Company Registration No. C 56012

VBL PLC

Annual Report
and
Financial Statements

31 December 2021

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	
Dr. Csaba Bato	(appointed on 23 March 2021)
Mr. David Galea Souchet	(appointed on 23 March 2021)
Ms. Isabella Vella	(appointed on 23 March 2021)

Company secretary

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 2021.

Principal activity

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, administrative, cultural and touristic centre of Malta.

Review of business development and financial position

The financial performance of the Company was significantly impacted by the implications of the uncertainty of repeating COVID-19 restrictions and limitations, throughout the reporting year, most especially in the first half of 2021. During the reporting period, the Company still managed to increase significantly its revenues, while the operational profitability was impacted by the quickly changing restrictive measures and uncertainty, requiring to maintain fully fledged operations in order to maintain the ability to immediately respond to the changing market needs.

Irrespective of the restrictive COVID-19 measures, which resulted in significantly lower level of tourist traffic and therefore short-lets, as incoming tourism and travels as such have been significantly restricted compared to peer Mediterranean countries, despite that the vaccination reached the declared level, the Company has continued its market consolidation efforts and the number of third-party managed properties has been increased significantly during the year. The Company has been successful in terms of the consolidation of the Valletta hospitality market in several segments, most notably through the acquisition of Casa Rooms Ltd and the subsequent restructuring of the managed portfolio of the company. The Company has also entered into the hotel management market in 2021, responding to the emerging and growing need for reliable professional property operators in this segment. During the year, the Company has contracted with three hotels/guesthouses for management and there are negotiations for acquiring several other management contracts in this market segment.

Overall, the financial performance of the Company resulted in an EBITDA of €242,786 (2020: EBITDA of €168,839), and the profit on the Company's activities for the year after tax amounted to €5,846,256 (2020: loss after tax of €351,793).

Adjusted FY2021 EBITDA level excluding IPO costs and COVID business disruption/change of the business model related One-Off costs

When comparing FY2021 performance to the previous year FY2020, the following costs are to be considered a) One-off non-recurring items (one-time MFSA listing fee), b) increase in expenses directly related to the Company being listed (increase in Insurance with the D&O Insurance, re-branding related to "plc" status), and c) COVID business disruption/change of business model related expenses (one-time bank costs related to unused/aborted bank applications). Altogether, these individual cost items add up to €71,566, and with these adjustments the FY2021 EBITDA-level would have shown €71,566 better performance.

DIRECTORS' REPORT - continued

The table below shows the Company's Profit and Loss (P&L), showing also the above adjusted EBITDA, comparing the FY2021 performance to FY2020, with the Year-on-Year variance.

VBL Plc Profit and Loss FY2021 and FY2020 Comparison table (data in €):

VBL Plc 2021 P&L	2021 Audited Accounts	2020 Audited Accounts	Variance 2021 / 2020	
Revenues	413,904	198,023	215,881	109%
Cost of Sales	(16,016)	(3,640)	(12,376)	340%
Gross Profit	**397,888**	**194,383**	**203,505**	**105%**
GOP Margin	*96%*	*98%*		*-2%*
Other Operating Income	211,730	253,491	(41,761)	-16%
Total Operating Costs	(366,832)	(279,035)	(87,797)	31%
EBITDA	**242,786**	**168,839**	**73,947**	**44%**
EBITDA Margin	*59%*	*85%*	*-27%*	*-31%*
One-off Costs	71,566			
Adjusted EBITDA	**314,353**			

Dividends and Reserves

A final dividend of €160,000 is proposed by the Directors for the year 2021. During the reporting period, a total dividend of €150,000 was distributed to the shareholders for the year ended 31 December 2020.

Listing and IPO Issue

The Company, as the principal company of the "VBL Group" (the Company and its subsidiaries), was successfully listed on the Malta Stock Exchange on 12 October 2021, with the first trading day of its ordinary shares being on 13 October 2021 ("IPO").

The IPO has resulted in the listing of 100% of the Company's equity and an increase of the issued share capital, with total number of shares in issue standing at 244,471,217. All shares of the Company are ordinary shares, with a nominal value of €0.20 each, and all have the same shareholders' rights.

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

Events after the end of the end of reporting period

Besides a new wave of various government restrictions related to COVID-19, which are considered to result in a general negative impact on the Maltese economy, there were no specific materially important events affecting the Company's long-term outlooks adversely which occurred since the end of the accounting year. The long-term effects however of the COVID-19 pandemic and the local and global restrictions cannot yet be assessed and might have a continuing impact on the Company's business in the course of 2022.

Future developments

The Company plans to continue its dynamic growth, maintain its clear strategy on its core business areas, and keep its main focus on development of the already owned assets, specifically those already with full development permit, as well as improve further the utilisation of developed assets, in line with its long-term business strategy and financial plans.

DIRECTORS' REPORT - continued

Principal risks and uncertainties

The key risk factors the Company is facing have been categorised under four main categories: (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; and (iv) 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
Mr. Arthur Haze, Non-Executive Director, Member of the Audit Committee
Dr. Csaba Bato, Non-Executive Director, Chairman of the Audit Committee (appointed on 23 March 2021)
Mr. David Galea Souchet, Non-Executive Director, Member of the Audit Committee (appointed on 23 March 2021)
Ms. Isabella Vella, Non-Executive Director, Member of the Audit Committee (appointed on 23 March 2021)

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

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.

Auditors

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

Going Concern Statement Pursuant to Listing Rule 5.62

Currently, the Directors are of the opinion that the global and local market restrictions and the various restrictive government measures, make the short-mid-term forecasts volatile, but will not have a long-term impact on the Company' financial performance and that the Company will be able to benefit from inflation-resistant portfolio of prime real estate assets, while it will recover from the short-term impacts relatively quickly, once the general economic environment becomes more stable and accountable on a long run. The development projects are expected to continue as planned, subject to available financing and no additional external negative factors. The Directors expect that the Company will not be facing a going concern issue due to these current market disruptions.

The current low level of the Company's total liabilities and high number of unencumbered properties provide for a better than average resistance to local and international industrial challenges and the increasing inflationary pressure affecting the companies with less resistant asset base. At the same time, the current market situation presents new opportunities, which the Company plans to continue to explore.

DIRECTORS' REPORT - continued

Shareholding Structure of the Company Pursuant to Listing Rule 5.64

The issued share capital of the Company as at the date of this report is 244,471,217 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.

Powers of the Board Members Pursuant to Listing 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 Listing 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 Listing Rule 5.70.2

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

DIRECTORS' REPORT - continued

Statement of Responsibility Pursuant to Listing 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 Notes to the Special Business and Extraordinary Resolutions Proposed to the Annual General Meeting of the Company

Proposed Resolution under Special Business in the Notice and Agenda of the Company – "*Indemnification of the Directors and Senior Management*"

The Directors are proposing a text of the Ordinary Resolution to the Annual General Meeting ("AGM") of the Company as follows: "*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*".

<u>Explanatory Note:</u> 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.

Proposed Resolution under Special Business in the Notice and Agenda of the Company **"***Approval of Remuneration Policy*"

The Company has a Remuneration Policy in place, in accordance with the requirements of the Companies Act and the disclosures made by the Company, which is required to be re-approved at the first general meeting following the listing, following recent amendments to Chapter 12 of the Capital Markets Rules. The proposed text of the Ordinary Resolution is: "*The Remuneration Policy of the Company as set out in the Notice to Shareholders dated 28 March 2022 be hereby approved*."

<u>Explanatory Note:</u> Following recent amendments to Chapter 12 of the Capital Markets Rules, the Company is required to establish a remuneration policy with respect to its Directors and Chief Executive Officer as would contribute to the Company's business strategy, long-term interests and sustainability. The Shareholders have a right to vote on such policy, and if approved, the Company shall be required to remunerate its Directors and Chief Executive Officer in accordance with the policy approved by the general meeting. In furtherance of this requirement, the Company's Board of Directors has established and the Company has adopted a Remuneration Policy, relevant to all levels of the Company, and including the Board of Directors of the Company, which policy is existing and has been duly approved by the Company prior to the listing. Pursuant to the requirements of Chapter 12 of the Capital Markets Rules, the Policy is put forward to the Shareholders of the first AGM after the listing for re-approval.

DIRECTORS' REPORT - continued

Signed on behalf of the Company's Board of Directors on 24 March 2022 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 has 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 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 executives and non-executives in the composition of the Board of Directors;
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. The Audit Committee is appointed by the Board of Directors and shall be composed of not fewer than three (3) members. The Audit Committee 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 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 to be appointed by the Board of Directors 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 responsibility arena and seeks to ensure that in its operations the environment is respected. 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, 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 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 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 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 seven members who are entrusted with the overall direction, administration and management of the Company. The majority of the Directors are non-executive, of whom three directors are independent within the meaning of the Capital Markets Rules.

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

The Board - continued

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 Company.

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

Name	Designation	Date of Appointment
Andrei Imbroll (identity card number 531778M)	Chairman and Executive Director	18 April 2012
Geza Szephalmi (identity card number 67571A)	Chief Executive Officer and Executive Director	18 April 2012
Julian Tzvetkov (identity card number 157717A)	Chief Operating Officer and Executive Director	31 May 2013
Artur Haze (Swedish passport number 35393493)	Non-executive Director, member of the Audit Committee	14 September 2020
David Galea Souchet (identity card number 0348390M	Independent, Non-executive Director, member of the Audit Committee	23 March 2021
Csaba Bato (identity card number 934513TA	Independent non-executive Director, member of the Audit Committee	23 March 2021
Isabella Vella (identity card number 564564M)	Independent non-executive Director and member of the Audit Committee	23 March 2021

Board Meetings

During the year 2021, there have been 6 (six) Board meetings held and several decisions taken via written board resolution. Board members have been re-elected and the Board has been extended in number as of 23 March 2021.

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

Members	Attended
Andrei Imbroll	6
Geza Szephalmi	6
Julian Tzvetkov	6
Artur Haze	5
David Galea Souchet	5
Csaba Bato	5
Isabella Vella	5

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

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.

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.

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 increases thereto, is determined by the general meeting of the Company.

At the time of the current reporting year under review, the Directors are entitled to an aggregate total gross annual remuneration of €70,000, which has been paid pro-rata, from the date of the appointment of the full board, as of 23 March 2021.

Executive Directors

The Executive Directors have representation and execution rights on behalf of the Company to the extent permitted 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 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.

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, the Board of Directors has appointed Dr. Geza Szephalmi 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 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.

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; or
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; or
iii. been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or
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 first members have been elected among the Board members. The Committee oversees the conduct of the internal and external audit and acts to facilitate communication between the Board, the Management and the external auditors.

The Audit Committee is composed of four members – Mr. Artur Haze, Mr. David Galea Souchet, Ms. Isabella Vella and Dr. Csaba Bato (Chairman). Mr. Artur Haze, Mr. David Galea Souchet, and Dr. Csaba Bato 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, makes 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 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 external audit and facilitates communication between the Company's Board, the management and the external auditors.

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

Audit Committee - continued

The Audit Committee's main role and responsibilities are defined in the Audit Committee's Terms of Reference.

During 2021, the Audit Committee met 3 times, out which on 2 meetings the external 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**
Csaba Bato	3
Artur Haze	2
David Galea Souchet	3
Isabella Vella	3

Nomination Committee

The Board of Directors, the majority of which is composed of by non-executive directors, from time to time may form a nomination committee, in compliance with the principle of the Code. The proposals of the nomination committee shall be put forward for decisions of the Board of Directors.

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.

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 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 informative website and to address any information needs of the shareholders, in various ways.

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

The Company's first public issue ("IPO") was closed in October 2021, following which several company announcements were issued through the Malta Stock Exchange, at the same time posting information on the Investors section of the Company's website as well.

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

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 24 March 2022 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 STATEMENT OF THE DIRECTORS

The Company is subject to the Code of Principles (the "Code") forming part of the Capital Markets Rules, and in terms of the respective Rule (8A.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 Remuneration Policy of the Company ("Remuneration Policy"), effective as of 9 February 2021, and as presented in the Company's IPO Listing Prospectus dated 23 July 2021, as approved by the Board of Directors of the Company based on the authorisations provided at the annual general meeting of year 2020 , and in alignment and compliance with the MFSA Guidelines, 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, its clients, the structure of its internal organisation, and the nature, scope and complexity of the activities of the Company, this Policy 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, which consist in majority of non-executive directors. This agreed Remuneration Policy, to be reviewed regularly or as required, and any material amendments thereto, shall be submitted to the Board of Directors of the Company for adoption.

Remuneration Policy Related to the Directors

Directors' Fee

The resolution by the Shareholders of the Company at the Annual General Meeting held on 23 March 2021, approved the aggregate total annual remuneration of the Board of Directors, and set the directors' fees for one year at a total of €70,000.

The directors' fees have been in place with an effective date of 23 March 2021, in respect to the seven members of the Board of Directors. Prior to this, no directors' fees have been paid to any of the Directors of the Company. During 2021, other than the directors' fees declared hereunder, no other pay or remuneration was provided to any of the Directors of the Company. The total directors' fees paid during the financial year 2021 to the Board of Directors was €54,299, which is proportionate for the year. According to the existing Policy, the Directors are not entitled to other remuneration or benefits related to their Directors' position within the Company.

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.

Executive Management and Services

Since its foundation, the VBL Group has been managed by a dedicated management company, VBLM Limited ("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 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 are monitored and controlled by the non-Executive Directors of the Company, which comprise the majority of the Board of Directors.

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 in 2012 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 on board during the initial post-IPO phase and is committed to deliver the strategic objectives of the Company in line with strategic 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.

During 2021, the total management services fee paid to VBLM for the executive, operational and strategic management and services provided to the Company was €362,500 exclusive of VAT.

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.

Signed on behalf of the Company's Board of Directors on 24 March 2022 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	2021 €	2020 €
Revenue	3	**413,904**	198,023
Cost of sales	8	**(16,016)**	(3,640)
Gross profit		**397,888**	194,383
Other operating income	4	**211,730**	253,491
Administrative expenses	8	**(366,832)**	(279,035)
Earnings before interest, tax, depreciation and amortisation		**242,786**	168,839
Depreciation and amortisation	8	**(283,441)**	(250,554)
Operating loss		**(40,655)**	(81,715)
Investment income/(loss)	5	**6,342,211**	(209,852)
Interest receivable	6	**3,299**	1,553
Finance costs	7	**(138,286)**	(113,319)
Profit/(loss) before income tax		**6,166,569**	(403,333)
Income tax (expense)/credit	9	**(320,313)**	51,540
Profit/(loss) for the year		**5,846,256**	(351,793)
Total comprehensive income/(loss) for the year		**5,846,256**	(351,793)
Earnings per share	22	**0.0251**	-0.0027

STATEMENT OF FINANCIAL POSITION

	Notes	2021 €	2020 €
ASSETS			
Non-current asset			
Intangible assets	12	**152,879**	114
Property, plant and equipment	13	**857,010**	895,473
Investment properties	14	**59,991,129**	53,659,412
Investment in subsidiaries	15	**11,200**	11,200
Loans receivable		**107,470**	-
Deferred tax assets	10	**176,523**	14,842
		61,296,211	54,581,041
Current assets			
Trade and other receivables	16	**1,548,461**	426,106
Cash and cash equivalents	17	**1,921,704**	1,711,683
		3,470,165	2,137,789
TOTAL ASSETS		**64,766,376**	56,718,830
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	**48,894,243**	46,000,000
Share premium	18	**731,733**	802
Other reserves	18	**375,397**	398,148
General reserves	18	**1,218**	1,218
Retained earnings	18	**6,483,600**	752,343
TOTAL EQUITY		**56,486,191**	47,152,511
Non-current liabilities			
Long-term borrowings	20	**1,297,204**	5,300,000
Deferred tax liabilities	11	**3,889,901**	3,577,549
Trade and other payables	19	**346,176**	388,718
		5,533,281	9,266,267
Current liabilities			
Short-term borrowings	20	**2,328,699**	-
Trade and other payables	19	**418,205**	300,052
		2,746,904	300,052
TOTAL LIABILITIES		**8,280,185**	9,566,319
TOTAL EQUITY AND LIABILITIES		**64,766,376**	56,718,830

Signed on behalf of the Company's Board of Directors on 24 March 2022 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 €	R ea
Balance at 1 January 2020	5,428,119	802	420,899	1,218	41,
Total comprehensive loss					
- Loss for the year	-	-	-	-	(3
	-	-	-	-	(3
Transactions with owners					
- Issuance of new shares	40,571,881	-	-	-	(40,5
- Dividends declared during the period (Note 18)	-	-	-	-	(1
	40,571,881	-	-	-	(40,7
Transfer from revaluation reserve to retained earnings, net of deferred tax	-	-	(22,751)	-	
Balance at 31 December 2020	**46,000,000**	**802**	**398,148**	**1,218**	
Balance at 1 January 2021	46,000,000	802	398,148	1,218	
Total comprehensive income					
- Profit for the year	-	-	-	-	5,8
	-	-	-	-	5,8
Transactions with owners					
- Issuance of shares	1,475,640	297,959	-	-	
- Conversion of borrowings to shares	1,418,603	432,972	-	-	
- Dividends declared during the period (Note 18)	-	-	-	-	(1
	2,894,243	730,931	-	-	(1
Transfer from revaluation reserve to retained earnings, net of deferred tax	-	-	(22,751)	-	
Balance at 31 December 2021	**48,894,243**	**731,733**	**375,397**	**1,218**	**6,4**

STATEMENT OF CASH FLOWS

	Notes	2021 €	2020 €
Cash flows from operating activities			
Profit/(loss) before tax		**6,166,569**	(403,333)
Depreciation and amortisation		**283,441**	250,554
Fair value movement on investment property		**(6,342,211)**	209,852
Gain on disposal of subsidiary		**(174,483)**	-
Interest income		**(3,299)**	(1,553)
Interest expense		**138,286**	113,319
Cash generated before working capital changes		**68,303**	168,839
Increase in trade and other receivables		**(1,135,778)**	(211,991)
Increase/(decrease) in trade and other payables		**99,667**	(182,671)
Net cash used in operating activities		**(967,808)**	(225,823)
Cash flows from investing activities			
Purchase of intangible assets		**(150,000)**	-
Purchase of property, plant and equipment		**(21,619)**	(19,481)
Proceeds from sale of investment		**200,000**	-
Proceeds from sale of investment property		**-**	92,636
Interest received		**-**	1,553
Acquisition of investment properties		**(174,630)**	(622,231)
Acquisition of a subsidiary		**(66,517)**	-
Movement in loans receivable		**(104,171)**	-
Net cash used in from investing activities		**(316,937)**	(547,523)
Cash flows from financing activities			
Net proceeds from issuance of share capital		**1,616,208**	-
Interest paid		**(80,790)**	(88,450)
Withholding tax paid		**-**	(4,350)
Dividends paid		**(150,000)**	(150,000)
Movement in borrowings		**140,903**	2,402,000
Payment of lease liabilities		**(31,555)**	(24,869)
Net cash generated from financing activities		**1,494,766**	2,134,331
Net increase in cash and cash equivalents		**210,021**	1,360,985
Cash and cash equivalents at the beginning of the		[illegible]	350,698
Cash and cash equivalents at end of year	17	**1,921,704**	1,711,683

Significant non-cash transactions

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, as modified to include fair values where it is stated in the accounting policies below. 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').

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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are 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 inputs are unobservable inputs for the asset or liability.

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and abilities and disclosure of contingent assets and liabilities at statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. 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.

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.

NOTES TO THE 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 Company 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 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. 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties - continued

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property reflects, among other factors, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflows that could be expected in respect of the property. Changes in fair values are recorded in profit or loss.

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. Amortisation is calculated to write off the costs in equal annual installments, over the duration of the contract period.

Brand
The value of brand name is recognized following acquisition. Brand names 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that that are subject to amortisation or depreciation 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 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.

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 due to their market rate of interest.

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Other borrowings
Subsequent to initial recognition, other borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial.

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.

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 consolidated 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases

Lease liability - continued
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.

2. SIGNIFICANT JUDGMENTS AND CRITICAL ESTIMATION UNCERTAINTIES

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

In the opinion of the Company's Directors, except for the matters disclosed below, the accounting estimates and judgments 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.

Fair value of investment properties
Determining the fair value of investment property 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. Under the current circumstances of market disruption caused by the COVID-19 Pandemic, to assess the value of its investment property on this basis, the Company has used its last full year of audited figures under “normal operation”, as no reliable data was available in the last year of operation. As fair value of the Investment property, the Company uses a conservative approach and is established based on the adjusted valuations of various independent valuers prepared based on assessment of the ‘’normal market conditions’’, The fair value of Investment property of the Company at the end of the reporting period was €59,991,129 (2020: €53,659,412) as detailed in Note 14. 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. SIGNIFICANT JUDGMENTS AND CRITICAL ESTIMATION UNCERTAINTIES - continued

Coronavirus (COVID-19) pandemic
Judgement has been exercised in considering the continuing impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Company based on experience from the past period and known information. This consideration extends to the nature of the services offered, customers and staffing and indirect impacts to the operations potentially arising from administrative or regulatory factors. Other than as addressed in Note 26, the Directors have assessed that following the end of the reporting period there is neither any significant impact upon the financial statements nor any significant uncertainties with respect to events or conditions which may impact the Company unfavourably as at the reporting date or subsequent period as a result of the Coronavirus (COVID-19) pandemic.

3. REVENUE

	2021	2020
	€	€
Rental income	**198,559**	185,886
Rental profit share - VREM	**215,345**	12,137
	413,904	198,023

4. OTHER OPERATING INCOME

	2021	2020
	€	€
Compensation for loss in contract	**-**	186,624
Related party income	**27,500**	50,945
Miscellaneous income	**9,747**	15,922
Gain on sale of investment in subsidiary	**174,483**	-
	211,730	253,491

NOTES TO THE FINANCIAL STATEMENTS - continued

5. INVESTMENT INCOME/(LOSS)

	2021	2020
	€	€
Increase/(decrease) in fair value of investment property	**6,342,211**	(209,852)

The €6,342,211 relates to an increase in fair value of investment property in 2021. The €209,852 relates to a shift due to the cancellation of rental and managed units' contracts, not accounting for new additions in 2020 and no changes in valuation of Investment Property, in accordance with the applied recommendations of the Chamber of Architects (Kamra tal-Periti) in Malta, Royal Institution of Chartered Surveyors (RICS) and The European Group of Valuers' Associations (TEGova).

6. INTEREST INCOME

	2021	2020
	€	€
Loan interest	**3,299**	1,553

7. FINANCE COSTS

	2021	2020
	€	€
Interest on bank loan	**1,256**	7,895
Interest on convertible loans	**36,109**	465
Interest on third party borrowing	**80,000**	80,000
Interest on related party borrowings	**-**	3,238
Interest on lease liabilities	**20,921**	21,721
	138,286	113,319

8. EXPENSES BY NATURE

	2021	2020
	€	€
Direct costs	**16,016**	3,640
Staff costs (i)	**78,194**	79,005
Audit fee	**11,500**	10,000
Depreciation and amortisation	**283,441**	250,554
Management fees from related party	**45,624**	87,500
Other administrative expenses	**231,514**	102,530
	666,289	533,229

NOTES TO THE FINANCIAL STATEMENTS - continued

8. EXPENSES BY NATURE - continued

(i) Staff costs

	2021	2020
	€	€
Salaries and wages	**123,339**	85,522
Social security and maternity fund contributions	**7,422**	7,309
Outsourced personnel	**2,000**	-
Capitalised salaries	**(54,567)**	(13,826)
	78,194	79,005
Average number of employees	**6**	4

During the year 2021, staff salaries of €54,567 have been capitalised to investment property (2021: €13,826).

9. INCOME TAX EXPENSE/(CREDIT)

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 taxed at 5%.

	2021	2020
	€	€
Current year tax		
Income tax on the taxable income for the year	-	-
Deferred tax		
Movement in deferred tax asset (Note 10)	**(161,681)**	44,511
Movement in deferred tax liability (Note 11)	**312,352**	(112,651)
Movement in revaluation reserve	**12,251**	12,250
Movement in general reserve	**157,391**	-
Other taxes	**-**	4,350
	320,313	(51,540)

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

	2021	2020
	€	€
Profit/(loss) on ordinary activities before tax	**6,166,569**	(403,333)
Theoretical tax expense/(credit) at 35%	**2,158,299**	(141,167)
Tax effect of:		
Provisions disallowable for tax purposes	**381,788**	89,627
Movement in the effect of fair value gain on investment property	**(2,219,774)**	-
	320,313	(51,540)

NOTES TO THE FINANCIAL STATEMENTS - continued

10. DEFERRED TAX ASSET

The asset for deferred tax is analysed as follows:

	2021	2020
	€	€
Excess of capital allowances over depreciation	**(12,065)**	(39,725)
Unabsorbed tax losses and capital allowances	**188,588**	54,567
Deferred tax asset	**176,523**	14,842

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:

	2021	2020
	€	€
Balance at beginning of the year	**14,842**	59,353
Movement in the excess of capital allowances over depreciation	**27,660**	(43,957)
Movement in unabsorbed tax losses and capital allowances	**134,021**	(554)
Balance at end of year	**176,523**	14,842

11. DEFERRED TAX LIABILITY

	2021	2020
	€	€
Effect of fair value movement on investment property	**3,889,901**	3,577,549
Deferred tax liability	**3,889,901**	3,577,549

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%.

	2021	2020
	€	€
Balance at beginning of the year	**3,577,549**	3,690,201
Movement of investment property fair value	**312,352**	(112,652)
Balance at end of year	**3,889,901**	3,577,549

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 31 December 2019	349	-	-	349
At 31 December 2020	349	-	-	349
At 1 January 2020	349	-	-	349
Additions	-	150,000	41,000	191,000
At 31 December 2021	**349**	**150,000**	**41,000**	**191,349**
Provision for diminution value				
At 1 January 2020	207	-	-	207
Amortisation for the year	28	-	-	28
At 31 December 2020	235	-	-	235
At 1 January 2021	235	-	-	235
Amortisation for the year	35	30,000	8,200	38,235
At 31 December 2021	**270**	**30,000**	**8,200**	**38,470**
Net book value				
At 31 December 2020	114	-	-	114
At 31 December 2021	**79**	**120,000**	**32,800**	**152,879**

13. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Building improve-ments	Office equipment	Furniture and fixtures	Other assets	Total
	€	€	€	€	€	€
Cost						
At 1 January 2020	987,481	100,806	17,940	38,285	23,135	1,167,647
Additions	-	-	17,481	-	2,000	19,481
At 31 December 2020	987,481	100,806	35,421	38,285	25,135	1,187,128
At 1 January 2021	987,481	100,806	35,421	38,285	25,135	1,187,128
Additions	-	-	4,571	-	17,048	21,619
At 31 December 2021	**987,481**	**100,806**	**39,992**	**38,285**	**42,183**	**1,208,747**
Depreciation						
At 1 January 2020	175,549	14,790	17,778	21,750	8,669	235,536
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
At 31 December 2020	219,438	16,806	19,633	23,056	12,722	291,655
At 1 January 2021	219,438	16,806	19,633	23,056	12,722	291,655
Charge for the year	43,888	2,016	5,508	1,256	7,414	60,082
At 31 December 2021	**263,326**	**18,822**	**25,141**	**24,312**	**20,136**	**351,737**
Net book value						
At 31 December 2020	768,043	84,000	15,788	15,229	12,413	895,473
At 31 December 2021	**724,155**	**81,984**	**14,851**	**13,973**	**22,047**	**857,010**

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES

	Right-of-use Assets	Investment properties	Total
	€	€	€
Fair Value			
At 1 January 2020	2,367,834	51,830,354	54,198,188
Additions		622,231	622,231
Disposals	(237,451)	(78,819)	(316,270)
At 31 December 2020	2,130,383	52,373,766	54,504,149
At 1 January 2021	2,130,383	52,373,766	54,504,149
Additions	1,000	173,630	174,630
Fair value movement	15,884	6,326,327	6,342,211
At 31 December 2021	**2,147,267**	**58,873,723**	**61,020,990**
Provision			
At 1 January 2020	77,439	586,672	664,111
Depreciation	11,032	183,377	194,409
Disposals	-	(13,783)	(13,783)
At 31 December 2020	88,471	756,266	844,737
At 1 January 2021	88,471	756,266	844,737
Depreciation	9,770	175,354	185,124
At 31 December 2021	**98,241**	**931,620**	**1,029,861**
Net book value			
At 31 December 2020	2,130,383	51,529,029	53,659,412
At 31 December 2021	**2,137,498**	**57,853,631**	**59,991,129**

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

Year 2020 has presented unprecedented challenges to the global economy and several industries were heavily affected by the Covid-19 pandemic and related government restrictions and regulations introduced. The Covid-19 pandemic has had a negative effect on the tourism markets globally, and as such local markets were also impacted.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES - continued

Along the obvious global impacts, the Maltese economy was also affected by the local Government-imposed restrictions on free movement of people arriving to the country, and mandatory closing of commercial establishments or significant limitations in the normal course of operation of such establishments, which have created unique operational circumstances and major business disruption, resulting in severe extremes of performance indicators in 2020, which continued in 2021. These developments impacted the property market too, where the number of property transactions during the years have been impacted and also the way and process such transactions have been executed, comparing to previous years, but the actual transactions prices have not lowered/changed significantly. Buyers' interest in certain property segments has resulted in a price increase, which is driven by the fear from increasing inflation. Obviously, due to the continued market disruption and global developments related to Covid-19, the revenues generated by rented/leased properties were lower during the year. While these impacts are considered temporary and short-term by both market players and regulators, the speed of recovery remains a question. As a result of all this, the usual property valuation mechanisms, and techniques, such as comparative prices or DCF-based valuations are challenging and in certain cases even impossible. Relevant transactional evidence might show significant deviance from long-term trends, or might not exist, or its basis of agreement could reflect the one-off impacts of special unusual conditions. Rental/lease revenues have also been impacted by the Covid-19 situation and are similarly difficult to assess and considered generally inadequate for long-term judgements. In 2020 and 2021 they showed extreme deviance, and high volatility, reflecting the operational conditions. Despite the short-term negative impacts, long-term trends are considered favourable. In VBL's experience the actual (i.e. closed transactions) Valletta property market prices are reflecting the general inflationary fears of the local and international markets, while ask prices have continued to increase. It can be concluded that for the period since the beginning of the Covid-19 pandemic, property markets have increased uncertainty in valuation approaches, and in some cases, valuations are occasionally accompanied by a declaration of material valuation uncertainty.

These market developments and valuation difficulties were recognized by the relevant professional bodies - such as Kamara tal-Periti (KtP) in Malta, Royal Institution of Chartered Surveyors (RICS) and The European Group of Valuers' Associations (TEGova) (see also below) and all major professional associations issued relevant guidelines for handling the valuation challenges under the COVID-19 situation. These recommendations and guidelines generally propose a similar approach to the valuation issues and suggest close monitoring of the market developments and revaluation of the assets when conditions are more stable and markets return to normal.

The Company also assumes that when it identifies, acquires, or constructs an investment property, along the lines of its investment strategy, the fair value of the investment property is not always reliably determinable on a continuing basis and therefore in such cases it values the investment property at cost until its fair value becomes reliably determinable, or until certain critical parameters are met (e.g. clean ownership title, fully paid purchase price and related costs, established ownership of a development-size property, etc.). As this process is often lengthy (might take even several years), the recognition of value at cost in the Annual Financial Statements represents a conservative but fair picture of the asset value, at that stage of the acquisition process.

The book value of the property held by the Company has been increased by €6,342,211 to reflect the established fair value as at 31 December 2021, reflecting several different factors and adjustments to the individual property values, including the downward adjustment to certain property categories resulting from the 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES - continued

It is important to note that 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 fully acquired, but binding contracts are existing. This incremental property value secured by contracts is considered significant and is conservatively left out of the book value of the Company.

Valuation process

As is usually done by the Company, on an annual basis in normal circumstances, 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, rented, or managed. The value of the last two categories accepted by the Directors is based on the long-term contractual rights and the assumption of “normal market operations”, which is considered to be the case for the long-term operation of the finished and operated assets. Notes related to short-term market disruption and impact of Corona-19 pandemic in the hospitality and retail segments have been also disclosed in this report. This full Valuation Report was completed in July 2021, as part of the annual asset valuation exercise and also in lieu of the requirements for listing on the MSE, which the Company has successfully completed in October 2021. VBL has then, completed a full valuation process of all its owned and operated real estate assets, assessed in part or in full by Edwin Mintoff Architects, as independent asset valuers, to establish a reference for the Group’s owned and operated properties’ estimated market and investment values of year 2021. A summary of the full valuation report has been published by the Company as part of the Prospectus of the Company dates 23rd July 2021, in accordance with the Capital Markets Rules and other relevant requirements related to the listing of the Company's shares to the Malta Stock Exchange. 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 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 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

The Capital Markets Rules require that the valuation be made on basis of an open market value for existing use or, if necessary, depreciated replacement cost subject to adequate profitability. An open market value represents an opinion of the best price for which the sale of an interest in property would have been completed unconditionally for a cash consideration on the date of valuation. However, RICS Red Book (6"" Edition), amendments of 2009, defines Open Market Value as no longer relevant and instead adopts Market Value as defined in IVS. While Malta Financial Services Authority requires valuers to distinguish between Existing Use Value basis and Open Market Value basis, the Company, considering that the LR 7.4.4 requires Open Market Value to be for the current use and not for the highest and best use, orderly liquidation or forced sale, for the sake of this valuation, considers these to be indistinguishable and equal, and are collectively referred to as the Market Value of the asset.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. INVESTMENT PROPERTIES - continued

Valuation techniques - continued

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;
- 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 2021, the Directors' Valuation Report of VBL represents conservatively updated values for each of the assets of the Company covered by the full Valuation Report released in July 2021, 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 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 2021.

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 2021, the Directors approved a total value of the properties of the Company amounting to €59,991,129. It is to be noted that the Directors accepted the recommendations of the independent valuers' report for reductions of the fair market value in specific assets of the Company's owned properties (e.g. leased commercial properties), as a result of the market impact of the ongoing Covid-19 pandemic. 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 Company. 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 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 incremental value is conservatively left out of the book value of the Company.

NOTES TO THE FINANCIAL STATEMENTS - continued

15. INVESTMENT IN SUBSIDIARIES

Subsidiary	Registered address	Class of shares	% of ownership 2021	2020
VREM Ltd	54, Marsaxett Road Valletta VLT 1853 Malta	Ordinary Shares	**100**	100
Silver Horse Block Ltd	54, Marsaxett 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 an SPV for development projects, currently holding no material assets, not commencing any activity and being inactive. The Company recognises the investment in Silver Horse Black Ltd at its cost of €1,200.

In January 2021, the Company has acquired 100% of the shares of Casa Rooms Ltd., a major property Management company, with significant number of assets under management in Valletta and rest of Malta. This subsidiary was subsequently disposed on 16 December 2021.

16. TRADE AND OTHER RECEIVABLES

	2021 €	2020 €
Trade receivables (i)	**53,395**	18,888
VAT refundable	**75,134**	65,208
MEPA Guarantees	**-**	23,902
Related party receivables	**-**	50,529
Other receivables	**1,286,947**	200,240
Prepayments and accrued income	**132,985**	67,339
	1,548,461	426,106

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

17. CASH AND CASH EQUIVALENTS

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

	2021 €	2020 €
Cash at bank and in hand	**1,921,704**	1,711,683

NOTES TO THE FINANCIAL STATEMENTS - continued

18. SHARE CAPITAL AND RESERVES

	2021	2020
	€	€
Share Capital		
Authorised:		
330,000,000 Ordinary shares of €0.20 each	**66,000,000**	66,000,000
	66,000,000	66,000,000
Issued and fully paid:		
244,471,217 Ordinary shares in 2021 and		
230,000,000 Ordinary shares in 2020 of €0.20 each	**48,894,243**	46,000,000
	48,894,243	46,000,000

The Company has raised its capital through an Initial Public Offering and listing on the Malta Stock Exchange, and the issued share capital currently consists of 244,471,217 Ordinary shares, €0.20 each. The authorised share capital currently consists of 330,000,000 Ordinary shares, €0.20 each.

As of 31 December 2021, the market price of the ordinary shares on the Malta Stock Exchange was €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.

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

Share premium	The amount subscribed for share capital in excess of normal 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 gains and losses and transactions with owners.

19. TRADE AND OTHER PAYABLES

	2021	2020
	€	€
Non-current		
Amounts due to third parties (i)	**46,385**	76,385
Lease liabilities	**299,791**	312,334
	[illegible]	[illegible]
Current		
Trade payables (ii)	**188,653**	100
Accruals and other payables	**35,340**	137,942
Amounts due to third parties (i)	**30,000**	30,000
Lease liabilities	**11,443**	9,534
Amounts owed to subsidiary (iii)	**152,769**	122,476
	418,205	300,052

NOTES TO THE FINANCIAL STATEMENTS - continued

19. TRADE AND OTHER PAYABLES - continued

(i) The amounts due to third parties represent balances due arising from the purchase of properties. The balance is payable €30,000 per annum.

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

(iii) The amounts owed to subsidiary represent the cash portion due to VREM Ltd. due to its operation from the Company's bank account after seizure of operations of its servicing bank.

20. BORROWINGS

	2021	2020
	€	€
Non-current		
CLA related borrowings	**-**	1,600,000
Bank borrowings	**1,297,204**	1,700,000
Third party borrowings	**-**	2,000,000
	1,297,204	5,300,000
Current		
Bank borrowings	**328,699**	-
Third party borrowings	**2,000,000**	-
	2,328,699	-

CLA related borrowings
These amounts related to Convertible Loan Agreements and bore interest at a rate between 1 and 5% p.a.

Third party borrowings
Third-party borrowings bear an interest rate of 4% p.a., are fully secured by a special hypothec over property owned by the Company and are repayable in 2022.

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.

21. 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 2021 transactions related to VBLM Limited are included in the related party transactions as detailed below.

NOTES TO THE FINANCIAL STATEMENTS - continued

21. RELATED PARTY TRANSACTIONS AND DISCLOSURES - continued

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

	2021	2020
	€	€
Rental Revenue Gold Landlord	**31,341**	27,812
Office Rental- LSO Services	**20,000**	20,000
Directors travel reimbursement	**1,625**	15,000
Interest on borrowings	**36,109**	3,148
Management fees expenses	**45,624**	87,500
Capitalised property development expenses	**316,876**	262,500

The outstanding amounts arising from transactions with the related parties are disclosed in Notes 16 and 19.

22. EARNINGS PER SHARE

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

	2021	2020
Profit/(loss) attributable to equity holders of the Company	**€5,846,256**	(€351,793)
Weighted average number of shares in issue	**233,171,77**	128,848,187
Basic and diluted earnings per share	**€0.0251**	-€0.0027

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.

23. 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

23. FINANCIAL RISK MANAGEMENT – continued

Market risk - continued

Price risk

The Company is exposed to price risk in respect of its listed equity securities, which is a relevant risk from the point of view of the Company's shareholders, holding the listed securities (not a Company-specific risk to the Company itself).

The investments in listed equity securities are considered as long-term strategic investments. The Directors manage price risk by continuous monitoring of the prices. The price risk is significantly dependent on the equity trading trends, actual trading volumes and other specifics of the equity market at the Malta Stock Exchange (MSE).

The following table illustrates the sensitivity to a reasonably possible change in price risk based on the average volatility observed during the year.

	Change	Increase/ (decrease) in profit for the year	Increase/ (decrease) in equity
	%	€	€
2021	+€0.02	-	€4,889,424

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	2021
		€
Financial asset		
Loans receivable	June-2024	107,470

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

23. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

	Within one year €	One to five years €	More than five years €
2021			
Bank borrowings	**328,699**	**1,297,204**	**-**
Third party borrowings	**2,000,000**	**-**	**-**
	2,328,699	**1,297,204**	**-**
2020			
CLA related borrowings	-	1,600,000	-
Bank borrowings	-	1,700,000	-
Third party borrowings	-	2,000,000	-
	-	5,300,000	-

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 17, items presented within equity in the statement of financial position and borrowings as disclosed in Note 20.

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.

24. 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES - continued

		Cash flows from financing activities		Non-cash transactions		
	Balance at 01.01.2020	Advances/ (repayment)	Interest paid	Interest expense	Conversion to ordinary shares	Balance at 31.12.2020
CLA related borrowings (Note 20)	818,000	782,000	(465)	465	-	1,600,000
Bank borrowings (Note 20)	-	1,700,000	(7,985)	7,985	-	1,700,000
Third party borrowings (Note 20)	2,080,000	(80,000)	(80,000)	80,000	-	2,000,000
	2,898,000	2,402,000	(88,450)	88,450	-	5,300,000

		Cash flows from financing activities		Non-cash transactions		
	Balance at 01.01.2021	Advances/ (repayment)	Interest paid	Interest expense	Conversion to ordinary shares	Balance at 31.12.2021
CLA related borrowings (Note 20)	1,600,000	215,000	-	36,575	(1,851,575)	-
Bank borrowings (Note 20)	1,700,000	(74,097)	(1,256)	1,256	-	1,625,903
Third party borrowings (Note 20)	2,000,000	-	(79,534)	79,534	-	2,000,000
	5,300,000	140,903	(80,790)	117,365	(1,851,575)	3,625,903

25. FAIR VALUE ESTIMATION

The nominal values less estimated credit adjustments of cash and cash equivalents, trade receivable and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values. Fair value of investment property is disclosed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS - continued

26. MATERIAL EFFECTS ON BUSINESS OF CORONA VIRUS

The outbreak of Corona Virus Pandemic (Covid-19) is affecting most sectors of the global economy and has caused significant disturbance in the established market practices and operations across the economy over the past two years. However, the long-term size and impact of these events on the VBL Pic are expected to be minimal due to the stable asset base and strong equity position of the Company. In 2021, the Company has once again suffered repeated business disruptions as result of administrative restrictions and unusual market volatility, but has taken appropriate measures and has maintained stable liquidity levels and secured solid operations throughout the year. Currently, the Directors are of the opinion that that the Company will not be facing a going concern issue, even if the speed of recovery from the pandemic is slower than previously envisioned. In the meantime, the Directors have taken a number of precautionary measures, including but not limited to, temporary reduction of operational expenses and temporary delay of planned major capital investments. VBL has responded to the challenges of the market, by flexibly adjusting its operational and business model to the needs and conditions and taking advantage of the newly emerged market opportunities (e.g. the launch of the new hotel management operations in 2021 focusing on third party collective accommodation management). During 2021, some of the Company’s assets have been operated as long-term rentals, thus reducing the short-term adverse effects of the COVID-19 situation on the business. VBL Group of companies operates a “cash pool”, to secure efficient cash management and optimise liquidity under the current unexpected circumstances. Moreover, the relatively low level of VBL Group total liabilities, strong equity base and no significant debt compared to its balance sheet volume provide for a better than average resistance to internal and external industrial challenges and also some new opportunities, which the VBL has already started to explore.

27. 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 Group for the 5-year financial period. The basis of preparation and key underlying assumptions are also detailed in the said Prospectus.

28. 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 20 - 47, which comprise the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

Our opinion is consistent with 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 we have not provided non-audit services to the Company.

INDEPENDENT AUDITORS' REPORT - continued

Report on the Audit of the Financial Statements - continued

Other Matter

The financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on 23 March 2021.

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 € 59,991,129 as at 31 December 2021.

Further detail is 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.

Audit Response

We understood and evaluated the assessment performed by management on the basis of the revaluations performed by a professional qualified valuer 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.
- 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.

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.

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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 and the directors' report. Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

- the directors' report has been prepared in accordance with the Companies Act (Cap. 386);

- the information given in the directors' report for the financial year 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.

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 set out on pages 10 – 17 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 2021, 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 2021 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 financial period ended 31 December 2021.

RSM Malta
Certified Public Accountants
Mdina Road
Zebbug ZBG 9015
Malta

Conrad Borg
Principal

24 March 2022