that has resulted in the prevailing financial and strategic market positioning of the Company, are aligned with the Shareholders' and Company's interests and remains fully committed to deliver the strategic objectives of the Company in line with announced growth and development plans. This element of continuity is considered by the Board of Directors to be in the best interest of the Company and the VBL Group, supporting the continuation and evolvement of its existing well-established structure, and to further implement the Company's business strategy and growth, while mitigating risks associated with key personnel and senior management. The current Management Services Agreement is effective as from 1st January 2021 and is valid for period of three years. This agreement may be extended thereafter, subject to agreement between the parties.

For the purposes of the Remuneration Statement and in accordance with the Capital Market Rule provision 8.A.5 and for the purposes of provisions 8.4.8 and 8.4.9., in accordance with the disclosures made in the Prospectus, and based on the Management Services Agreement, during 2022, the total emoluments paid by the Company were a fixed fee paid to VBLM for the executive, operational and strategic management and other services provided to the Company of €400,000 exclusive of VAT. No variable fee has been paid in the reporting period, nor any shares or shares options granted or due, no pension benefits, no other termination payments or similar are due from the Company in the reporting period.

Other than the directors' fee and the management services fee, the Company does not provide any other pay, remuneration or alike to its directors for their services. Any changes to the terms of the Management Services Agreement are subject to the vetting and approval of the Audit Committee and the non-executive directors of the Company.

In terms of Chapter 12, the contents of the remuneration report have been checked by the Auditors of the Company.

Signed on behalf of the Company's Board of Directors on 21 April 2023 by Dr. Andrei Imbroll (Director, Chairman of the Board) and Dr. Geza Szephalmi (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Company is subject to the Code of Principles of Good Corporate Governance (the “Code”) forming part of the Capital Markets Rules. Listed companies are required under the Capital Markets Rules issued by the Malta Financial Services Authority to include a Statement of Compliance with the Code in their Annual Report, accompanied by a report of the independent auditors.

The Board of Directors of the Company (“BOD”, “Board” or “Directors”) restate their support for the Code and consider that they have taken such measures as are necessary in order for the Company to comply with the requirements of the Code to the extent that these were considered appropriate and complementary to the size, nature and operations of the Company.

Basic Principles, in Compliance with Code Provisions:

1. The managing body of the Company is an effective Board in terms of Code Provision 1, which is responsible for accountability, monitoring, strategy formulation and policy development as specified in Code Provision 4;
2. The Chairman of the Board does not also occupy the role of Chief Executive Officer, as envisaged in Code Provision 2;
3. The Board is originally composed of seven directors, including four (4) non-executives of whom three (3) are independent in terms of Code Provision 3; thus retaining a healthy mix between executive and non-executives in the composition of the Board of Directors. Following the annual general meeting the number of directors was six, with one non-executive director not continuing in office;
4. Members of the Board of Directors are all seasoned professionals, with significant local and international professional track record and proven experience in applying the highest level of corporate governance standards, obtained in running large public and private companies;
5. The Board of Directors aims to meet regularly and all Directors are given ample opportunity to discuss the agenda and convey their opinions as specified in Code Provision 5;
6. The Company recognises the importance of professional development and seeks to ensure that there are adequate schemes in place for professional development of management and employees in accordance with Code Provision 6;
7. Of the members of the Board of Directors, the Audit Committee has been set up, previously consisting of four (4) members. In the reporting year, following the annual general meeting, the Audit Committee members were three (3). This body has the task, inter alia, of managing conflicts of interest in terms of Code Provision 11. Conflicts of interest are also managed in terms of the Company’s Articles of Association;
8. The Company has not appointed a Remuneration Committee. The Board believes that the size of the Company and the Board itself does not warrant the setting up of an ad hoc committee to establish the remuneration packages of individual directors, as all directors are enumerated equally for their directorship, and relies on the constant scrutiny of the Board itself, the Company’s shareholders, the market and the rules by which the Company is regulated as a listed company. The Board shall retain this matter under review over the coming years;
9. The Nomination Committee has been appointed by the Board of Directors with majority of non-executive directors, as members. The Nomination Committee is responsible to run a transparent nomination process for the election/re-election of any members, as required, and as detailed and specified in the Memorandum and Articles of Association;
10. The Company recognises the importance of its role in the corporate social, health and environment responsibility arena and seeks to ensure that in its development projects and ongoing operations are respectful. The Directors are also aware of the importance of having good relations with stakeholders and strive to work together with them in order to invest in human capital, health and safety issues and to adopt environmentally responsible practices, in line with Code Provision 12;
11. Pursuant to the Company’s statutory obligations, the annual report and financial statements, declaration of dividends, election of Directors and appointment of auditors and authorisation of the Directors to set the auditors’ fees are proposed and approved at the Company’s annual general meeting. The Board of Directors properly serves the legitimate interests of all shareholders and is accountable to all shareholders, particularly through the representation of the shareholders on the Board itself. This ensures compliance with Code Provision 9.

In the light of the factors mentioned above, the Board is of the view that the Company is in compliance with the Code.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Specific Corporate Governance Principles

The Company, its Directors, its Management and employees believe that good corporate governance is a key element for business success and supporting the integrity and efficiency of the Company and its Subsidiaries, operations and long-term success. VBL is committed to establishing, maintaining and following strong corporate governance principles in line with best local and international practices, as a basic requirement for delivering the Company's planned financial and business goals, achieving its expected business potential, and protecting the Company's investors, employees, partners, customers and reputation.

The Company's Directors are committed to ensure the openness and willingness to establish and follow the basic principles set by the best practices in corporate governance, to regularly disclose financial performance figures which are truthful and accurate, and to provide timely and accurate information about the Company's goals, activities and strategy to the investors and business partners. This is considered key in allowing the market to be able to assess and evaluate the various foreseeable or unpredicted risks and issues related to the implementation of the Company's business strategy. Among others, the Company has adopted and follows the basic principles of the Code, in order to establish strong business and governance ethics and apply those in its daily practice.

The five key specific principles adopted by VBL's governing bodies are:

i. Fairness - Fair and ethical behavior in all dealings is fundamental to the success of VBL's business. Today, the Company already has an established image and proven operational principles of which a fundamental part is to act and deal in a fair and correct manner. As a result, VBL enjoys the trust and support of its partners, peers, customers and suppliers. The Company is committed to continue acting in accordance with the highest ethical and professional standards.
ii. Accountability - The Board's and management's commitment to accountability refers to the obligation and responsibility of VBL to always act responsibly and be able to give clear explanations or rationale for the Company's actions and conduct.
iii. Responsibility - The Board of Directors and management are given authority, as defined in the Articles and relevant regulations, to act on behalf of the Company, therefore they accept full responsibility for the powers that they are given and the authority that they exercise.
iv. Transparency - This is a key principle of responsible behavior and good governance expected by a number of stakeholders, particularly the shareholders. The Board of Directors and Management ensure that the various bodies or structures of VBL operate and act in a transparent and accountable manner, provide timely and accurate reporting, and address in an open and transparent manner any issues or matters which are faced by the Company.
v. Corporate Social and Environmental Responsibility - In addition to the above four basic corporate governance principles, the Board of Directors and management seek to adopt and follow the increasingly important principles of the corporate social and environmental responsibility in the day-to-day management practices at the Company.

Administrative, Management and Supervisory Bodies and Senior Management

The Board

The Company is managed by the Board of Directors consisting of not less than 4 (four) and not more than 8 (eight) directors. Since the last Annual General Meeting, there have been six directors, of which three are non-executive, all of whom are entrusted with the overall direction, administration and management of the Company.

Each Director declares that he/she undertakes to

- maintain in all circumstances his/her independence of analysis, decision and action;
- not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
- clearly express his/her opposition in the event that he/she finds that a decision of the Board may harm the Company.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

The Board - continued

As of 31st December 2022, the Board of Directors of the Company consists of the following persons:

Name	Designation
Andrei Imbroll	Chairman and Executive Director
Geza Szephalmi	Chief Executive Officer and Executive Director
Julian Tzvetkov	Chief Financial Officer and Executive Director
Artur Haze	Non-executive Director, member of the Audit Committee
David Galea Souchet	Independent, Non-executive Director, member of the Audit Committee
Isabella Vella	Independent, Non-executive Director, member of the Audit Committee, Chairperson

Dr Csaba Bato acted as a non-executive director of the Company as well as Chairperson of the Audit Committee until 20 April 2022, when he had retired and ceased to be a member of the Board of Directors.

At the end of the reporting period, the Company Secretaries appointed are Dr Joe Borg Bartolo and Dr Mikiel Calleja.

Board Meetings

During the year 2022, there have been 5 (five) Board meetings held and several decision by written resolution. The number of Board members has reduced in number from seven to six as of 20 April 2022.

The number of Board meetings attended by Directors for the year under review is as follows:

Members	Attended	
Andrei Imbroll	5	
Geza Szephalmi	5	
Julian Tzvetkov	5	
Artur Haze	5	
David Galea Souchet	5	
Isabella Vella	5	
Csaba Bato	2	(retired from Board on 20 April 2022)

Information and Professional Development

The Company ensures that it provides its Directors with relevant information to enable them to effectively contribute to board decisions. The Company is committed to provide adequate and detailed information to the Directors who are newly appointed to the Board. The Company pledges to make available to the Directors all information as required.

Appointment and Removal of Directors

The Directors of the Company are appointed by the Shareholders in accordance with the provisions of the Articles of Association of the Company. The procedure for the appointment of the Directors shall be as detailed and described in the Articles.

The Company shall grant a period of at least 14 days to Shareholders holding in aggregate 10% or more of the Shares to nominate one candidate for appointment as Director for every 10% held as aforesaid. Such notice may be given by the publication of an advertisement in at least two daily newspapers. All such nominations, including the candidate's acceptance to be nominated as Director, shall on pain of disqualification be made on the form to be prescribed by the Directors from time to time and shall reach the Office not later than 14 days after delivery of the said notice.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Appointment and Removal of Directors - continued

Whenever in terms of these Articles an election is necessary amongst candidates nominated for appointment as Directors, such election shall be conducted in the manner prescribed by the Articles or in such manner as close as practicably possible thereto as the Directors may consider equitable in the circumstances.

Any Director may be removed at any time by the Company in general meeting pursuant to the provisions of Article 140 of the Act. Without prejudice to the provisions of the Act, the office of a Director shall *ipso facto* be vacated:

- if, by notice in writing to the Company, he/she resigns from the office of Director; or
- if he/she violates in a proven way the declaration of secrecy required of him/her under the Articles and the Board of Directors pass a resolution that he/she has so violated the declaration of secrecy; or
- if he/she is prohibited by or under any law from being a Director; or
- if he/she is removed from office pursuant to the Articles or the Act.

A retiring Director shall be eligible for re-election or re-appointment.

Powers of Directors

The Directors are empowered to act on behalf of the Company in accordance with the Memorandum and Articles of Association, which powers may be widened or restricted from time to time by the Shareholders in general meeting.

The general administration and management of the Company is entrusted with the Board of Directors, who are empowered and authorised to delegate any of its executive functions relating to the Company to members of the Company's management.

Any one or more members of the Board of Directors may also occupy the position of Chief Executive Officer of the Company and may also occupy the position of members of the Board of Directors of subsidiaries or affiliate companies of the Company from time to time.

Evaluation of the Board's Performance

The Board undertakes an annual evaluation of its performance and of its committees. The performance evaluation of each Board member shall be done by the Board of Directors, excluding the Board member being evaluated. The Chairman takes action on the result of the performance evaluation process in order to ascertain the strengths and to address the weaknesses, and reports to the Board and where appropriate to the AGM.

Remuneration of Directors

The remuneration of the Directors in any one financial year, and any changes thereto, is determined by the general meeting of the Company.

At the time of the current reporting year under review, the Directors are each entitled to a gross annual remuneration of €10,000 from the date of the appointment.

Executive Directors

The Executive Directors have representation and execution rights on behalf of the Company to the extent permitted and as defined by the Memorandum of Association of the Company. In this respect, and in line with the good governance standards and internal control procedures implemented by the Company, the Memorandum of Association ties the legal representation and the signatory rights of the Company to predefined monetary threshold, with enhanced safeguards applicable to transactions of higher monetary value. The Company applies a dual signatory policy as determined in the Articles of the Company and other relevant Company regulations.

Any one Executive Director of the Company shall represent the Company in judicial proceedings, provided that no proceedings may be instituted by the Company without the approval of the Board of Directors of the Company.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Chief Executive Officer

In terms of article 65 of the Articles of Association, the Directors may from time to time appoint any person to the office of Chief Executive Officer (CEO) of the Company for such period and on such terms as they deem fit. In the current reporting period, Dr Geza Szephalmi continued to occupy the post of CEO of the Company.

The Directors may entrust to and confer upon a CEO any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may deem fit and may from time to time revoke, withdraw, alter or vary all or any of such powers.

Currently the CEO and the executive management are functions which are provided under the Management Services Agreement with VBLM, as it has been detailed in this report and the Listing Prospectus of the Company dated 23 July 2021.

The CEO is responsible for the Company's operative management and direction in accordance with the Articles, the resolutions adopted by the general meeting and the Board of Directors. The CEO has the right to decide on the Company's organisational structure and internal rules and regulations according to the Articles of the Company.

Declaration

None of the Directors, members of the board committees or members of management have, in the last five years:

i. been the subject of any convictions in relation to fraudulent offences;
ii. been associated in any form with bankruptcies, receiverships or liquidations (other than voluntary) or companies put into administration in respect of entities in respect of which they were members of administrative, management or supervisory bodies, partners with unlimited liability (in the case of a limited partnership with a share capital), founders or members of senior management;
iii. been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies);
iv. been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Board Practices

The Directors have constituted the following committees, the terms of reference of which are determined by the Board from time to time with the purpose of fulfilling the below mentioned purposes:

Audit Committee

The primary objective of the Audit committee is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structure. The first Audit Committee of the Company was established by the Annual General Meeting of the Shareholders held on 23 March 2021, and the members have been elected among the Board members, as defined in the Articles and relevant regulation. The Committee oversees the conduct of the annual audit process and acts to facilitate communication between the Board, the Management and the Company's appointed auditors.

The Audit Committee is composed of three members – Ms Isabella Vella (Chairperson), Mr Artur Haze, and Mr David Galea Souchet. Mr. Artur Haze and Mr. David Galea Souchet are the Audit Committee members who are considered by the Board of Directors to be competent in accounting and/or auditing in terms of the Capital Markets Rules. The Committee is responsible for reviewing the financial reporting processes and policies, the system of internal control and management of financial risk, the audit process, any transactions with related parties and the Company's process for monitoring compliance with laws and regulations. When the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on the action needed to address the issue or make improvements.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Audit Committee - continued

The Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the Company. Its primary objective is to assist the Board in dealing with issues of risk, control and governance and in reviewing the Company's reporting processes, financial policies and internal control structure. The Audit Committee also oversees the conduct of the annual financial audit and facilitates communication between the Company's Board, the management and appointed auditors.

The Audit Committee's main role and responsibilities are:

a. to review procedures and assess the effectiveness of the internal control systems, including financial reporting;
b. to assist the Board in monitoring the integrity of the financial statements, the internal control structures, the financial reporting processes and financial policies of the Company;
c. to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor following appointment by the shareholders in general meeting;
d. to monitor and review the external audit functions, including the external auditor`s independence, objectivity and effectiveness;
e. to monitor and review the internal procedures and to monitor these on a regular basis;
f. to establish and maintain access between the internal and external auditors of the Company and to ensure that this is open and constructive;
g. to review and challenge where necessary, the actions and judgements of management, in relation to the interim (if applicable) and annual financial statements before submission to the Board, focusing particularly on:
    i. critical accounting policies and practices and any changes in them;
    ii. decisions requiring a major element of judgement;
    iii. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
    iv. the clarity of disclosures and compliance with International Financial Reporting Standards;
    v. significant adjustments resulting from the audit;
    vi. compliance with stock exchange (as applicable) and other legal requirements; and
    vii. reviewing the Company's statement on Corporate Governance prior to endorsement by the Board;
h. to gain an understanding of whether significant internal control recommendations made by internal and external auditors have been implemented by management;
i. to establish and exercise oversight upon the internal audit function of the Company, and to review its plans, activities, staffing and organisational structure;
j. to monitor the statutory audit of the annual and consolidated accounts;
k. to discuss Company policies with respect to risk assessment and risk management, review contingent liabilities and risks that may be material to the Company; and
l. to consider other matters that are within the general scope of the Committee that are referred to it by the Board of Directors.

During 2022, the Audit Committee met 7 times in person or via video conference, out which on 3 meetings the Company's appointed auditors were present and attended the meetings.

The number of Audit Committee meetings attended by Members for the year under review is as follows:

Members	**Attended**	
Artur Haze	7	
David Galea Souchet	7	
Isabella Vella	7	
Csaba Bato	4	(retired from Board on 20 April 2022)

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE - continued

Nomination Committee

The Board of Directors has formed a nomination committee, which was functional in the reporting period. The forming and operation of the Nomination Committee was in compliance with the principle of the Code. The proposals of the nomination committee were put forward for decisions of the Board of Directors and presented to the shareholders, accordingly.

Executive Management Committee (EMC)

The Executive Management Committee consists of the CEO, the Executive Board Members and any other managers of the Company appointed by the CEO to the EMC from time to time.

The EMC is the main operational body of the Company, ensuring smooth and efficient day-to-day operations and control, in line with the strategic operational decisions of the Board. The EMC is responsible to, and reports to the Chief Executive Officer. Within the EMC, there is a clear division of responsibilities between the members, covering all areas of the executive responsibility for the running of the Company's business. The EMC ensures that no one individual or small group of individuals has an unlimited power of decision in day-to-day operations.

Relations with Shareholders and with the Market

The Company is highly committed to having an open and communicative relationship with all its shareholders. In this respect, over and above the statutory and regulatory requirements relating to the annual general meeting, the publication of financial statements and company announcements, the Company seeks to keep an updated and informative website and to address any information needs of the shareholders, in various ways.

The Company has announced a Shareholders' Loyalty Programme which is regularly updated and communicated with the Shareholders.

Since the Company was listed on the Malta Stock Exchange in 2021, the required financial reports and company announcements are regularly issued and published through the Malta Stock Exchange, and are simultaneously published on the Investors section of the Company's website.

Conflict of Interest

The Board is fully aware of its obligations regarding dealings in securities of the Company as required by the Capital Markets Rules and the related required disclosures in case of such dealings. Related party contracts and dealings are disclosed regularly as required by the applicable rules and presented in the Annual Financial Statements as well.

Signed on behalf of the Company's Board of Directors on 21 April 2023 by Dr. Andrei Imbroll (Director, Chairman of the Board) and Dr. Geza Szephalmi (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2022 €	2021 €
Revenue	3	**672,392**	413,904
Investment income	5	**6,874,185**	6,342,211
Cost of sales	8	**(10,023)**	(18,601)
Gross profit		**7,536,554**	6,737,514
Other operating income	4	**35,730**	211,730
Administrative expenses	8	**(512,597)**	(364,247)
Earnings before interest, tax, depreciation and amortisation		**7,059,687**	6,584,997
Depreciation and amortisation	8	**(268,091)**	(283,441)
Operating income		**6,791,596**	6,301,556
Interest income	6	**7,084**	3,299
Impairment on inventory	8	**(65,618)**	-
Finance costs	7	**(190,446)**	(138,286)
Profit before income tax		**6,542,616**	6,166,569
Income tax expense	9	**(259,179)**	(320,313)
Profit for the year		**6,283,437**	5,846,256
Total comprehensive income for the year		**6,283,437**	5,846,256
Earnings per share	25	**0.0256**	0.0251

STATEMENT OF FINANCIAL POSITION

	Notes	2022 €	2021 €
ASSETS			
Non-current assets			
Intangible assets	12	**114,644**	152,879
Property, plant and equipment	13	**832,938**	857,010
Investment properties	14	**73,663,640**	59,991,129
Investment in subsidiaries	15	**11,200**	11,200
Loans receivable		**113,711**	107,470
Deferred tax assets	10	**213,367**	176,523
		74,949,500	61,296,211
Current assets			
Non-current assets held for sale	16	**510,000**	-
Inventory	17	**270,000**	-
Current tax receivable		**14,000**	-
Trade and other receivables	18	**296,073**	1,548,461
Cash and cash equivalents	19	**1,295,516**	1,921,704
		2,385,589	3,470,165
TOTAL ASSETS		**77,335,089**	64,766,376
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	**49,608,529**	48,894,243
Share premium	20	**1,017,446**	731,733
Other reserves	20	**352,646**	375,397
General reserves	20	**1,218**	1,218
Retained earnings	20	**12,642,038**	6,483,600
TOTAL EQUITY		**63,621,877**	56,486,191
Non-current liabilities			
Borrowings	21	**7,877,586**	1,297,204
Lease liabilities	22	**286,253**	299,791
Deferred tax liability	11	**4,165,673**	3,889,901
Trade and other payables	23	**88,775**	46,385
		12,418,287	5,533,281
Current liabilities			
Borrowings	21	**337,671**	2,328,699
Lease liabilities	22	**13,538**	11,443
Trade and other payables	23	**943,716**	406,762
		1,294,925	2,746,904
TOTAL LIABILITIES		**13,713,212**	8,280,185
TOTAL EQUITY AND LIABILITIES		**77,335,089**	64,766,376

Signed on behalf of the Company's Board of Directors on 21 April 2023 by Dr. Andrei Imbroll (Director, Chairman of the Board) and Dr. Geza Szephalmi (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital €	Share premium €	Other reserves €	General reserves €	Retained earnings €	Total €
Balance at 1 January 2021	46,000,000	802	398,148	1,218	752,343	47,152,511
Total comprehensive income						
- Profit for the year	-	-	-	-	5,846,256	5,846,256
	-	-	-	-	5,846,256	5,846,256
Transactions with owners						
- Issuance of shares	1,475,640	297,959	-	-	-	1,773,599
- Conversion of borrowings to shares	1,418,603	432,972	-	-	-	1,851,575
- Dividends declared during the period (Note 20)	-	-	-	-	(150,000)	(150,000)
	2,894,243	730,931	-	-	(150,000)	3,475,174
Transfer from revaluation reserve to retained earnings, net of deferred tax	-	-	(22,751)	-	35,001	12,250
Balance at 31 December 2021	**48,894,243**	**731,733**	**375,397**	**1,218**	**6,483,600**	**56,486,191**
Balance at 1 January 2022	48,894,243	731,733	375,397	1,218	6,483,600	56,486,191
Total comprehensive income						
- Profit for the year	-	-	-	-	6,283,437	6,283,437
	-	-	-	-	6,283,437	6,283,437
Transactions with owners						
- Issuance of shares	714,286	285,713	-	-	-	999,999
- Dividends declared during the period (Note 20)	-	-	-	-	(160,000)	(160,000)
	714,286	285,713	-	-	(160,000)	839,999
Transfer from revaluation reserve to retained earnings, net of deferred tax	-	-	(22,751)	-	35,001	12,250
Balance at 31 December 2022	**49,608,529**	**1,017,446**	**352,646**	**1,218**	**12,642,038**	**63,621,877**

STATEMENT OF CASH FLOWS

	Notes	2022 €	2021 €
Cash flows from operating activities			
Profit before tax		**6,542,616**	6,166,569
Depreciation and amortisation	8	**268,091**	283,441
Provision for expected credit losses	18	**39,055**	-
Investment income	5	**(6,874,185)**	(6,342,211)
Impairment in inventory	8	**65,618**	-
Gain on disposal of subsidiary	4	**-**	(174,483)
Interest income	6	**(7,084)**	(3,299)
Interest expense	7	**190,446**	138,286
Cash generated before working capital changes		**224,557**	68,303
Increase in inventories		**(270,000)**	-
Decrease/(increase) in trade and other receivables		**51,782**	(1,135,778)
Increase in trade and other payables		**579,344**	99,667
Net cash from/(used in) operating activities		**585,683**	(967,808)
Cash flows from investing activities			
Purchase of intangible assets	12	**-**	(150,000)
Purchase of property, plant and equipment	13	**(3,250)**	(21,619)
Proceeds from sale of investment		**-**	200,000
Proceeds from sale of investment property	14	**850,000**	-
Acquisition of investment properties	14	**(6,278,086)**	(174,630)
Acquisition of a subsidiary		**-**	(66,517)
Movement in loans receivable		**-**	(104,171)
Net cash used in from investing activities		**(5,431,336)**	(316,937)
Cash flows from financing activities			
Net proceeds from issuance of share capital		**-**	1,616,208
Interest paid		**(170,214)**	(80,790)
Withholding tax paid	9	**(8,000)**	-
Dividends paid		**(160,000)**	(150,000)
Movement in borrowings		**4,589,354**	140,903
Payment of lease liabilities	22	**(31,675)**	(31,555)
Net cash from financing activities		**4,219,465**	1,494,766
Net (decrease)/increase in cash and cash equivalents		**(626,188)**	210,021
Cash and cash equivalents at beginning of year		**1,921,704**	1,711,683
Cash and cash equivalents at end of year	17	**1,295,516**	1,921,704

Significant non-cash transactions

During the year ended 31 December 2022, the Company issued 3,571,428 €0.20 par value ordinary shares at €0.28 each amounting to €999,999 as non-cash consideration for the acquisition of an investment property.

During the year ended 31 December 2021, the convertible loans paid to the Company in cash before the listing, amounting to €1,815,000, and the interest accrued thereon amounting to €36,575, were converted into ordinary shares in accordance with the original loan agreements, as described in the Prospectus dated 23 July 2021.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared under the historical cost convention, except for revaluation of investment properties that are measured at fair value at end of each reporting period. These financial statements are prepared in accordance with the provisions of the Companies Act (Cap. 386), enacted in Malta and with the requirements of International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

These financial statements present information about the Company as an individual undertaking. A separate consolidated financial statements have been prepared by the Company.

Functional and presentation currency

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

New or revised standards, interpretations and amendments adopted

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

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the value of goods sold and services provided, net of sales rebates and taxes in the normal course of business, net of value added tax and discounts where applicable.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Sales of investment property

Revenue is normally recognised when legal title passes to the buyer. However, in some jurisdictions the equitable interests in a property may vest in the buyer before legal title passes and therefore the risks and rewards of ownership are transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognised as the facts are performed. An example is a building or other facility on which construction has not been completed.

Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

Rental revenue share - VREM

Rental revenue share from VREM is recognised at a point in time on completion of the service.

Interest income

Interest income is accrued on a time basis, by reference to the principle outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimate future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

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 Company operates.

Transactions in foreign currencies have been converted into Euro at the rates of exchange ruling on the date of the transaction. As at year end, there are no monetary assets and liabilities denominated in foreign currencies. However, if there would be, they would 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.

Tax

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Tax - continued

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profits, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially 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 unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Cost includes expenditure directly attributable to the acquisition of the items as well as transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Depreciation is provided on all items of property, plant and equipment, except freehold land and assets under construction, at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Building improvements	2% Straight Line
Office equipment	20% Straight Line
Furniture and fixtures	20% Straight Line
Other assets	20% Straight Line

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably.

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value at the date of the valuation, less any subsequent accumulated depreciation (Note 13). Gains and losses arising from changes in fair values are recorded in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties - continued

The fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The estimation of fair values does not assume that either the underlying assets are marketed for sale at the reporting date or that there is an intention to sell it in the near future.

The objective is to estimate the exchange price at which hypothetical market participants would agree to transact.

The fair value of investment properties is largely based on estimates using property appraisal techniques as outlined in Note 2 and 14 to these financial statements. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal proceeds, if any, and the carrying amount and are recognised in profit or loss in the period of derecognition.

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the fair valued amount, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Improvements	2% Straight Line
Furniture, fixtures and fittings	20% Straight Line

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment and its cost or fair value at the reclassification date becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until development is complete. Thereafter it is classified and accounted for as an investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under International Accounting Standards ('IAS') 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the profit or loss.

Intangible assets

Trademark and licences

Trademarks and licences are valued at cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 10 years.

Non-compete rights

The non-compete rights are valued at cost and are amortised over the period of 5 years.

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Brand

The value of brand name is recognised following acquisition. Brand name acquired over the past period (together with other assets, in complex transaction), has been valued to assess the actual incremental value it provides to the Company's operations and its value has been based on estimated income. The brand name is being amortised over 5 years.

Investment in subsidiaries

Subsidiaries are all those entities over which the Company has control, i.e., when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Investment in subsidiaries are initially recognised at cost, being the fair value of the consideration given, including acquisition costs and are subsequently carried at cost less accumulated impairment losses, if any.

Dividend income is recognised when the Company's right to receive payment is established.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Non-current assets held for sale

Non-current assets (or disposals comprising assets and liabilities) are classified as assets held for sale if it is highly probable that their carrying amounts will be recovered primarily through a sale transaction which is expected to be completed within one year from the date of the classification, rather than through continuing use.

Such assets, or disposals, are generally measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal), excluding finance costs and income tax expense. Impairment losses on initial classification as held-for-sale or held for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, investment properties and property, plant and equipment are no longer amortised or depreciated.

Non-current assets held for sale are presented as current assets in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

Properties are classified as inventory where the objective is for resale purposes or where there is a change in use of investment property when there is an intention to sell. Such property would be reclassified at the deemed cost, which is the fair value at the date of reclassification. Inventories are carried at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the property together with other costs incurred during the subsequent development, including costs incurred on demolition, site clearance, excavation, construction and other related activities. Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and selling expenses.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition,

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities, Equity instruments are recorded at the proceeds received, net of direct issue costs.

Trade and other receivables

Trade receivables are classified with current assets and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Bank loans are carried at face value considering the market rate of interest or as otherwise applicable.

Trade and other payables

Trade payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

Ordinary Shares issued by the Company

Ordinary shares issued by the Company are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at face value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

Leases

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Company has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liability

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Related parties

Related parties are those persons or bodies of persons having relationships with the Company as defined in IAS 24.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. SIGNIFICANT JUDGMENTS AND CRITICAL ESTIMATION UNCERTAINTIES

In the application of the Company's accounting policies, which are described in Note 1, the management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical and other factors, including expectations of future events that are believed to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods.

The most significant estimates and judgments made in preparing these financial statements, under IFRS as adopted by the EU, is as follows:

Fair value of investment properties

Determining the fair value of investment property is established, considering various valuation approaches, and reflecting the present market conditions. The properties are mainly being valued on a market value basis, based on the principles defined by the Royal Institute of Chartered Surveyors ('RICS') Standards and applicable adjustments, which are made for property specific conditions, namely development project status or operational conditions. Where the valuation assessment requires an estimation of the value in use of the cash-generating units, the value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. As fair value of the Investment property, the Company uses a conservative approach and is established based on the valuations prepared regularly by independent valuers and further detailed in Note 14 in these financial statements. The fair value of Investment property of the Company at the end of the reporting period was €73,663,640 (2021: €59,991,129) as detailed in Note 14 to these financial statements. It is important to note, that in line with IFRS principles, the above value does not recognise actual market value of the various property-related contracts (e.g. pre-sale agreements) of the Company, which due to the nature of the Company's operations might be significant. Such assets are only reflected at cost. This incremental value is conservatively left out of the book value of the Company, and only recognised following final acquisition of the asset.

In the opinion of the Directors, except for matters disclosed above, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their disclosure in terms of the requirements of IAS 1.

3. REVENUE

	2022	2021
	€	€
Rental income	**346,306**	198,559
Rental profit share - VREM	**326,086**	215,345
	672,392	413,904

4. OTHER OPERATING INCOME

	2022	2021
	€	€
Management fees income - VREM	**27,500**	27,500
Miscellaneous income	**8,230**	9,747
Gain on sale of investment in subsidiary	**-**	174,483
	35,730	211,730

NOTES TO THE FINANCIAL STATEMENTS - continued

5. INVESTMENT INCOME

	2022	2021
	€	€
Increase in fair value of investment property	**7,666,656**	6,342,211
Realised loss on sale of investment property	**(724,933)**	-
Impairment on property held for sale	**(67,538)**	-
	6,874,185	6,342,211

The €7,666,656 (2021: €6,342,211) relates to an increase in fair value of investment property resulting from concluded acquisitions, ongoing development activity and applicable adjustments, which are considering property specific conditions, namely development project status or operational conditions.

6. INTEREST INCOME

	2022	2021
	€	€
Loan interest	**7,084**	3,299

7. FINANCE COSTS

	2022	2021
	€	€
Interest on bank loan	**102,926**	1,256
Interest on convertible loans	**-**	36,109
Interest on third party borrowing	**67,288**	80,000
Interest on lease liabilities	**20,232**	20,921
	190,446	138,286

8. EXPENSES BY NATURE

	2022	2021
	€	€
Direct costs	**10,023**	18,601
Staff costs (i)	**82,214**	78,194
Auditor’s remuneration:		
Audit fee	**11,500**	11,500
Other non-assurance services	**950**	950
Depreciation and amortisation	**268,091**	283,441
Management fees from related party	**100,000**	45,624
Impairment on inventory	**65,618**	-
Other administrative expenses	**317,933**	227,979
	856,329	666,289

NOTES TO THE FINANCIAL STATEMENTS - continued

8. EXPENSES BY NATURE – continued

(i) Staff costs include the following:

	2022	2021
	€	€
Salaries and wages	**130,732**	123,339
Social security and maternity fund contributions	**10,423**	7,422
Outsourced personnel	**-**	2,000
Capitalised salaries	**(58,941)**	(54,567)
	82,214	78,194
Average number of employees	**6**	6

During the year 2022, staff salaries of €58,941 have been capitalised to investment property (2021: €54,567).

9. INCOME TAX EXPENSE

Tax is provided for at the rate of 35% for Company profits, except for certain bank interest receivable which is taxed at 15% and sale of property which is taxed at 5%.

	2022	2021
	€	€
Current year tax		
Income tax on the taxable income for the year	**-**	-
Final withholding tax	**8,000**	-
Deferred tax		
Movement in deferred tax asset (Note 10)	**(36,844)**	(161,681)
Movement in deferred tax liability (Note 11)	**275,772**	312,352
Movement in revaluation reserve	**12,251**	12,251
Movement in general reserve	**-**	157,391
	259,179	320,313

Tax applying the statutory domestic income tax rate and the income tax expense for the year are reconciled as follows:

	2022	2021
	€	€
Profit on ordinary activities before tax	**6,542,616**	6,166,569
Theoretical tax expense at 35%	**2,289,916**	2,158,299
Tax effect of:		
Provisions disallowable for tax purposes	**652,593**	381,788
Movement in the effect of fair value gain on investment property	**(2,683,330)**	(2,219,774)
	259,179	320,313

NOTES TO THE FINANCIAL STATEMENTS - continued

10. DEFERRED TAX ASSETS

The asset for deferred tax is analysed as follows:

	2022	2021
	€	€
Excess of capital allowances over depreciation	**(72,310)**	(12,065)
Unabsorbed tax losses and capital allowances	**285,677**	188,588
	213,367	176,523

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Provision was made for deferred tax for all temporary differences, except of fair value adjustment for investment property, on the basis of the liability method using a principal tax rate of 35%. The deferred tax asset movement is made up of:

	2022	2021
	€	€
Balance at beginning of the year	**176,523**	3,562,707
Movement in the excess of capital allowances over depreciation	**(15,221)**	27,660
Movement in unabsorbed tax losses and capital allowances	**52,065**	134,021
Balance at end of year	**213,367**	176,523

11. DEFERRED TAX LIABILITY

	2022	2021
	€	€
Effect of fair value movement on investment property	**4,165,673**	3,889,901

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Provision was made for deferred tax for all temporary differences on the basis of the liability method using a principal tax rate at 35%/5%.

	2022	2021
	€	€
Balance at beginning of the year	**3,889,901**	3,577,549
Movement of investment property fair value	**275,772**	312,352
Balance at end of year	**4,165,673**	3,889,901

The Company is calculating its deferred tax liability on investment property at 5%, being the rate applied if it had to sell its properties within 5 years of acquisition.

NOTES TO THE FINANCIAL STATEMENTS - continued

12. INTANGIBLE ASSETS

	Licences €	Non-compete rights €	Brand €	Total €
Cost				
At 1 January 2022	349	150,000	41,000	191,349
Additions	-	-	-	-
At 31 December 2022	**349**	**150,000**	**41,000**	**191,349**
Provision for diminution value				
At 1 January 2022	270	30,000	8,200	38,470
Amortisation for the year	35	30,000	8,200	38,235
At 31 December 2022	**305**	**60,000**	**16,400**	**76,705**
Net book value				
At 31 December 2021	79	120,000	32,800	152,879
At 31 December 2022	**44**	**90,000**	**24,600**	**114,644**

13. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets €	Building improve-ments €	Office equipment €	Furniture and fixtures €	Other assets €	Total €
Cost						
At 1 January 2022	987,481	100,806	39,992	38,285	42,183	1,208,747
Additions	-	-	750	-	2,500	3,250
Transfers from investment property	47,888	-	-	-	-	47,888
At 31 December 2022	**1,035,369**	**100,806**	**40,742**	**38,285**	**44,683**	**1,259,885**
Depreciation						
At 1 January 2022	263,326	18,822	25,141	24,312	20,136	351,737
Charge for the year	46,016	2,016	5,238	1,256	7,914	62,440
Transfers from investment property	12,770	-	-	-	-	12,770
At 31 December 2022	**322,112**	**20,838**	**30,379**	**25,568**	**28,050**	**426,947**
Net book value						
At 31 December 2021	724,155	81,984	14,851	13,973	22,047	857,010
At 31 December 2022	**713,257**	**79,968**	**10,363**	**12,717**	**16,633**	**832,938**

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES

	Right-of-use assets €	Investment properties €	Total €
Fair Value			
At 1 January 2022	2,147,267	58,873,723	61,020,990
Additions	5,316	7,272,769	7,278,085
Transfer from other current assets	-	993,507	993,507
Transfers to non-current assets held for sale	-	(532,236)	(532,236)
Transfers to property, plant and equipment	(47,888)	-	(47,888)
Disposals	-	(1,644,482)	(1,644,482)
Fair value movement	(1,008,026)	8,674,682	7,666,656
At 31 December 2022	**1,096,669**	**73,637,963**	**74,734,632**
Provision			
At 1 January 2022	98,241	931,620	1,029,861
Depreciation	16,198	151,218	167,416
Transfers to non-current assets held for sale	-	(22,236)	(22,236)
Transfers to property, plant and equipment	(12,770)	-	(12,770)
Disposals	-	(91,279)	(91,279)
At 31 December 2022	**101,669**	**969,323**	**1,070,992**
Net book value			
At 31 December 2021	2,049,026	57,942,103	59,991,129
At 31 December 2022	**995,000**	**72,668,640**	**73,663,640**

Depreciation relates to the depreciation of improvements and furniture currently included in Investment Property. The depreciable amount is allocated on a systematic basis to each accounting period over its useful life.

Fair value of investment property

The book value of the property held by the Company has been increased by €7,666,656 to reflect the established fair value as at 31 December 2022, reflecting several different factors and adjustments to the individual property values, including the downward adjustment to certain property categories resulting from the market changes and developments of the past two years, and reflecting improvements and additions to the portfolio during the year, resulting from the acquisition and development activity of the Company.

It is important to note that the Group has not recognised any value over the costs incurred for its contracts and promises of sale of property which have not yet been fully acquired, but binding contracts are existing, and is conservatively left out of the book value of the Group.

Valuation process

As is usually done by the Group, on an annual basis, during the reporting year it has carried out a full property valuation exercise, performed by an independent professional valuer to assess the market value of its assets, whether these are owned or leased. The report was prepared by Edwin Mintoff Architects (EMA) in their capacity of a warranted architect and civil engineers, as independent asset valuers. This full valuation report was prepared based on the principles defined by the Royal Institute of Chartered Surveyors ('RICS') Standards and applicable adjustments, which are made for property specific conditions, namely development project status or operational conditions and completed in January 2023, as part of the annual asset valuation exercise.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES - continued

On this basis, the Board of Directors has made its own assessment which has considered the overall valuation values of the independent reports but was also assessing the various specific developments and adjusted for property-specific status of the ongoing development projects, as well as the investment value potential for the VBL asset portfolio. The assessment of the fair market value of the Company's asset portfolio performed by the Board of Directors as at the end of the reporting period is considered conservative and is based on careful assessment of the available independent valuation reports, market information and consideration of the actual market conditions and forecasts.

Valuation techniques

It should be noted that the actual price (liquidation value) which the Company might obtain, if forced to sell all properties in the short term, might be lower than the estimated figures accepted as fair market value of the specific assets, as this is usual in similar cases. In addition, there are several risks and discount factors associated specifically with the nature and operation of VBL's strategy and its line of business, which were taken into account in establishing the fair market value of the properties and related assets reflected in the Directors assessment, namely:

- Ability to match the forecasted schedule and development budgets;
- Securing the necessary finance for all development related expenses (beyond the currently available funds) for all the projects within a short time frame might prove difficult;
- Securing the necessary development and operational permits within a relatively short time frame for all the planned development projects might not materialise in time, resulting in delays or undue strain on resources and finance and overall increased development costs and delayed proceeds from operation;
- Finding prospective buyers or partners or operators for some or all the projects within a short time frame might not be possible at the forecasted terms and conditions;
- The development and execution risks required to make some of these properties operational (particularly the Silver Horse Block Phase 2 project) are considered high; and
- The impact of changing general market conditions and regulatory risks associated with the operation of finished and managed properties is a risk itself.

Directors' assessment

As of the end of year 2022, the Directors' Valuation Report of VBL Plc. represents conservatively updated values for each of the assets of the Company, but adjusted for the specific developments of some properties which are under development or change in legal status (contracts), as also recommended by the Guidance Note of Kamara tal-Periti (KtP) and as usual under the standard industry practices. The Directors' valuation has not reflected any additional value of pre-sale agreements, or new management contracts signed in 2022.

Nevertheless, based on independent experts' opinions and other available information, the Directors are at the opinion that the Valletta property market is significantly less vulnerable to the short-term volatility than other property markets in Malta and there is no material adverse change experienced in market values as of the date of this report.

Given the above, as of 31 December 2022, the Directors approved a total value of the properties of the Company amounting to €73,663,640 (2021: €59,991,129). It is to be noted that the Directors established their valuation report considering the recommendations of the independent valuers' report for adjustments of the fair market value in specific assets of the Group's owned properties, as a result of the market changes and current conditions experienced in the Valletta property market. Projects under development or completed but not yet operational at the time of the valuation were reflected based on the actual estimated project value, at the time, with values of fully developed assets to be realised at full completion. The Directors have also confirmed that the long-term operational expectations remain unchanged in terms of projected long-term achievable revenues and operational profitability from operation or sale of the fully developed assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES - continued

The Company uses the application of IFRS 16 which permits the recognition of leased properties in the statement of financial position. Also, the Company considers managed properties at the same approach as leased, based on the long-term contracts with owners and de facto control of these properties.

It is important to note, that in line with the IFRS recommendations, the Company has not recognised any value over the costs incurred for its contracts and promises of sale of property which has not yet been acquired, but binding contracts for the sellers are existing. This potentially incremental value is conservatively left out of the book value of the Company.

15. INVESTMENT IN SUBSIDIARIES

Subsidiary	**Registered address**	**Class of shares**	**% of ownership**	
			2022	2021
VREM Ltd	54, Marsamxett Road Valletta VLT 1853 Malta	Ordinary Shares	**100**	100
Silver Horse Block Ltd	54, Marsamxett Road Valletta VLT 1853 Malta	Ordinary Shares	**100**	100

VREM Ltd was established in 2016 to be the hospitality operator of the Group and manages all the short-let and long-let properties of the Group on retail market. The Company recognises the investment in VREM Ltd at its cost of €10,000.

Silver Horse Block Ltd was established in 2017 as a SPV for development projects, currently holding no material assets, not commencing any activity and being inactive. The Company recognises the investment in Silver Horse Block Ltd at its cost of €1,200.

16. NON-CURRENT ASSETS HELD FOR SALE

During the year, the Company has decided to dispose some of its assets in the city of Valletta. For some of these properties, a promise of sale agreement was signed in December 2022 and transaction closing envisaged in year 2023.

17. INVENTORY

During the year, the Company has decided to dispose some of its non-core assets, which were not part of the development plans or not in the city of Valletta, and as such not representing a strategic value. For some of these properties promises of sale agreements were signed and the transactions closed in the first quarter of year 2023.

NOTES TO THE FINANCIAL STATEMENTS - continued

18. TRADE AND OTHER RECEIVABLES

	2022	2021
	€	€
Trade receivables (i)	**180,069**	53,395
VAT refundable	**15,488**	75,134
Other receivables	**25,902**	1,286,947
Prepayments and accrued income	**113,669**	132,985
	335,128	1,548,461
Provision for expected credit losses	**(39,055)**	-
	296,073	1,548,461

(i) Trade receivables are non-interest bearing and are generally on a 30-day term.

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2022	2021
	€	€
Cash at bank and in hand	**1,295,516**	1,921,704

20. SHARE CAPITAL AND RESERVES

	2022	2021
	€	€
Share Capital		
Authorised:		
330,000,000 Ordinary shares of €0.20 each	**66,000,000**	66,000,000
Issued and fully paid:		
248,042,645 Ordinary shares in 2022 and		
244,471,217 Ordinary shares in 2021 of €0.20 each	**49,608,529**	48,894,243

The issued share capital of the Company currently consists of 248,042,645 ordinary shares (2021: 244,471,217), of €0.20 each (2021: €0.20). The authorised share capital currently consists of 330,000,000 ordinary shares of €0.20 each.

During the year ended 31 December 2022, the Company issued 3,571,428 ordinary shares at €0.20 each as non-cash consideration for the acquisition of an investment property.

As of 31 December 2022, the market price of the ordinary shares on the Malta Stock Exchange was €0.26 (2021: €0.30) each.

The Ordinary shares of the Company participate equally in any payment of dividends or any distribution and return of capital and carry identical rights and voting rights, as specified in the Memorandum and Articles of Association the Company.

NOTES TO THE FINANCIAL STATEMENTS - continued

20. SHARE CAPITAL AND RESERVES - continued

The following describes the nature and purpose of each reserve within equity:

Share premium	The amount subscribed for share capital in excess of par value.
General reserve	The amount of the issued share capital reduction after the restructuring in the Company completed in 2019, retained in the Company, not distributed to the shareholders.
Other reserves	Non-distributable reserves for fair value revaluation on the office building.
Retained earnings	All other net earnings or profit after accounting for dividends.

The Directors propose a final dividend of €180,000 for the year 2022. During the year ended 31 December 2022, dividends amounting to €160,000 (2021: €150,000) were paid.

21. BORROWINGS

	2022	2021
	€	€
Non-current		
Bank borrowings	**7,877,586**	1,297,204
	7,877,586	1,297,204
Current		
Bank borrowings	**337,671**	328,699
Third party borrowings	**-**	2,000,000
	337,671	2,328,699

Bank borrowings

The Company has obtained a bank loan under the MDB-guarantee scheme provided to support businesses following the Covid-19 outbreak, which has a subsidised interest rate, in compliance with the MDB loan programme and relevant EU regulations, which results in effective interest rate significantly below market rate. The loan is being amortised as planned.

During the year 2022, the Company has secured a long-term loan facility of €14,500,000, structured to reflect the Company’s financing needs, and to secure the necessary funding for its development and acquisitions programme. This loan facility is repayable over a period of 15 years, and is structured into specific, dedicated utilisation purposes. During year 2022, this facility has only been partly drawn. The facility bears a market rate interest linked to the Euro Interbank Offered Rate (EURIBOR).

The loan facility is secured by a general hypothec over the Company’s assets, and special hypothecs over the properties developed under the facility.

The applicable costs of the banking facilities (e.g. processing fees, commitment fees, legal and professional fees directly related to the facility), were recognised in the Statement of Comprehensive Income during the year.

The carrying amounts of the bank borrowings are reasonable approximations of their fair value.

NOTES TO THE FINANCIAL STATEMENTS - continued

22. LEASE LIABILITIES

The Company leases properties which are utilised in the operations or operated as investment properties, under agreements of between ten to twenty-five years, in some cases with options to extend. The lease contracts have various escalation clauses. On renewal, the terms of the leases are renegotiated.

	2022	2021
	€	€
Minimum lease payments		
Due after more than five years	**222,466**	237,616
Due after one year but within five years	**63,787**	62,175
Due within one year	**13,538**	11,443
	299,791	311,234

Movements in lease liabilities during the year are as follows:

	2022	2021
	€	€
At 1 January	**311,234**	321,868
Interest expense	**20,232**	20,921
Gross lease payments	**(31,675)**	(31,555)
At 31 December	**299,791**	311,234

23. TRADE AND OTHER PAYABLES

	2022	2021
	€	€
Non-current		
Amounts due to third parties (i)	**16,385**	46,385
Deposits on lease agreements	**72,390**	-
	88,775	46,385
Current		
Trade payables (ii)	**344,806**	188,653
Accruals and other payables	**44,927**	35,340
Amounts due to third parties (i)	**30,000**	30,000
Deposits on properties	**51,000**	-
Amounts owed to shareholder (iii)	**273,000**	-
Amounts owed to subsidiary (iv)	**199,983**	152,769
	943,716	406,762

(i) The amounts due to third parties represent - among others - balances due arising from the purchase of properties. The balance payable is reflected in the Company's accounts.

(ii) Trade payables are non-interest bearing and are normally on 30 to 60 day term.

(iii) The amounts owed to shareholder are fees owed for executive management services based on a service contract. These are unsecured, interest-free, and repayable on demand.

(iv) The amounts owed to subsidiary represent the cash portion due to VREM Ltd, due to the fact that the Group operates a cash pool.

NOTES TO THE FINANCIAL STATEMENTS - continued

24. RELATED PARTY TRANSACTIONS AND DISCLOSURES

The Company is the parent of the companies listed in Note 15.

The Company has related party relationships with some of its investors or companies 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.

In the opinion of the Directors, there is no ultimate controlling party of the Company, since no shareholder of VBL Plc has more than 25% of voting rights.

During the year ended 31 December 2022 transactions related to VBLM Limited and VREM Ltd are included in the related party transactions as detailed below.

During the year, the Company entered into transactions with related parties as set below.

	2022	2021
	€	€
Rental revenue share - VREM	**326,086**	215,345
Management fees income - VREM	**27,500**	27,500
Rental revenue - Gold Landlord	**58,272**	31,341
Directors travel reimbursement	**1,129**	1,625
Management fees expenses - VBLM	**100,000**	45,624
Capitalised property development expenses - VBLM	**300,000**	316,876

The outstanding amounts arising from transactions with the related parties are disclosed in Note 23 to these financial statements.

25. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Profit attributable to equity holders of the Company	**€6,283,437**	€5,846,256
Weighted average number of shares in issue	**245,036,691**	233,171,774
Basic and diluted earnings per share	**€0.0256**	€0.0251

The Company has no instruments or arrangements which give rise to potential ordinary shares and accordingly diluted earnings per share is equivalent to basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS - continued

26. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Market risk

Market risk is the risk that changes in market prices (e.g. foreign exchange rates, interest rates and equity prices) will affect the Company’s income or the value of its holdings of financial instruments. The Company’s currency of operation is Euro, all revenues and payables are defined, contracted and accounted in Euro.

The Company is exposed to changes in equity prices and interest rates.

Equity price change risk

The Company is exposed to changes in equity prices (“price risk") in respect of its listed shares, which is not a Company-specific risk, but it is a risk of the equity investors and shareholders. Therefore, the price risk is a relevant risk from the point of view of the Company’s shareholders (investors), holding the listed securities.

The price risk is significantly dependent on the local and global stock market’s specifics, the equity trading trends, actual trading volumes and other specifics of the equity market at the Malta Stock Exchange (MSE), and it is less dependent on the Company’s actual financial or market performance. This fact is proven by the developments of year 2022, when during the period the Company’s revenues, profitability and net assets have increased significantly, while the share prices have decreased, amidst negligible trading volume compared to the Company’s actual book value (the total trade volume in the reporting period was ca. 0.3% of the Company’s total asset value).

The investments in listed equity securities are considered as long-term strategic investment and is regulated and monitored by local and EU level regulation and authorities. The Directors continuously monitor the stock prices of the Company and assess the impact of potential stock price changes to the Company.

While the experienced trading volumes and cumulative trade in the Company’s shares during the year were very low compared to the Company’s book value, the following table illustrates the theoretical sensitivity and change of market capitalisation to a possible change in market price.

	Change %	Increase/ (decrease) in profit for the year €	Increase/ (decrease) in equity €
2022	-€0.04	**-**	(€9,921,706)
2021	+€0.02	-	€4,889,424

NOTES TO THE FINANCIAL STATEMENTS - continued

26. FINANCIAL RISK MANAGEMENT - continued

Interest rate risk

The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to changes in market interest rates through its bank borrowings which incur variable interest rates.

The following table illustrates the sensitivity to a reasonably possible change in interest rates. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Change Basis points	**Increase/ (decrease) in profit for the year €**	**Increase/ (decrease) in equity €**
EURIBOR			
2022	+10	8,215	8,215
	-10	(8,215)	(8,215)

Credit risk

Financial assets which potentially subject the Company to concentrations of credit risk consist principally of cash at bank and receivables. The Company's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution, to the extent possible. The Company has appropriate policies to ensure that sales of properties and provision of services are made to customers with appropriate credit history, or where this is not possible or practical, alternative risk mitigating practices are applied. In this respect, credit risk with respect to receivables is monitored continuously and the Company places a specific provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible, and, in this respect, the Company has no significant concentration of credit risk. The Company’s calculated expected credit losses is immaterial.

	Aging	**2022 €**	2021 €
Financial asset			
Loans receivable	June-2024	**113,711**	107,470

NOTES TO THE FINANCIAL STATEMENTS - continued

26. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity by maintaining adequate reserves and banking facilities to meet its abilities when due, under both normal and stressed conditions. The Directors do not foresee and are unaware of any circumstances whereby the Company would not honour its commitment.

	Within one year	One to five years	More than five years
	€	€	€
2022			
Financial assets:			
Cash and cash equivalents	**1,295,516**	**-**	**-**
Trade and other receivables	**296,073**	**-**	**-**
	1,591,589	**-**	**-**
Financial liabilities:			
Bank borrowings	**337,671**	**-**	**7,877,586**
Third party borrowings	**-**	**-**	**-**
	337,671	**-**	**7,877,586**
2021			
Financial assets:			
Cash and cash equivalents	1,921,704	-	-
Trade and other receivables	1,548,461	-	-
	3,470,165	-	-
Financial liabilities:			
Bank borrowings	328,699	1,297,204	-
Third party borrowings	2,000,000	-	-
	2,328,699	1,297,204	-

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.

Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists mainly of cash and cash equivalents as disclosed in Note 19, items presented within equity in the statement of financial position and borrowings as disclosed in Note 20 and Note 21, respectively.

The Company's Directors manage the Company's capital structure and make adjustments to it, in the light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the Directors, the Company balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Company monitors capital using the gearing ratio. This ratio is calculated as total net borrowings divided by total capital. The Company considers total capital to be equity and total net borrowings.

The Company's overall strategy remains unchanged from the prior year.

NOTES TO THE FINANCIAL STATEMENTS - continued

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	CLA related borrowings €	Bank borrowings (Note 21) €	Third party borrowings (Note 21) €	Total €
Balance at 01 January 2021	1,600,000	1,700,000	2,000,000	5,300,000
Advances/(repayments)	215,000	(74,097)	-	140,903
Interest paid	-	(1,256)	(79,534)	(80,790)
Non-cash transactions:				
Interest expense	36,575	1,256	79,534	117,365
Conversion to ordinary shares	(1,851,575)	-	-	(1,851,575)
Balance at 31 December 2021	**-**	**1,625,903**	**2,000,000**	**3,625,903**

	Bank borrowings (Note 21) €	Third party borrowings (Note 21) €	Total €
Balance at 01 January 2022	1,625,903	2,000,000	3,625,903
Drawdowns	6,839,234	-	6,839,234
Repayments	(249,880)	(2,000,000)	(2,249,880)
Interest paid	(102,926)	(67,288)	(170,214)
Non-cash transactions:			
Interest expense	102,926	67,288	170,214
Balance at 31 December 2022	**8,215,257**	**-**	**8,215,257**

28. FAIR VALUE MEASUREMENT

Fair value is 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.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Unobservable inputs for the asset or liability.

There were no transfers between levels during the year.

The valuation of investment properties at fair value is categorised as level 3. Details of the valuation techniques are disclosed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS - continued

29. CAPITAL COMMITMENTS

The Company's mid-term projected capital commitments are detailed in the Prospectus dated 23 July 2021, under the chapter of Prospective Financial Information, and reflects the Directors expectation with respect to the future operation of the Company for the 5-year financial period. The basis of preparation and key underlying assumptions are also detailed in the said Prospectus. These are materially unchanged and implemented along the originally projected timeframes, with slight adjustments to reflect the expected market and other impacts resulting from the development activity.

30. COMPARATIVE INFORMATION

Certain amounts in the comparative information have been reclassified to conform with the current year's presentation.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of VBL Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of VBL Plc ("the Company") set out on pages 19 - 46, which comprise the statement of financial position as at 31 December 2022, 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 2022, 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 our 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.

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 8 to these financial statements.

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Financial Statements - continued

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 Properties

The Company's investment properties are carried at fair value of €73,663,640 as at 31 December 2022.

Further details are included in Note 14 to these financial statements.

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 limitations 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 and the Board of Directors' assessment which considers various specific developments and adjusted for property-specific status of the ongoing development projects, as well as the investment value potential for the VBL asset portfolio.

Audit Response

We understood and evaluated the assessment performed by management on the basis of the revaluations performed by a professional qualified valuer and the Board of Directors' assessment to ascertain the fair value of the investment properties.

Our audit procedures included amongst others:

- Considering the objectivity, independence, competence and capabilities of the external valuer.
- Considering the objectivity, competence and capabilities of the management and directors.
- Reviewing the methodology used by the external valuer and management to estimate the value of the property.
- Assessing and challenging the significant unobservable inputs and assumptions that were applied in the valuations made.
- Assessing the reasonableness of the valuations by reference to market evidence of transactions for similar properties.
- Conducting discussions with the independent professional valuer, management and directors.

We concluded, based on our audit work, that the outcome of the assessment is reasonable.

In addition, we reviewed the adequacy of disclosures made in Note 14 to these financial statements and concluded that these are adequate.

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Financial Statements - continued

Other Information

The directors are responsible for the other information. The other information comprises the general information, the directors' report, the remuneration report and the statement by the directors on compliance with the Code of Principles of Good Corporate Governance. Our opinion on the financial statements does not cover the other information.

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 on which the financial statements are had been prepared is consistent with the financial statements; and
- in light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Financial Statements - continued

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional 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.

  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.

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INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Financial Statements - continued

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles. The Capital Markets 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 with the Principles of Good Corporate Governance set out on pages 12 - 18 has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority.

INDEPENDENT AUDITORS' REPORT - continued

Report on Other Legal and Regulatory Requirements - continued

Report on the Remuneration Statement

The Capital Markets Rules issued by the Malta Financial Services Authority requires the directors to prepare a remuneration statement. We are required to consider whether the information that should be provided under the Remuneration Statement has been included.

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

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

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281) - the Accountancy Profession (European Single Electronic Format) Assurance Directive (the "ESEF Directive 6") on the annual financial report of VBL plc for the year ended 31 December 2022, entirely prepared in a single electronic reporting format.

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

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

Our procedures included:

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

- Examining whether the annual financial report has been prepared in XHTML format.

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

Opinion
In our opinion, the annual financial report for the year ended 31 December 2022 has been prepared in XHTML format in all material respects.

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 required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- proper returns have not been received from branches we have not visited; or
- the financial statements are not in agreement with the accounting records and returns; or
- we were unable to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

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

We have nothing to report in this regard.

Appointment

We were first appointed to act as auditors of the Company by the shareholders of the Company on 14 December 2021 for the year ended 31 December 2021, and we were subsequently reappointed by the shareholders at the Company's general meeting for the financial year thereafter. The period of uninterrupted engagement as statutory auditor of the Company is two financial periods.

This copy of the audit report has been signed by
Conrad Borg *(Principal)*
for and on behalf of

RSM Malta
Registered Auditors
Mdina Road
Zebbug ZBG 9015
Malta

21 April 2023