Contents

Hili Properties p.l.c.

Directors, officer and other information

Directors:	Margrit Lutschg-Emmenegger (Chairperson) Carmelo (sive) Melo Hili Victor Tedesco David Aquilina Martin Xuereb Geoffrey Camilleri
Secretary:	Karen Coppini
Registered office:	Nineteen Twenty-Three Valletta Road Marsa Malta
Country of incorporation:	Malta
Company registration number:	C 57954
Auditor:	Deloitte Audit Limited Deloitte Place Mriehel Bypass Mriehel Malta
Bankers:	Bank of Valletta p.l.c. BOV Centre St. Venera Malta HSBC Bank Malta p.l.c. HSBC Head Office Mill Street Qormi Malta Swedbank AB Balasta dambis 1A LV-1048 Riga Latvia Nordea Bank AB K. Valdemara St. 62 LV-1013 Riga Latvia

Directors, officer and other information (continued)

Bankers (continued):	AS DNB banka Skanstes Street 12 LV-1013 Riga Latvia
Legal advisor:	GVZH Advocates 192 Old Bakery Street Valletta Malta

Hili Properties p.l.c.

Directors' report
Year ended 31 December 2016

The directors present their report and the audited financial statements of the group and holding company for the year ended 31 December 2016.

Principal activities

The principal activity of the Hili Properties group is to hold and rent immovable property. Hili Properties p.l.c. also acts as a holding company. The details of subsidiaries of the holding company are listed in note 20.

Performance review

The group has registered an operating profit of *€3,028,933* (2015: *€2,643,310*). The improvement in the operating profit was attributable to the increase in revenue of *€714,475* (17%) which was sufficient to absorb the increases experienced in the overheads and cost of sales. The revenue growth was mainly achieved as a result of the annualised revenue of two companies in Latvia and another one in Malta which were acquired during 2015.

During the year under review, the group registered net investment income of *€1,959,278* (2015: *€1,078,680*). This result was mainly achieved through a net increase in fair value, amounting to *€3,122,000*, of the nine retail properties owned by Apex Investments SIA and Tukuma Projekts SIA which were acquired in January 2015. Moreover an impairment of *€300,000* was registered in the investment property owned in Parnu, Estonia whilst *€600,000* impairment was registered in Goodwill.

After accounting for movements in fair value of investment property and finance costs, the group registered a profit before tax of *€2,751,111* (2015: *€1,955,078*). The net assets of the group at the end of 2016 amounted to *€28,222,719* (2015: *€26,315,216*). The increase in net assets is attributable to the profit for the year.

During 2016, the company registered a loss before tax of *€1,299,184* (2015: *€950,407*). The net assets of the company at the end of the year amounted to *€20,817,574* (2015: *€21,845,120*).

The group measures the achievement of its objectives through the use of the following other key performance indicators:

Financial performance
The group measures its performance based on EBITDA, which is defined as the group's profit before depreciation and amortisation, finance income/costs, net investment income/losses and taxation. The EBITDA for the year under review was *€3,028,933* (2015: *€2,643,310*), achieving a 15% growth when compared to the previous year.

The group's EBITDA margin was stable at 63% (2015: 64%) with the 1 percentage point variance mainly resulting from the professional fees incurred during the year under review. The related engagements were undertaken to obtain advice towards the improvement of the structure of the subsidiaries to a more effective set-up.

Performance review (continued)

Financial performance (continued)
During the year under review the interest cover of the group declined from 1.5 times to 1.4 times. This was attributable to the fact that 2016 was the first full year during which bond interest was paid following the bond issue in September 2015 and the bond proceeds were not fully invested during the year under review. With the imminent acquisition in Romania, mentioned below, it is expected that the annualised result will increase to circa 1.7 times.

The return on capital employed is also a ratio looked at as an assessment of the group's efficiency with which its capital is employed. In 2016 the result was 5.4% (2015 – 4.5%).

The gearing ratio of the group is monitored on an ongoing basis. The group's gearing ratio has remained stable at 69%.

Non-financial performance
Properties Occupancy increased from 93% in 2015 to 94.5% as at December 2016. The main contributors for this increase were the work done by the team in the Baltics to improve the relationship with the tenants and a proactive approach to lease out any available spaces.

The WALT (Weighted Average Lease Term) for the whole portfolio stands at 7.6 years as at December 2016 (2015: 7.8yrs).

Principal risks and uncertainties

The successful management of risk is essential to enable the group to achieve its objectives. The ultimate responsibility for risk management rests with the company's directors, who evaluate the group's risk appetite and formulate policies for identifying and managing such risks. The principal risks and uncertainties facing the group and the mitigating factors are included below:

Market and competition
The group operates in a segment which is vulnerable to general market conditions. An increase in the supply of commercial space could impact capital values and income streams of the property portfolio. A higher supply increases the possibility that tenants terminate or elect not to renew their respective lease agreements. An effective and coherent strategy to attend to the tenants' needs enables the group to sustain and strengthen its relationship with the tenants. The group continues to focus on service quality, monitoring market trends carefully and performance to lessen and manage these risks.

Principal risks and uncertainties (continued)

International exposure risk
The group operates in many countries with differing economic, social and political conditions. Changes in current conditions may adversely affect the tenant's business performance, portfolio fair value, results of operations, financial conditions or prospects. The group manages such risks by incorporating this risk into its business strategy, i.e. diversification with regard to location and properties.

Fluctuations in property values
Property values are affected by and may fluctuate as a result of changing demand, changes in general economic conditions, changing supply within a particular area of competing space and attractiveness of real estate relative to other investment choices.

Significant judgement and estimates
Note 3 to the financial statements provides details in connection with the inherent uncertainties that surround the preparation of the financial statements which requires significant estimates and judgements.

Financial risk management
Note 37 to the financial statements provides details in connection with the company's and the group's use of financial instruments, their financial risk management objectives and policies and the financial risks to which they are exposed.

Result and dividends

The result for the year ended 31 December 2016 is shown in the statement of profit or loss and other comprehensive income on page 12. The group registered a profit after tax of *€1,907,503* (2015: *€2,082,383*). The company registered a loss of *€1,027,546* (2015: *€1,060,658*). No dividend is being recommended as the company did not have any distributable reserves at the end of the reporting period.

Post-balance sheet events

There were no post balance sheet events which merit mention in the directors' report.

Likely future business developments

Following the setting up of Hili Premier Estates Romania SRL, the management of the company and the acquisition team of the parent company are in the process of negotiations for a potential acquisition of property in Romania.

The Board of Directors took the decision to demolish and rebuilt the retail center at Dzelzevas in Latvia. The management is in the process to sign an agreement with the anchor tenant, Rimi. The latter needed further space and had expressed the wish to lease the incremental square metres that will be available once the project is complete. This investment is expected to cost circa €4.5 million and is expected to start in 2017 and be ready in 2018.

Likely future business developments (continued)

The directors consider that the year-end financial position was satisfactory and that the group and the company are well placed to sustain the present level of activity in the foreseeable future.

Directors

The directors who served during the year and until the date of authorisation of these financial statements were:

Margrit Lutschg-Emmenegger (Chairperson)	
Carmelo (sive) Melo Hili	
Victor Tedesco	
David Aquilina	
Martin Xuereb	
Geoffrey Camilleri	(appointed on 17 October 2016)
Karl Joseph Naudi	(resigned on 15 July 2016)
Richard Abdilla Castillo	(resigned on 17 October 2016)

In accordance with the company's articles of association, all the directors are to remain in office.

Going Concern

After reviewing the group's and company's budget for the next financial year, and other longer term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

Auditor

A resolution to reappoint Deloitte Audit Limited as auditor of the company will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on its behalf on 26 April 2017 by:

Margrit Lutschg-Emmenegger
Chairperson

Geoffrey Camilleri
Director

Statement of directors' responsibilities

Year ended 31 December 2016

The directors are required by the Companies Act (Cap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU, which give a true and fair view of the state of affairs of the company and its group at the end of each financial year and of the profit or loss of the company and its group for the year then ended. In preparing the financial statements, the directors should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company and the group will continue in business as a going concern.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and the group and which 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of responsibility pursuant to the Listing Rules issued by the Listing Authority

We confirm that to the best of our knowledge:

a. In accordance with the Listing Rules, the financial statements give a true and fair view of the financial position of the company and its group as at 31 December 2016 and of their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU; and

b. In accordance with the Listing Rules, the Directors' report includes a fair review of the performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Margrit Lutschg-Emmenegger
Chairperson

Geoffrey Camilleri
Director

Hili Properties p.l.c.

Corporate Governance Statement

Introduction

Pursuant to the Listing Rules as issued by the Listing Authority of the Malta Financial Services Authority, Hili Properties p.l.c. (the 'company') is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance (the 'Principles') contained in Appendix 5.1 of the Listing Rules.

The Board acknowledges that the Code does not dictate or prescribe mandatory rules but recommends principles of good practice. Nonetheless, the Board strongly believes that the Principles are in the best interest of the shareholders and other stakeholders since they ensure that the directors, management and employees of the company adhere to internationally recognised high standards of Corporate Governance.

The company currently has a corporate decision-making and supervisory structure that is tailored to suit the company's requirements and designed to ensure the existence of adequate checks and balances within the company, whilst retaining an element of flexibility, particularly in view of the size of the company and the nature of the its business. The company adheres to the Principles, except for those instances where there exist particular circumstances that warrant non-adherence thereto, or at least postponement for the time being.

Additionally, the Board recognises that, by virtue of Listing Rule 5.101, the company is exempt from making available the information required in terms of Listing Rules 5.97.1 to 5.97.3; 5.97.6 and 5.97.7.

The Board of Directors

The Board of Directors of the company is responsible for the overall long-term direction of the company, in particular in being actively involved in overseeing the systems of control and financial reporting and that the company communicates effectively with the market. The Board of Directors meets regularly, with a minimum of four times annually, and is currently composed of six members.

Executive Director
Margrith Lutschg-Emmenegger (Chairperson and Chief Executive Officer)

Non-Executive Directors
Carmelo (sive) Melo Hili
Martin Xuereb
Geoffrey Camilleri (appointed on 17 October 2016)

Independent Non-Executive Directors
David Aquilina
Victor Tedesco

Margrith Lutschg-Emmenegger was appointed by the Board of Directors to act as Chief Executive Officer of the company further to the resignation of the previous Chief Executive Officer. The decision to combine the role of the Chief Executive Officer and Chairperson was communicated by the company to the market by means of a company announcement (HIL10) on 5 July 2016 in accordance with principle 2.1.

The Board of Directors (continued)

The Board Meetings are attended by the Chief Financial Officer of the company in order for the Board to have direct access to the financial operation of the group. This is intended to, inter alia, ensure that the policies and strategies adopted by the Board are effectively implemented.

The remuneration of the board is reviewed periodically by the shareholders of the company.

The company ensures that it provides directors with relevant information to enable them to effectively contribute to board decisions.

The directors are fully aware of their duties and obligations, and whenever a conflict of interest in decision making arises, they refrain from participating in such decisions.

Audit Committee

The Terms of Reference of the Audit Committee are modelled on the principles set out in the Listing Rules. The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibility by reviewing the company financial statements and disclosures, monitoring the system of internal control established by management as well as the audit processes.

The Board of Directors established the Audit Committee, which meets regularly, with a minimum of four times annually, and is currently composed of the following individuals:

David Aquilina	(Chairman)
Victor Tedesco	
Martin Xuereb	

This satisfies the requirement established by the Listing Rules that the Audit Committee is composed of non-executive directors, the majority of which being independent.

The Board of Directors assessed the independence of these members and unanimously agreed that in line with good corporate governance, David Aquilina and Victor Tedesco conduct themselves in an independent and professional manner satisfying the listing rules. Furthermore, the Board of Directors considers the audit committee, as a whole, to have the relevant experience in the real estate sector, David Aquilina being considered to be an expert in the real estate business. David Aquilina is competent in accounting and/or auditing in terms of the Listing Rules.

The Chief Financial Officer of the company is also present during the Audit Committee meetings.

The Audit Committee met seven times during 2016 and three times during 2017. Communication with and between the Secretary, top level management and the Committee is ongoing and considerations that required the Committee's attention were acted upon between meetings and decided by the Members (where necessary) through electronic circulation and correspondence.

Internal Control

While the Board is ultimately responsible for the company's internal controls as well as their effectiveness, authority to operate the company is delegated to the Chief Executive Officer.

The company's system of internal controls is designed to manage all the risks in the most appropriate manner. However, such controls cannot provide an absolute elimination of all business risks or losses. Therefore, the Board, inter alia, reviews the effectiveness of the company's system of internal controls in the following manner:

1. Reviewing the company's strategy on an on-going basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders;
2. Implementing an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve company objectives;
3. Appointing and monitoring the Chief Executive Officer whose function is to manage the operations of the company; and
4. Identifying and ensuring that significant risks are managed satisfactorily.
5. Company policies are being observed.

Corporate Social Responsibility

The Board is mindful of and seeks to adhere to sound principles of Corporate Social Responsibility in their daily management practices, which is also extended throughout the company's subsidiary companies. There is continuing commitment to operate the business ethically at all times, at the same time as contributing to economic development whilst improving the quality of life of its employees and their families together with the local community and society at large.

Relations with the market

The market is kept up to date with all relevant information, and the company regularly publishes such information on its website to ensure consistent relations with the market.

Non-compliance with the code

Principle 7: Evaluation of the board's performance
Under the present circumstances, the board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role as the board's performance is always under scrutiny of the shareholders of the company.

Principle 8: Committees
Under the present circumstances the board does not consider it necessary to appoint a remuneration committee and a nomination committee as decisions on these matters are taken at shareholder level.

Principle 10: Institutional shareholders
This principle is not applicable since the company has no institutional shareholders.

Approved by the Board of Directors and signed on its behalf on 26 April 2017 by:

Margrith Lutschg-Emmenegger
Chairperson

Geoffrey Camilleri
Director

Hili Properties p.l.c.

Statements of profit or loss and other comprehensive income

Year ended 31 December 2016

	Notes	Group 2016 €	Group 2015 €	Holding company 2016 €	Holding company 2015 €
Revenue	6	**4,840,716**	4,126,241	**338,253**	52,354
Cost of sales		**(352,470)**	(228,383)	**-**	-
Other operating income	7	**55,860**	74,560	**10,595**	22,217
Administrative expenses		**(1,515,173)**	(1,329,108)	**(869,505)**	(880,112)
Operating profit/(loss)		**3,028,933**	2,643,310	**(520,657)**	(805,541)
Investment income	8	**4,127,000**	2,916,412	**250,000**	164,024
Investment losses	9	**(2,167,722)**	(1,837,732)	**(61,256)**	(235,076)
Net investment income/(losses)		**1,959,278**	1,078,680	**188,744**	(71,052)
Finance income	10	**331,300**	63,081	**1,021,617**	871,158
Finance costs	11	**(2,568,400)**	(1,829,993)	**(1,988,888)**	(944,972)
Profit/(loss) before taxation	12	**2,751,111**	1,955,078	**(1,299,184)**	(950,407)
Income tax (expense)/credit	15	**(843,608)**	127,305	**271,638**	(110,251)
Profit/(loss) and total comprehensive income/(expense) for the year		**1,907,503**	2,082,383	**(1,027,546)**	(1,060,658)
Profit attributable to:					
Owners of the company		**1,882,382**	2,080,976		
Non-controlling interests		**25,121**	1,407		
		1,907,503	2,082,383		

Hili Properties p.l.c.

Statements of financial position
31 December 2016

	Notes	Group 2016	Group 2015	Holding company 2016	Holding company 2015
		€	€	€	€
ASSETS AND LIABILITIES					
Non-current assets					
Goodwill	16	**3,215,030**	3,815,030	-	-
Intangible assets	17	**10,231**	-	**8,336**	-
Property, plant and equipment	18	**415,836**	80,296	**4,442**	5,246
Investment property	19	**67,655,127**	64,475,973	**4,092,436**	4,071,645
Investment in subsidiaries	20	-	-	**32,550,729**	15,593,126
Deposit on acquisition of investment	21	**12,500,000**	12,500,000	**12,500,000**	12,500,000
Loans and receivables	22	**2,322,974**	1,745,474	**4,798,329**	22,660,859
Deferred tax asset	29	**376,096**	561,592	**9,918**	8,495
		86,495,293	83,178,364	**53,964,190**	54,839,371
Current assets					
Property held for sale	23	**215,000**	550,900	-	-
Loans and receivables	22	**6,068,525**	4,663,161	**3,494,728**	4,967,162
Trade and other receivables	24	**1,217,686**	1,260,214	**927,664**	1,415,004
Current tax asset		**137,767**	85,971	**77,939**	2,314
Cash at bank and on hand	32	**2,907,319**	1,128,069	**2,410,937**	424,337
		10,546,297	7,688,315	**6,911,268**	6,808,817
Total assets		**97,041,590**	90,866,679	**60,875,458**	61,648,188
Current liabilities					
Trade and other payables	25	**1,758,070**	1,826,840	**487,951**	636,456
Other financial liabilities	26	**151,032**	388,852	**263,679**	287,375
Bank overdraft and loans	27	**1,963,850**	4,799,181	-	-
Current tax liabilities		**524,702**	382,123	-	-
		4,397,654	7,396,996	**751,630**	923,831
Non-current liabilities					
Other financial liabilities	26	**1,721,802**	1,721,802	**2,979,934**	2,629,544
Bank loans	27	**21,422,684**	14,774,647	-	-
Debt securities in issue	28	**36,326,320**	36,249,693	**36,326,320**	36,249,693
Deferred tax liabilities	29	**4,950,411**	4,408,325	-	-
		64,421,217	57,154,467	**39,306,254**	38,879,237
Total liabilities		**68,818,871**	64,551,463	**40,057,884**	39,803,068
Net assets		**28,222,719**	26,315,216	**20,817,574**	21,845,120

Hill Properties p.l.c.

Statements of financial position (continued)

31 December 2016

	Notes	Group 2016 €	Group 2015 €	Holding company 2016 €	Holding company 2015 €
EQUITY					
Share capital	30	**21,600,000**	21,600,000	**21,600,000**	21,600,000
Loss offset reserve	30	**748,427**	748,427	**748,427**	748,427
Retained earnings/ (accumulated losses)		**5,782,250**	3,899,868	**(1,530,853)**	(503,307)
Equity attributable to owners of the company		**28,130,677**	26,248,295	**20,817,574**	21,845,120
Non-controlling interests		**92,042**	66,921	**-**	-
Total equity		**28,222,719**	26,315,216	**20,817,574**	21,845,120

These financial statements were approved by the board of directors, authorised for issue on 26 April 2017 and signed on its behalf by:

Margrit Lutschg-Emmenegger
Chairperson

Geoffrey Camilleri
Director

Hili Properties p.l.c.

Statement of changes in equity

Year ended 31 December 2016

Group

	Share capital €	Share premium €	Loss offset reserve €	Retained earnings €	Attributable to owners of the company €	Non - controlling interests €	Total €
Balance at 1 January 2015	15,000,000	-	-	(1,332,681)	13,667,319	65,514	13,732,833
Capitalisation of shareholders' loans (note 30)	6,600,000	3,900,000	-	-	10,500,000	-	10,500,000
Amount applied to loss offset reserve (note 30)	-	(3,900,000)	3,900,000	-	-	-	-
Transfer of accumulated losses as at 19 May 2015 against loss offset reserve	-	-	(3,151,573)	3,151,573	-	-	-
Profit and total comprehensive income for the year	-	-	-	2,080,976	2,080,976	1,407	2,082,383
Balance at 1 January 2016	21,600,000	-	748,427	3,899,868	26,248,295	66,921	26,315,216
Profit and total comprehensive income for the year	-	-	-	1,882,382	1,882,382	25,121	1,907,503
Balance at 31 December 2016	**21,600,000**	**-**	**748,427**	**5,782,250**	**28,130,677**	**92,042**	**28,222,719**

Hili Properties p.l.c.

Statement of changes in equity

Year ended 31 December 2016

Holding Company

	Share capital €	Share premium €	Loss offset reserve €	Accumulated losses €	Total €
Balance at 1 January 2015	15,000,000	-	-	(2,594,222)	12,405,778
Capitalisation of shareholders' loans (note 30)	6,600,000	3,900,000	-	-	10,500,000
Amount applied to loss offset reserve (note 30)	-	(3,900,000)	3,900,000	-	-
Transfer of accumulated losses as at 19 May 2015 against loss offset reserve	-	-	(3,151,573)	3,151,573	-
Loss and total comprehensive expense for the year	-	-	-	(1,060,658)	(1,060,658)
Balance at 1 January 2016	21,600,000	-	748,427	(503,307)	21,845,120
Loss and total comprehensive expense for the year	-	-	-	(1,027,546)	(1,027,546)
Balance at 31 December 2016	**21,600,000**	**-**	**748,427**	**(1,530,853)**	**20,817,574**

Hili Properties p.l.c.

Statements of cash flows

Year ended 31 December 2016

	Group 2016 €	Group 2015 €	Holding company 2016 €	Holding company 2015 €
Cash flows from operating activities				
Profit/(loss) before tax	**2,751,111**	1,955,078	**(1,299,184)**	(950,407)
Adjustments for:				
Acquisition related costs	-	465,416	-	-
Depreciation of property, plant and equipment	**103,042**	11,084	**2,781**	1,579
Amortisation of intangible assets	**251**	-	-	-
Interest expense	**2,491,773**	1,697,053	**1,912,261**	840,438
Interest income	**(331,300)**	(63,090)	**(1,021,617)**	(871,156)
Increase in fair value of investment properties	**(4,127,000)**	(864,124)	-	(164,024)
Decrease in fair value of investment properties	**1,361,500**	1,372,317	-	235,076
Decrease in fair value of properties held for sale	**105,400**	-	-	-
Impairment of goodwill	**600,000**	-		
Amortisation of bond issue costs	**76,627**	15,964	**76,627**	15,964
Gain on disposal of property	-	(104,767)	-	-
Bargain purchase on acquisition of subsidiary	-	(1,947,513)	-	-
Operating profit before working capital movements	**3,031,404**	2,537,418	**(329,132)**	(892,532)
Movement in trade and other receivables	**42,528**	(550,816)	**22,561**	(709,302)
Movement in trade and other payables	**(53,107)**	763,709	**(326,680)**	(87,581)
Cash flows from operations	**3,020,825**	2,750,311	**(633,251)**	(1,689,415)
Interest paid	**(2,292,805)**	(1,424,925)	**(1,734,086)**	(433,192)
Income tax paid	**(83,385)**	(248,462)	**194,590**	-
Net cash flows from/(used in) operating activities	**644,635**	1,076,924	**(2,172,747)**	(2,122,607)
Cash flows from investing activities				
Proceeds from sale of investment property	-	290,000	-	-
Additions to investment property	**(229,395)**	(1,793,994)	**(20,790)**	(1,645)
Acquisition of business	-	(29,529,593)	-	-
Purchase of property, plant and equipment	**(438,582)**	(57,192)	**(1,977)**	(4,183)
Purchase of intangible assets	**(10,482)**	-	**(8,336)**	-
Purchase of investment in subsidiary	-	-	-	(2,573,486)
Deposit on acquisition of investment	-	(5,422,500)	-	(5,422,500)
Interest received	**221,053**	42,073	**118,872**	-
Net cash flows (used in)/from investing activities	**(457,406)**	(36,471,206)	**87,769**	(8,001,814)

Hili Properties p.l.c.

Statements of cash flows (continued)

Year ended 31 December 2016

	Note	Group 2016 €	Group 2015 €	Holding company 2016 €	Holding company 2015 €
Cash flows from financing activities					
Proceeds from bank loans		5,400,000	32,032,237	-	16,000,000
Proceeds from bond issue		-	36,233,729	-	36,233,729
Repayment of bank loans		(1,652,596)	(26,029,877)	-	(16,000,000)
Proceeds from related parties		(2,220,684)	-	4,071,578	-
Proceeds to related parties		-	(5,758,525)	-	(25,637,721)
Net cash flows from financing activities		1,526,720	36,477,564	4,071,578	10,596,008
Net movement in cash and cash equivalents		1,713,949	1,083,282	1,986,600	471,587
Cash and cash equivalents at the beginning of the year		1,128,069	44,787	424,337	(47,250)
Cash and cash equivalents at the end of the year	32	2,842,018	1,128,069	2,410,937	424,337

1. Company information and basis of preparation

Hili Properties p.l.c. is a limited liability company incorporated in Malta with registration number C57954. The registered address of the company is Nineteen Twenty Three, Valletta Road, Marsa. The financial statements have been prepared on the historical cost basis, except for investment properties which are carried at their fair value, and in accordance with International Financial Reporting Standards as adopted by the EU. The significant accounting policies adopted are set out below.

2. Significant accounting policies

Basis of consolidation

Acquisition of subsidiaries

The consolidated financial statements incorporate the financial statements of the holding company and entities controlled by the holding company. The company controls an investee when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The acquisition of subsidiaries is accounted for by applying the acquisition method. The consideration is measured as the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred, except for costs to issue debt or equity securities.

The acquiree's identifiable assets and liabilities that meet the conditions for recognition are recognised at their fair values at the acquisition date, except as specifically required by other IFRS. A contingent liability assumed in a business combination is recognised at the acquisition date if there is a present obligation that arises from past events and its fair value can be measured reliably.

The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, in preparing these consolidated financial statements, appropriate adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by group entities. Intra-group balances, transactions, income and expenses are eliminated on consolidation.

2. Significant accounting policies (continued)

Basis of consolidation (continued)

Goodwill

Goodwill arising in a business combination that is accounted for using the acquisition method is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of (a) the aggregate of: (i) the consideration transferred; (ii) the amount of any non-controlling interests in the acquiree; and (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

The goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Any gain on a bargain purchase, after reassessment, is recognised immediately in profit or loss.

Non-controlling interest

Non-controlling interests in the acquiree that are present ownership interests and entitle their shareholders to a proportionate share of the entity's net assets in the event of liquidation, may be initially measured either at the present ownership interests proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on an acquisition-by-acquisition basis. After initial recognition, non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the holding company's owners' equity therein. Non-controlling interests in the profit or loss and other comprehensive income of consolidated subsidiaries are also disclosed separately. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Investment in subsidiaries

The holding company accounts for its investment in subsidiaries on the basis of the direct equity interest and is stated at cost less any accumulated impairment losses. Dividends from the investment are recognised in profit or loss.

2. **Significant accounting policies (continued)**

Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably.

Intangible assets are initially measured at cost. Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria.

The useful life of intangible assets is assessed to determine whether it is finite or indefinite. Intangible assets with a finite useful life are amortised. Amortisation is charged to profit or loss so as to write off the cost of intangible assets less any estimated residual value, over their estimated useful lives. The amortisation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Computer software

In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property, plant and equipment and accounted for in accordance with the company's accounting policy on property, plant and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset and carried at cost less any accumulated amortisation and any accumulated impairment losses.

The company is in the process of acquiring a property operating system and is currently in the phase of evaluating the systems which are available in the market and being used by similar companies in the industry in order for it to define the most appropriate system. Computer software is amortised on a straight-line basis over three years.

2. Significant accounting policies (continued)

Property, plant and equipment

The company's property, plant and equipment are classified into furniture, fixtures and other equipment and improvements to leasehold land.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Depreciation

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

Furniture, fixtures and other equipment	- over 3 to 10 years
Improvements to leasehold land	- over 5 years being the term of the lease

The depreciation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value at the end of the reporting period. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the period in which they arise.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on derecognition represent the difference between the net disposal proceeds and the carrying amount and are recognised in profit or loss in the period of derecognition.

2. **Significant accounting policies (continued)**

Property held for sale

Property is classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and if sale is considered highly probable. Property held for sale is measured at the lower of the carrying amount and fair value less costs of selling.

Other financial instruments

Financial assets and financial liabilities are recognised on the group's statement of financial position when the respective entities become 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 balance sheet when the group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

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

(i) Trade and other receivables

Trade and other receivables are classified with current assets and are stated at their nominal value unless the effect of discounting is material, in which case trade receivables are measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

2. **Significant accounting policies (continued)**

Other financial instruments (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the company may not recover substantially all of its initial investment other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

(iii) 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.

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

(iv) 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.

(v) Trade and other payables

Trade and other 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.

(vi) Shares issued by the company

Ordinary shares issued by the company are classified as equity instruments.

2. Significant accounting policies (continued)

Impairment

At the end of each reporting period, the carrying amount of assets is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

In the case of financial assets that are carried at amortised cost, objective evidence of impairment includes observable data about the following loss events – significant financial difficulty of the issuer (or counterparty) or a breach of contract or it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the company would not otherwise consider.

In addition to the above loss events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment and indicates that the cost of the investment in the equity instrument may not be recovered.

Goodwill arising on the acquisition of subsidiaries is tested for impairment annually and whenever there is an indication of impairment.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans and receivables if there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced directly.

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value less costs of disposal and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

2. Significant accounting policies (continued)

Impairment (continued)

Impairment losses are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset.

For loans and receivables, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly.

In the case of other assets tested for impairment, an impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case, the impairment reversal is recognised directly other comprehensive income and increases the revaluation surplus for that asset, unless an impairment loss on the same asset was previously recognised in profit or loss.

Where an impairment loss for a cash-generating unit subsequently reverses, the impairment loss is allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided 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:

2. Significant accounting policies (continued)

Revenue recognition (continued)

(i) Provision of services

Revenue from the provision of services is recognised in the period in which the services are rendered. For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion.

(ii) Rental income

Rental income from operating leases, less the aggregate cost of incentives given to the lessee, is recognised as income in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense in profit or loss on a straight-line basis over the lease term.

Interest income

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

Borrowing costs

Borrowing costs include the costs incurred in obtaining external financing. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

2. **Significant accounting policies (continued)**

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

Leased assets are presented in the statement of financial position according to their nature and are tested for impairment in accordance with the company's accounting policy on impairment. Rental income from operating leases, less the aggregate cost of incentives given to the lessee, is recognised as income in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense in profit or loss on a straight-line basis over the lease term.

Taxation

Current and deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also dealt with in other comprehensive income or in equity, as appropriate.

Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

2. **Significant accounting policies (continued)**

Taxation (continued)

Current 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.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to set off its current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Employee benefits

The group contributes towards the state pension in accordance with local legislation. The only obligation of the group is to make the required contributions. Costs are expensed in the period in which they are incurred.

Currency translation

The financial statements of the company and the group are presented in the company's functional currency, the Euro, being the currency of the primary economic environment in which the company operates. Transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at period-end. Exchange differences arising on the settlement and on the re-translation of monetary items are dealt with in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was determined. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not re-translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

Foreign exchange gains and losses are classified with other operating income or other operating expenses as appropriate, except in the case of significant exchange differences arising on investing or financing activities, which are classified within investment income, investment losses or finance costs as appropriate.

2. **Significant accounting policies (continued)**

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented in current liabilities on the statement of financial position.

3. **Judgements in applying accounting policies and key sources of estimation uncertainty**

Other than as disclosed below, in the process of applying the group's and company's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements and, at the end of the reporting period, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Goodwill

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Determining whether the carrying amounts of these assets can be realised requires an estimation of the recoverable amount of the cash generating units. The calculation requires the directors 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. Goodwill arising on a business combination is allocated to the cash-generating units ("CGUs") that are expected to benefit from that business combination.

Goodwill of *€3,215,030* (2015: *€3,815,030*) was allocated to the Apex Investments SIA and Tukuma Projekts SIA which are situated in Latvia, hold investment property and which were acquired during 2015.

The goodwill arising on acquisition was in relation to the synergies of having an operating base in Latvia, which synergies were expected to yield additional benefits in the technical and financial operations of the management of the property arising from the centralisation of the operational and technical teams, to reduce direct costs attributable to property facilities and customer management activities and to enhance the possibility of tax planning opportunities. The expected synergies did not fully materialise during 2016 thus leading to an impairment loss of *€600,000* during 2016.

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Goodwill (continued)

The recoverable amount of the CGU amounting to *€23,900,000* is determined with reference to the fair value of the respective investment properties using a discounted cash flow method together with available tax planning opportunities and current offers under consideration plus the corresponding amount of net assets attributable to this unit. Included in the recoverable amount of the CGU is an amount *of €1,300,000* on that is particularly sensitive to key assumptions related to current offers under consideration and a reasonable possible change to such assumption may result in an impairment up to that amount.

The fair value measurement is categorised within Level 3 of the fair value hierarchy.

The key assumptions for the calculation of the fair value of the investment properties are those regarding the discount rates and growth rates. The discount rates and growth rates are market derived and the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and relate lease up periods, re-letting, redevelopment or refurbishment.

The assessment of recoverability of the carrying amount of goodwill includes:

- forecasted cash flow projections for the next 5 years
- growth rates of 2 - 2.5% (2015: 2 - 2.5%)
- use of 7.38% (2015: 8.5 - 10.4%) to discount the projected cash flows to net present values.

Based on the above assessment, management expects the carrying amount of goodwill to be recoverable.

Fair value of investment properties

The group and the company carry its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss and other comprehensive income. The fair value of investment properties as at 31 December 2016 has been arrived at on the basis of internal assessments made by the directors to reflect market conditions at that date. These internal assessments also considered independent external valuations obtained by the directors for all the group's properties during 2015 together with independent external valuations obtained by the directors during 2016 for a selection of retail/commercial properties in the Baltics covering 20% of the group property portfolio. The external valuations were carried out by independent external valuers having experience in the location and type of property being valued. Based on this assessment, the directors are of the opinion that the fair value determined is an appropriate estimate of the fair value at 31 December 2016. Movements in fair value are disclosed in notes 8, 9 and 19.

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Loans and receivables and investments in subsidiaries

The group and company reviews loans and receivables owed by parent, subsidiaries and other related parties to evaluate whether events or changes in circumstances indicate that the carrying amounts may not be recoverable. The company also reviews investments in subsidiaries to evaluate whether events or changes in circumstances indicate that the carrying amounts may not be recoverable. At the end of the year there was no objective evidence of impairment in this respect.

4. Initial application of International Financial Reporting Standards and International Financial Reporting Standards in issue but not yet effective

Initial application of International Financial Reporting Standards

In the current year, the group and the company have applied the *Amendments to IAS 1 Disclosure Initiative*. These Amendments are effective for annual periods beginning on or after 1 January 2016. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The application of these Amendments has not resulted in any significant impact to these financial statements.

International Financial Reporting Standards in issue but not yet effective

At the date of the approval of these financial statements, a number of International Financial Reporting Standards were in issue but not yet effective. The directors are assessing the potential impact of these International Financial Reporting Standards on the group and company's financial statements.

IFRS 16 Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. These amendments are effective for annual periods beginning on or after 1 January 2019, but as at the date pf authorisation of the financial statements, it had not yet been endorsed by the EU.

The Amendments to *IAS 7 Statement of Cash Flows*, are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted. The Amendments have not as yet been endorsed by the European Union at the date of authorisation of these financial statements.

4. Initial application of International Financial Reporting Standards and International Financial Reporting Standards in issue but not yet effective (continued)

The directors are assessing the potential impact of these standards on the company's and the group's financial statements. The directors anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements of the company and the group in the period of initial application.

5. Segment information

The segment reporting of the group is made in terms of the location which it conducts its business in, as the risks and rates of return are affected predominantly by differences in the services provided in the different locations. The group is currently organised into four main business segments: Malta, Latvia, Estonia and Lithuania. Each of these operating segments is managed separately as each of these lines requires local resources. All inter segment transfers for management services are carried out on a cost basis.

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker.

Revenue reported below represents revenue generated from external customers. There were no intersegment sales in the year. The group's reportable segments under IFRS 8 are direct sales attributable to each line of business.

Measurement of operating segment profit or loss, assets and liabilities

Segment profit represents the profit earned by each segment after allocation of central administration costs based on services provided. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The accounting policies of the reportable segments are the same as the group's accounting policies described in note 2.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to consolidated totals are reported below:

5. Segment information (continued)

Profit before taxation

	2016 €	2015 €
Total profit for reportable segments	6,247,673	4,132,334
Elimination of inter segment profits	(1,683,180)	(1,797,173)
Unallocated amounts:		
Finance costs	(1,741,627)	(351,247)
Other unallocated amounts	(71,755)	(28,836)
	2,751,111	1,955,078

Assets

	2016 €	2015 €
Total assets for reportable segments	103,752,964	117,633,175
Elimination of inter segment receivables	(6,724,180)	(26,918,649)
Unallocated amounts:		
Other unallocated amounts	12,805	152,153
	97,041,589	90,866,679

Liabilities

	2016 €	2015 €
Total liabilities for reportable segments	40,861,677	51,539,343
Elimination of inter segment payables	(8,381,970)	(23,251,697)
Unallocated amounts:		
Debt securities in issue	36,326,320	36,249,693
Other unallocated amounts	12,844	14,124
	68,818,871	64,551,463

Included in revenue arising from rental of investment property in Latvia are revenues of *€1,807,247* (2015: *€1,054,509*) which arose from the group's largest customer. No other single customers contributed 10% or more to the group's revenue for both 2016 and 2015.

5. Segment information (continued)

2016

	Malta €	Latvia €	Estonia €	Lithuania €	Romania €	Total €	Unallocated €	Eliminations and adjustments €	Consolidated €
Revenue	2,191,737	2,695,370	109,996	250,758	-	5,247,861	-	(407,145)	**4,840,716**
Profit before taxation	1,550,402	4,765,788	(224,992)	156,475	-	6,247,673	(1,813,382)	(1,683,180)	**2,751,111**
Depreciation and amortisation	(97,555)	(5,737)	-	-	-	(103,292)	-	-	**(103,292)**
Impairment of goodwill	-	(600,000)	-	-	-	(600,000)	-	-	**(600,000)**
Investment income	250,000	4,127,000	-	-	-	4,377,000	-	(250,000)	**4,127,000**
Investment losses	-	(1,766,900)	(300,000)	-	-	(2,066,900)	(100,822)	-	**(2,167,722)**
Finance costs	(651,068)	(838,174)	-	(54,848)	-	(1,544,090)	(1,741,627)	717,317	**(2,568,400)**
Segment assets	64,956,353	33,815,383	1,764,124	3,191,505	25,600	103,752,965	12,806	(6,724,182)	**97,041,589**
Investment property	34,857,121	28,248,044	1,699,100	2,850,862	-	67,655,127	-	-	**67,655,127**
Segment liabilities	16,490,135	22,580,824	24,735	1,765,983	-	40,861,677	36,339,165	(8,381,971)	**68,818,871**
Income tax expense	(48,946)	(667,242)	-	(23,471)	-	(739,659)	-	(103,949)	**(843,608)**

5. Segment information (continued)

2015

	Malta €	Latvia €	Estonia €	Lithuania €	Total €	Unallocated €	Eliminations and adjustments €	Consolidated €
Revenue	1,469,756	2,304,818	102,914	248,753	4,126,241	-	-	4,126,241
Profit before taxation	2,355,423	964,960	784,905	27,046	4,132,334	(380,083)	(1,797,173)	1,955,078
Depreciation	(1,579)	(9,505)	-	-	(11,084)	-	-	(11,084)
Investment income	3,214,023	-	700,109	104,767	4,018,899	-	(1,102,487)	2,916,412
Investment losses	(898,940)	(257,676)	-	(215,700)	(1,372,316)	-	(465,416)	(1,837,732)
Finance costs	(1,353,896)	(653,281)	-	(69,038)	(2,076,215)	(351,247)	597,469	(1,829,993)
Segment assets	78,995,858	32,607,784	2,463,454	3,566,079	117,633,175	152,153	(26,918,649)	90,866,679
Investment property	34,648,225	24,977,786	1,999,100	2,850,862	64,475,973	-	-	64,475,973
Segment liabilities	22,731,388	24,747,350	1,299,301	2,761,304	51,539,343	36,263,817	(23,251,697)	64,551,463
Income tax credit/(expense)	(152,697)	(132,501)	-	54,299	(230,899)	-	358,204	127,306

6. Revenue

Revenue represents the total invoiced value of services provided during the year, net of any indirect taxes as follows:

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Rent receivable	**4,840,716**	4,126,241	**63,747**	52,354
Management fees	**-**	-	**274,506**	-
	4,840,716	4,126,241	**338,253**	52,354

7. Other operating income

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Other operating income	**55,860**	74,560	**10,595**	22,217

8. Investment income

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Bank interest receivable	**-**	8	**-**	-
Increase in fair value of investment property	**4,127,000**	864,124	**-**	164,024
Gain on disposal of property	**-**	104,767	**-**	-
Bargain purchase on the acquisition of subsidiary (note 33)	**-**	1,947,513	**-**	-
Dividend income from equity instruments	**-**	-	**250,000**	-
	4,127,000	2,916,412	**250,000**	164,024

9. Investment losses

	Group 2016 €	Group 2015 €	Holding company 2016 €	Holding company 2015 €
Decrease in fair value of investment properties	1,361,500	1,372,316	-	235,076
Decrease in fair value of property held for sale	105,400	-	-	-
Acquisition related costs	100,822	465,416	61,256	-
Impairment of goodwill	600,000	-	-	-
	2,167,722	1,837,732	61,256	235,076

10. Finance income

	Group 2016 €	Group 2015 €	Holding company 2016 €	Holding company 2015 €
Interest on bank balances	13	4,401	-	-
Interest receivable on:				
- amounts due from other related companies	125,253	44,981	98,607	17,534
- amounts due from subsidiaries	-	-	797,935	839,925
- amounts due from parent	206,034	13,699	125,075	13,699
	331,300	63,081	1,021,617	871,158

11. Finance costs

	Group 2016 €	Group 2015 €	Holding company 2016 €	Holding company 2015 €
Interest on bank loans and overdrawn bank balance	634,203	1,221,772	102	315,502
Interest on debt securities	1,665,000	351,247	1,665,000	351,247
Interest payable on:				
- amounts due to other related companies	192,570	33,819	192,570	33,819
- amounts due to subsidiaries	-	-	54,589	62,374
- amounts due to parent	-	90,215	-	77,496
Processing fees	-	116,976	-	88,570
Amortisation of bond issue costs	76,627	15,964	76,627	15,964
	2,568,400	1,829,993	1,988,888	944,972

12. Profit/(loss) before taxation

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
This is stated after charging:				
Depreciation and amortisation	**103,292**	11,084	**2,781**	1,579
Bad and doubtful debts provisions	**-**	2,507	**-**	-
Management fees	**325,000**	395,000	**325,000**	395,000
Legal and professional fees	**301,176**	273,057	**106,213**	107,412

The analysis of the amounts that are payable to the auditors and that are required to be disclosed is as follows:

Group

Total remuneration payable to the parent company's auditors in respect of the audit of the financial statements and the undertakings included in the consolidated financial statements amounted to *€33,350* (2015: *€18,500*) and the remuneration payable to the other auditors in respect of the audits of undertakings included in the consolidated financial statements amounted to *€35,100* (2015: *€36,195*). Other fees payable to the parent company's auditors for tax services and for non-audit services other than tax services amounted to *€9,850* (2015: *€15,140*) and *€2,256* (2015: *€61,226*) respectively.

Holding company

The remuneration payable to the parent company's auditors for the audit of the company's financial statements amounted to *€5,115* (2015: *€4,650*). Other fees payable to the parent company's auditors for tax services and for non-audit services other than tax services amounted to *€3,810* (2015: *€10,010*) and *€2,256* (2015: *€60,326*) respectively.

13. Key management personnel compensation

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Directors' compensation:				
Short term benefits				
Fees	**29,570**	27,562	**29,570**	27,562
Remuneration	**111,220**	33,227	**111,220**	33,227
	140,790	60,789	**140,790**	60,789
Other key management personnel compensation:				
Salaries and social security contributions	**88,503**	40,973	**88,503**	40,973
Total key management personnel compensation	**229,293**	101,762	**229,293**	101,762

The group and the company incurred management fees in relation to the provision of key management personnel services amounting to *€325,000* (2015: *€395,000*). These management fees were paid to the parent company.

14. Staff costs and employee information

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Staff costs:				
Wages and salaries	**543,930**	350,200	**409,897**	331,628
Social security costs	**34,617**	17,065	**17,050**	12,683
Recharged to subsidiary	**-**	-	**(102,291)**	(77,800)
Recharged (to)/from other related companies	**(102,291)**	(64,925)	**-**	5,972
	476,256	302,340	**324,656**	272,483

14. Staff costs and employee information (continued)

The average number of persons employed during the year, including executive directors, was made up as follows:

	Group		Holding company	
	2016	2015	**2016**	2015
	Number	Number	**Number**	Number
Administration	**8**	7	**5**	5
Operations	**7**	6	**7**	6
	15	13	**12**	11

15. Income tax expense/(credit)

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Current tax expense/(credit)	**116,026**	211,628	**(270,215)**	5,640
Deferred tax expense/(credit) (note 29)	**727,582**	(338,933)	**(1,423)**	104,611
Income tax expense/(credit)	**843,608**	(127,305)	**(271,638)**	110,251

15. Income tax expense/(credit) (continued)

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

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Profit/(loss) before taxation	**2,751,111**	1,955,078	**(1,299,184)**	(950,407)
Tax at the applicable rate of 35%	**962,889**	684,277	**(454,714)**	(332,642)
Tax effect of:				
Different tax rates of subsidiaries	**(864,452)**	(198,401)	-	-
Income taxed under the FRFTC method	-	(20,775)	-	(20,775)
Disallowable expenses	**535,567**	719,524	**196,276**	441,985
Disallowed acquisition costs	**13,844**	162,896	-	-
Disallowed impairment of goodwill	**210,000**	-	-	-
Income not subject to tax	**(54,860)**	(301,263)	-	-
Amortisation of grant income	**(1,295)**	(1,295)	-	-
Maintenance allowance	**(57,362)**	(108,828)	-	(3,665)
Income taxed at 15%	**(136,778)**	-	**(12,749)**	-
Increase in fair value of investment property not chargeable to tax	**105,000**	257,221	-	24,868
Permanent difference on investment property	**(89,950)**	(185,770)	-	-
Capital allowances absorbed (permanent)	-	(17,528)	-	-
Gain on bargain purchase of subsidiary not subject to tax	-	(681,630)	-	-
Deferred tax in relation to prior year	**191,449**	(503,996)	-	480
Other differences	**29,556**	68,263	**(451)**	-
Income tax expense/(credit) for the year	**843,608**	(127,305)	**(271,638)**	110,251

16. Goodwill

	€
Amounts recognised on the acquisitions of subsidiaries during 2015 (note 33)	3,815,030
At 1 January 2016	3,815,030
Impairment loss (note 9)	(600,000)
At 31 December 2016	**3,215,030**

Further disclosures in connection with goodwill are included in note 3.

17. Intangible assets

Group

	€
Cost	
Additions	10,481
At 31 December 2016	10,481
Accumulated amortisation	
Provision for the year	(250)
At 31 December 2016	(250)
Carrying amount	
At 31 December 2015	-
At 31 December 2016	**10,231**

Holding company

	€
Cost	
Additions	8,336
At 31 December 2016	8,336
Carrying amount	
At 31 December 2015	-
At 31 December 2016	**8,336**

Intangible assets amounting to *€8,336* (2015: *nil*) owned by the group and the company have not been put into use as at 31 December 2016.

18. Property, plant and equipment

Group

	Furniture, Fixtures and other equipment €	Improvements to leasehold land €	Total €
Cost			
At 1 January 2015	71,179	-	71,179
Additions	16,482	40,710	57,192
Acquired on business combination	64,639	-	64,639
At 1 January 2016	152,300	40,710	193,010
Additions	232,750	205,832	438,582
At 31 December 2016	385,050	246,542	631,592
Accumulated depreciation			
At 1 January 2015	59,277	-	59,277
Provision for the year	11,084	-	11,084
Acquired on business combination	42,354	-	42,354
At 1 January 2016	112,715	-	112,715
Provision for the year	53,734	49,308	103,042
At 31 December 2016	166,449	49,308	215,757
Carrying amount			
At 31 December 2015	39,585	40,710	80,295
At 31 December 2016	**218,601**	**197,234**	**415,835**

€73,204 (2015: *€40,710*) worth of assets have not been put into use as at 31 December 2016.

18. Property, plant and equipment (continued)

Holding company

	Furniture, fixtures and other equipment €
Cost	
At 1 January 2015	4,504
Additions	4,183
At 1 January 2016	8,687
Additions	1,977
At 31 December 2016	10,664
Accumulated depreciation	
At 1 January 2015	1,862
Provision for the year	1,579
At 1 January 2016	3,441
Provision for the year	2,781
At 31 December 2016	6,222
Carrying amount	
At 31 December 2015	5,246
At 31 December 2016	**4,442**

19. Investment property

Group

	Retail/ commercial properties €	Office properties €	Other properties €	Total €
At 1 January 2015	13,408,967	18,372,504	1,435,976	33,217,447
Additions	994,993	799,001	-	1,793,994
Disposals	(182,000)	-	-	(182,000)
Increase in fair value (note 8)	700,100	-	164,024	864,124
Decrease in fair value (note 9)	(525,408)	(846,908)	-	(1,372,316)
Acquired on business combination (note 33)	20,455,624	10,250,000	-	30,705,624
Transfer to held for sale (note 23)	(550,900)	-	-	(550,900)
At 1 January 2016	34,301,376	28,574,597	1,600,000	64,475,973
Additions	12,457	188,021	8,418	208,896
Disposals	(25,742)	-	-	(25,742)
Increase in fair value (note 8)	4,127,000	-	-	4,127,000
Decrease in fair value (note 9)	(1,361,500)	-	-	(1,361,500)
Transfer from held for sale (note 23)	230,500	-	-	230,500
At 31 December 2016	**37,284,091**	**28,762,618**	**1,608,418**	**67,655,127**

Holding company

	Office properties €	Other properties €	Total €
At 1 January 2015	2,705,076	1,435,976	4,141,052
Additions	1,645	-	1,645
Increase in fair value (note 8)	-	164,024	164,024
Decrease in fair value (note 9)	(235,076)	-	(235,076)
At 1 January 2016	2,471,645	1,600,000	4,071,645
Additions	12,372	8,419	20,791
At 31 December 2016	**2,484,017**	**1,608,419**	**4,092,436**

19. Investment property (continued)

The fair value of investment properties amounting to *€67,655,127* (2015: *€64,475,973*) has been arrived at on the basis of internal assessments made by the directors to reflect market conditions at the end of the reporting period. These internal assessments also considered independent external valuations obtained by the directors for all the group's properties during 2015 together with independent external valuations obtained by the directors during 2016 for a selection of retail/commercial properties in the Baltics covering 20% of the group property portfolio. The external valuations were carried out by independent external valuers having experience in the location and type of property being valued. Based on this assessment, the directors are of the opinion that the fair value determined is an appropriate estimate of the fair value at 31 December 2016. In estimating the fair value of the property, the highest and best use of the property is its current use.

Investment properties are classified as level 3.

All the properties located in the Baltics amounting to *€32,798,006* (2015: *€29,827,748*) are classified as retail/commercial properties. The remaining properties are located in Malta.

The levels in the fair value hierarchy have been defined in note 38. The group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Valuation techniques and inputs

For the fair value of the investment properties in Malta, the valuation was determined based on comparable methods. The significant unobservable inputs were the rental yields and rental rates per square metre being derived from the properties.

	Range of significant unobservable inputs	
	Rental yields	Rental rates per square metre
	%	€
2016 and 2015	4.76 – 6.7	100 - 350

19. Investment property (continued)

For the fair value of investment property in the Baltics which are all retail/commercial properties, the valuation was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include the growth rates and the discount rates as follows:

	Range of significant unobservable inputs	
	Discount rate %	Growth rate %
2016	**7.38 – 8.7**	**1.44 – 3**
2015	8.1 – 10.7	2 – 3.1

For each valuation for which rental value and capitalisation rate have been determined to be the significant unobservable inputs, the higher the rental value and the lower the capitalisation rate, the higher the fair value. Conversely, the lower the rental value and the higher the capitalisation rate, the lower the fair value. A reasonable change in the unobservable inputs is not expected to result in a material change in the value of the property.

Operating leases – the Group as lessor

Operating leases relate to the investment property owned by the group with lease terms of between 1 to 20 years. The lessee does not have an option to purchase the property at the expiry of the lease period. The rental income earned under operating leases during the year amounted to *€4,840,716* (2015: *€4,126,241*). Included in rental income, the group does not have any contingent rents.

Direct operating expenses amounting to *€375,858* (2015: *€232,464*) and *€2,728* (2015: *€1,324*) were incurred by the group and the company respectively in relation to the investment property.

At the end of the reporting period, the respective lessees had outstanding commitments under non-cancellable operating leases, which fall due as follows:

19. Investment property (continued)

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Within one year	**4,404,447**	4,072,328	**64,053**	63,726
Between one and five years	**12,717,293**	10,742,022	**360,000**	8,209
After five years	**13,754,960**	15,156,156	**52,500**	-
	30,876,700	29,970,506	**476,553**	71,935

20. Investment in subsidiaries

	€
At 1 January 2015	4,968,300
Acquisition of subsidiaries	2,573,486
Capitalisation of loans	8,051,340
At 1 January 2016	15,593,126
Capitalisation of loans	16,957,603
At 31 December 2016	**32,550,729**

During 2015, the company acquired Hili Properties (Swatar) Limited. It also acquired indirect shareholding in Tukuma Projekts SIA and Apex Investments SIA. Details of these acquisitions are disclosed in note 33. In 2015, the company also capitalised loans into redeemable preference shares amounting to *€8,051,340*.

During 2016, a new subsidiary undertaking, Hili Premier Estates Romania SRL, was incorporated, which is indirectly owned by the company. Also, loans receivable from subsidiaries and interest thereon amounting to *€16,957,603* were capitalised. *€7,471,957* of these loans and interest were converted into ordinary share capital while *€2,116,748* of these loans and interest were converted into redeemable preference shares of €1 each, having a non-cumulative and discretionary coupon of 4.5% per annum. *€7,368,898* was included with the cost of investment in subsidiaries since this amount became largely repayable exclusively at the discretion of the subsidiary.

The preference shares issued by the subsidiary are redeemable at par value at the option of the respective subsidiaries by 31 December 2099 following a resolution to this effect at General Meeting.

20. Investment in subsidiaries (continued)

The ordinary shares of the subsidiaries rank after the preference shares as regards payment of dividends and return of capital, but carry full voting rights at general meetings of the company. Voting rights are not available to the preference shareholders. Dividends payable on ordinary shares fluctuate depending on the company's results whereas preference dividends are payable at a fixed rate and are non-cumulative.

Details of the company's subsidiaries at 31 December 2016 and 31 December 2015 are as follows:

	Proportion of ownership interest %
Hili Estates Holdings Company Limited	95 (2015: 95)
Hili Estates Limited	95 (2015: 95)
Premier Estates Limited	95 (2015: 95)
Hili Properties (Swatar) Limited	100 (2015: 100)

The registered office and principle place of business of all the above group undertakings is Nineteen Twenty-Three, Valletta Road, Marsa, Malta.

Hili Properties BV	100 (2015:100)

The registered office and principle place of business of the above group undertaking is Strawinskylaan 3127, 1077 ZX, Amsterdam, Netherlands.

Premier Estates Eesti OÜ	100 (2015:100)

The registered office and principle place of business of the above group undertaking is Eesti, Mustamäe tee 16, Tallinn linn, Harju maakond, 1061.

Premier Estates Ltd SIA	100 (2015:100)

The registered office and principle place of business of the above group undertaking is Duntes street 6, Riga, LV – 1013, Latvia.

Premier Estates Lietuva UAB	100 (2015:100)

The registered office and principle place of business of the above group undertaking is Konstitucijos ave. 7, LT-09308, Vilnius, the Republic of Lithuania.

Tukuma Projekts SIA	100 (2015:100)
Apex Investments SIA	100 (2015:100)

The registered office and principle place of business of the above group undertakings is Citadeles 12, Riga LV-1, Latvia.

Hili Premier Estates Romania SRL	100 (2015: nil)

20. Investment in subsidiaries (continued)

The registered office and principle place of business of the above group undertaking is 43, Bulevardul Aviatorilor, 011853 Bucharest, Romania. This subsidiary is a newly formed entity.

The principal activity of the above mention companies is to hold and rent immovable property with the exception of Hili Estates Holdings Company Limited and Hili Properties BV which act as holding companies.

Details of the share capital and reserves and profit for the year of the companies in which the company has direct ownership interest are as follows:

2016

	Share capital and reserves €	Profit/ (loss) for the year €
Hili Estates Holdings Company Limited	7,264,260	(201,460)
Hili Properties (Swatar) Limited	4,657,729	284,948
Hili Properties BV	13,921,889	(265,346)

2015

	Share capital and reserves €	Profit/ (loss) for the year €
Hili Estates Holdings Company Limited	96,822	(352,423)
Hili Properties (Swatar) Limited	4,372,781	2,883,994
Hili Properties BV	6,715,278	(258,106)

21. Deposit on acquisition of investment

On 25 August 2015 the company entered into a promise of share purchase agreement whereby it undertook to accept, purchase and acquire, 100% shareholding in Harbour (APM) Investments Limited for the sum of *€25,000,000*. Harbour (APM) Investments Limited is the company that owns the land at Benghajsa measuring circa 92,000m². In 2015, a *50%* deposit was paid. The remaining balance of *€12,500,000* will be settled by 2018 through equity.

Both the company and the vendor have the unilateral and unconditional right to rescind the agreement, in which case the deposit already paid of *€12,500,000* becomes repayable on the demand by the company. At the end of the reporting period, the deal was expected to be finalised by 2018.

22. Loans and receivables

Group

	Loan to parent €	Loan to other related companies €	Total €
At 31 December 2015	2,000,000	4,408,635	6,408,635
Less: amounts expected to be settled within 12 months (shown under current assets)	(2,000,000)	(2,663,161)	(4,663,161)
Amounts expected to be settled after 12 months (shown under non-current assets)	-	1,745,474	1,745,474
At 31 December 2016	**5,819,959**	**2,571,540**	**8,391,499**
Less: amounts expected to be settled within 12 months (shown under current assets)	**(5,819,959)**	**(248,566)**	**(6,068,525)**
Amounts expected to be settled after 12 months (shown under non-current assets)	**-**	**2,322,974**	**2,322,974**

The above loans and receivables are unsecured. *€1,183,598* (2015: *€3,181,098*) of the amounts due from other related companies and amounts due from parent company amounting to *€5,750,000* (2015: *€2,000,000*) bear interest at the rate of 5% per annum. The remaining amounts of loans and receivables are interest free.

Amounts due from other related companies amounting to *€2,322,974* (2015: *€1,745,474*) have no fixed date for repayment and are not expected to be realised within 12 months after the end of the reporting period. *€5,750,000* (2015: *€2,000,000*) of the amounts due from parent company are payable by 31 March 2017. The remaining loans and receivables are payable on demand.

Movements in loans and receivables which are expected to be settled after 12 months of the reporting period are reconciled as follows:

22. Loans and receivables (continued)

	Loans to other related companies €
Amortised cost	
At 1 January 2015	-
Additions	1,214,376
Assignment from other related company	531,098
At 1 January 2016	1,745,474
Additions	577,500
At 31 December 2016	2,322,974
Carrying amount	
At 31 December 2015	1,745,474
At 31 December 2016	**2,322,974**

Holding company

	Loan to subsidiaries €	Loan to parent €	Loan to other related companies €	Total €
At 31 December 2015	21,755,065	2,000,000	3,872,956	27,628,021
Less: amounts expected to be settled within 12 months (shown under current assets)	(308,582)	(2,000,000)	(2,658,580)	(4,967,162)
Amounts expected to be settled after 12 months (shown under non-current assets)	21,446,483	-	1,214,376	22,660,859
At 31 December 2016	**3,571,296**	**2,783,351**	**1,938,410**	**8,293,057**
Less: amounts expected to be settled within 12 months (shown under current assets)	**(564,843)**	**(2,783,351)**	**(146,534)**	**(3,494,728)**
Amounts expected to be settled after 12 months (shown under non-current assets)	**3,006,453**	**-**	**1,791,876**	**4,798,329**

22. Loans and receivables (continued)

The above loans and receivables are unsecured. *€3,006,453* (2015: *€21,446,483*) of the amounts due from subsidiaries bear interest at the rates of 2.9% to 5% per annum while *€652,500* (2015: *€2,750,000*) of the amounts due from other related companies and *€2,750,000* (2015: *€2,000,000*) of the amounts due from the parent company bear an interest rate of 5% per annum. The remaining loans and receivables are interest free.

€1,666,453 (2015: *€95,000*) and *€1,340,000* (2015: *€1,790,000*) of the amounts due from subsidiaries companies are payable by the 2020 and 2025 respectively. Amounts due from subsidiaries reported in 2015 of *€19,561,483* as well as *€1,791,876* (2015: *€1,214,376*) of the amounts due from other related companies have no fixed date of repayment and are not expected to be realised within 12 months after the end of the reporting period. *€2,750,000* (2015: *€2,000,000*) of the amounts due from parent company are payable by 31 March 2017. All the remaining loans and receivables are payable on demand.

Movements in loans and receivables which are expected to be settled after 12 months of the reporting period are reconciled as follows:

	Loan to subsidiaries	Loan to other related companies	Total
	€	€	€
Amortised cost			
At 1 January 2015	6,369,660	-	6,369,660
Assignment from parent	2,181,433	-	2,181,433
Additions	20,946,730	1,214,376	22,161,106
Capitalisation	(8,051,340)	-	(8,051,340)
At 1 January 2016	21,446,483	1,214,376	22,660,859
Additions	-	577,500	577,500
Settlement	(2,849,950)	-	(2,849,950)
Capitalisation	(15,590,080)	-	(15,590,080)
At 31 December 2016	3,006,453	1,791,876	4,798,329
Carrying amount			
At 31 December 2015	21,446,483	1,214,376	22,660,859
At 31 December 2016	**3,006,453**	**1,791,876**	**4,798,329**

23. Property held for sale

	Group
	€
Fair value	
At 1 January 2015	150,000
Disposals	(150,000)
Transfer from investment property (note 19)	550,900
At 1 January 2016	550,900
Decrease in fair value (note 9)	(105,400)
Transfer to investment property (note 19)	(230,500)
At 31 December 2016	**215,000**

24. Trade and other receivables

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	€	€
Trade receivables	**188,754**	190,869	**15,019**	705
Other receivables	**597,095**	617,072	**631,005**	574,458
Amounts due from other related companies	**185,197**	253,759	-	1,146
Amounts due from parent	**20,960**	-	-	-
Amounts due from subsidiaries	-	-	**189,150**	-
Prepayments and accrued income	**225,680**	198,514	**92,490**	838,695
	1,217,686	1,260,214	**927,664**	1,415,004

No interest is charged on trade and other receivables.

25. Trade and other payables

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	€	€
Trade payables	**359,988**	290,987	**88,494**	164,030
Amounts due to other related companies	**30,128**	32,288	**1,322**	-
Other payables	**700,687**	637,786	-	-
Accruals	**667,267**	865,779	**398,135**	472,426
	1,758,070	1,826,840	**487,951**	636,456

26. Other financial liabilities

Group

	Loan from parent €	Loan from other related companies €	Total €
At 31 December 2015	265,565	1,845,089	2,110,654
Less: amounts expected to be settled within 12 months (shown under current liabilities)	(265,565)	(123,287)	(388,852)
Amounts expected to be settled after 12 months (shown under non-current liabilities)	-	1,721,802	1,721,802
At 31 December 2016	**-**	**1,872,834**	**1,872,834**
Less: amounts expected to be settled within 12 months (shown under current liabilities)	**-**	**(151,032)**	**(151,032)**
Amounts expected to be settled after 12 months (shown under non-current liabilities)	**-**	**1,721,802**	**1,721,802**

Amounts due to other related companies of *€1,721,802* (2015: *€1,721,802*) bear an interest rate of 5% per annum and have no fixed date for repayment but the group has an unconditional right to defer settlement of these loans for at least twelve months after the end of the reporting period. All the remaining amounts are interest free and payable on demand. All the other financial liabilities listed above are unsecured.

Holding company

	Loan from subsidiaries €	Loan from parent €	Loan from other related companies €	Total €
At 31 December 2015	911,726	204,255	1,800,938	2,916,919
Less: amounts expected to be settled within 12 months (shown under current liabilities)	(3,984)	(204,255)	(79,136)	(287,375)
Amounts expected to be settled after 12 months (shown under non-current liabilities)	907,742	-	1,721,802	2,629,544

26. Other financial liabilities (continued)

	Loan from subsidiaries €	Loan from parent €	Loan from other related companies €	Total €
At 31 December 2016	1,378,581	-	1,865,032	3,243,613
Less: amounts expected to be settled within 12 months (shown under current liabilities)	(120,449)	-	(143,230)	(263,679)
Amounts expected to be settled after 12 months (shown under non-current liabilities)	1,258,132	-	1,721,802	2,979,934

€1,258,132 (2015: *€907,742*) of the amounts due to subsidiaries companies bear interest at the rate of 3.5% - 5% per annum and are repayable by 2020. Amounts due to other related companies of *€1,721,802* (2015: *€1,721,802*) bear an interest rate of 5% per annum and have no fixed date for repayment but the group has an unconditional right to defer settlement of these loans for at least twelve months after the end of the reporting period. The remaining amounts owed are interest free and payable on demand and all financial liabilities listed above are unsecured.

27. Bank overdraft and loans

	Group		Holding company	
	2016 €	2015 €	2016 €	2015 €
Bank overdraft	65,301	-	-	-
Bank loans	23,321,233	19,573,828	-	-
	23,386,534	19,573,828	-	-
Less: amount due for settlement within 12 months (shown under current liabilities)	(1,963,850)	(4,799,181)	-	-
Amount due for settlement after 12 months (shown under non-current liabilities)	21,422,684	14,774,647	-	-

27. Bank overdraft and loans (continued)

Bank overdraft and loans are payable as follows:

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
On demand or within one year	**1,963,850**	4,799,181	-	-
Between one and five years	**8,786,640**	5,187,308	-	-
After five years	**12,636,044**	9,587,339	-	-
	23,386,534	19,573,828	-	-

The group's bank loans facilities bear effective interest at the rates of 3.25% to 4.85% p.a. The group's bank borrowings facilities amount to *€23,386,534* (2015: *€19,573,828*). The facilities are secured by special hypothecs over the investment property of the group, a general hypothec over the assets of the group, guarantees provided by other related party and a pledge over rent receivable from the company's tenants.

On 21 March 2016, one of the subsidiaries in Latvia received consent from the bank to prolong a bank loan amounting to *€1,600,000* for further five years following the original maturity date which was 8 June 2016. On 23 October 2015, one of the subsidiaries in Malta received new bank facilities consisting of a bank loan of *€5,400,000* and bank overdraft of *€100,000*.

28. Debt securities in issue

	Group and holding company	
	2016	2015
	€	€
4.5% unsecured bonds redeemable 2025	**36,326,320**	36,249,693

In October 2015, the company issued 370,000 4.5% unsecured bonds of a nominal value of *€100* per bond. The bonds are redeemable at their nominal value in 2025.

Interest on the bonds is due and payable annually on 16 October of each year.

The bonds are listed on the Official List of the Malta Stock Exchange. The carrying amount of the bond is net of direct issue costs of *€766,271* which are being amortised over the life of the bond. The market value of debt securities on the last trading day before the statement of financial position date was *€38,850,000*.

The bond is guaranteed by Harbour (APM) Investments Limited and Hili Estates Limited. The full terms of the guarantee are disclosed in the bond prospectus.

29. Deferred taxation

Group

	Opening balance €	Acquired on business combination €	Recognised in profit or loss €	Closing balance €
2015				
Arising on:				
Investment property	(1,560,000)	(3,302,150)	440,109	(4,422,041)
Temporary difference on trade receivables	-	3,488	624	4,112
Temporary difference on non-current liabilities	-	(6,931)	6,931	-
Unutilised losses	-	148,118	(138,514)	9,604
	(1,560,000)	(3,157,475)	309,150	(4,408,325)
Arising on:				
Unutilised losses	236,122	-	(202,936)	33,186
Unabsorbed losses arising as a result of merger	295,687	-	-	295,687
Temporary difference on non-current assets	-	-	78,439	78,439
Investment property	-	-	154,280	154,280
	531,809	-	29,783	561,592
	(1,028,191)	(3,157,475)	338,933	(3,846,733)

	Opening balance €	Recognised in profit or loss €	Closing balance €
2016			
Arising on:			
Investment property	(4,422,041)	(674,290)	**(5,096,331)**
Temporary difference on trade receivables	4,112	6,163	**10,275**
Unutilised losses	9,604	126,041	**135,645**
	(4,408,325)	(542,086)	**(4,950,411)**
Arising on:			
Unutilised losses	33,186	(23,267)	**9,919**
Unabsorbed losses arising as a result of merger	295,687	-	**295,687**
Temporary difference on non-current assets	78,439	(78,439)	**-**
Investment property	154,280	(83,790)	**70,490**
	561,592	(185,496)	**376,096**
	(3,846,733)	(727,582)	**(4,574,315)**

29. Deferred taxation (continued)

As at 31 December 2015, due to changes in tax law in Malta a different tax treatment on the transfer of immovable property started to be applied. The system consisting of both a 12% final withholding tax on the transfer value and 35% tax on the profit or gain was replaced by one final withholding tax of 8%/10% on the value of the property transferred. The revised taxation rules on capital gains upon the transfer of immovable property were enacted during the current year. Following the amended changes in tax rates, the deferred tax liability decreased by *€480,000*.

Holding company

	Opening balance €	Recognised in profit or loss €	Closing balance €
2015			
Arising on:			
Unutilised losses	113,106	(104,611)	8,495
2016			
Arising on:			
Unutilised losses	8,495	1,423	**9,918**

30. Share capital

	2016 and 2015	
	Authorised	Issued and called up
	€	€
21,600,000 ordinary shares of €1 each, all of which have been issued and called up	**21,600,000**	**21,600,000**

On 19 May 2015:

(i) The authorised share capital of the company was increased by 100,000 ordinary shares of *€1* each.

(ii) The issued share capital of the company was increased by 100,000 ordinary shares of *€1* each, which were issued at a premium of *€39* per share and was satisfied by the capitalisation of shareholders' loans amounting to *€4,000,000*.

(iii) Subsequent to the above also on 19 May 2015, an amount of *€3,900,000* equal to the share premium was applied to the company's loss offset reserve account for the purpose of offsetting any losses that may be incurred by the company from time to time. Consequently the remaining balance in the said loss offset reserve amounted to *€748,427*.

On 27 August 2015:

(i) The authorised share capital of the company was increased by 6,500,000 ordinary shares of *€1* each.

(ii) The issued share capital of the company was increased by 6,500,000 ordinary shares of *€1* each which was also affected via a capitalisation of shareholders' loans.

There were no changes in the share capital of the company during the year ending 31 December 2016.

31. Significant non-cash transactions

As explained in more detail in note 20, during the year, loans receivable from subsidiaries and interest thereon amounting to *€16,957,603* were converted into share capital. *€7,471,957* of these loans and interest were converted into ordinary share capital while *€2,116,748* of these loans and interest were converted into redeemable preference shares of *€1* each, having a coupon of 4.5% per annum. *€7,368,898* was included with the cost of investment in subsidiaries since this amount became largely repayable exclusively at the discretion of the subsidiary.

These transactions did not involve the movement of cash and cash equivalents.

32. Cash and cash equivalents

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

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Cash at bank and on hand	**2,907,319**	1,128,069	**2,410,937**	424,337
Over-drawn bank balance	**(65,301)**	-	**-**	-
Cash and cash equivalents in the statement of cash flows	**2,842,018**	1,128,069	**2,410,937**	424,337

Cash at bank is interest free. The interest rate incurred on the bank overdraft is of 2.5% per annum above the three month euribor.

33. Acquisition of subsidiaries

On 31 January 2015, the group acquired 100% interest and control in Tukuma Projekts SIA and Apex Investments SIA, companies registered in Latvia. The principal activity of these companies is to own and operate retail outlets and generate rental income therefrom. On the date of acquisition, the companies owned 9 retail outlets in Latvia. The purpose of such acquisition was to expand the portfolio of investment property held by the group in the Baltics region. The consolidated financial statements include the results of the subsidiaries for the 11 month period from the date of acquisition.

33. Acquisition of subsidiaries (continued)

The fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition by the Group were:

	Tukuma Projekts SIA and Apex Investments SIA €
Cash and cash equivalents	166,543
Property, plant and equipment (note 18)	22,285
Investment property (note 19)	20,455,624
Trade and other receivables	258,990
Trade and other payables	(1,552,620)
Bank loans	(15,982,562)
Deferred tax liability (note 29)	(2,132,475)
Net assets acquired	1,235,785
Consideration paid	(5,050,815)
Goodwill arising on acquisition (note 16)	**(3,815,030)**

The gross contractual amounts of trade and other receivables amount to *€278,665*. The best estimate at the acquisition date of cash flows not expected to be collected amount to *€19,675*. Acquisition related expenses amounting to *€125,092* have been excluded from the consideration transferred and have been recognised as part of the investment losses in note 9. Revenue and profit generated from the date of acquisition until 31 December 2015 amount to *€1,998,511* and *€926,861* respectively. If Tukuma Projekts SIA and Apex Investments SIA were acquired on 1 January 2015, the revenue and profit generated would amount to *€2,195,462* and *€956,382* respectively.

The goodwill arising on acquisition is in relation to the synergies of having an operating base in the Baltics, which synergies are expected to yield additional benefits in the technical and financial operations of the management of the property arising from the centralisation of the operational and technical teams, to reduce direct costs attributable to property facilities and customer management activities and to enhance the possibility of tax planning opportunities.

Subsequently on 11 May 2015, the group acquired 100% interest and control in Hili Properties (Swatar) Limited, a company registered in Malta, owning and operating a business complex in Swatar and earning rental income therefrom. The purpose of such acquisition was to expand the portfolio of investment property held by the group. The consolidated financial statements include the results of the subsidiary from the date of acquisition.

33. Acquisition of subsidiaries (continued)

The fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition by the Group were:

	Hili Properties (Swatar) Limited €
Investment property (note 19)	10,250,000
Trade and other receivables	99,009
Trade and other payables	(1,349,378)
Bank loans	(3,457,157)
Current tax liability	(382,902)
Deferred tax liability (note 29)	(1,025,000)
Net assets acquired	4,134,572
Consideration paid	(2,187,059)
Gain on bargain purchase (note 8)	**1,947,513**

The gross contractual amounts of trade and other receivables amount to *€99,009*. Acquisition related expenses amounting to *€340,414* have been excluded from the consideration transferred and have been recognised as part of the investment losses in note 9. Revenue and profit generated from the date of acquisition until 31 December 2015 amount to *€390,635* and *€192,199* respectively. If Hili Properties (Swatar) Limited was acquired on 1 January 2015, the revenue and profit generated would amount to *€605,316* and *€177,905* respectively.

There were no acquisitions during 2016.

34. Related party transactions

Hili Properties p.l.c. is the parent company of the undertakings mentioned in note 20. The parent company of Hili Properties p.l.c. is Hili Ventures Limited which is incorporated in Malta having its registered office at Nineteen Twenty Three, Valletta Road, Marsa. Hili Ventures Limited produces consolidated financial statements available for public use, copies of which may be downloaded from the website of both Hili Properties p.l.c. and Hili Ventures Limited. The directors consider the ultimate controlling party to be Carmelo Hili, who during 2016 became the indirect owner of more than 50% (2015: indirect owner of 50%) of the issued share capital of Hili Ventures Limited.

The group and the company entered into related party transactions with the parent company and other related parties. The company also entered into related party transactions with its subsidiaries. Other related parties consist of related parties other than the parent, entities with joint control or significant influence over the company, subsidiaries, associates, joint ventures in which the company is a venture and key management personnel of the company or its parent.

34. Related party transactions (continued)

During the year under review, the company and the group entered into transactions with related parties set out below.

Group

	2016 Related party activity €	2016 Total activity €	2016 %	2015 Related party activity €	2015 Total activity €	2015 %
Revenue:						
Related party transactions with:						
Parent company	79,534			-		
Other related companies	1,764,408			86,058		
Subsidiaries	-			1,613,182		
	1,843,942	4,840,716	38	1,699,240	4,126,241	41
Administrative expenses:						
Related party transactions with:						
Parent company	325,000			395,000		
Other related companies	106,768			104,672		
	431,768	1,515,173	28	499,672	1,329,108	38
Other operating income:						
Related party transactions with:						
Parent company	1,995			-		
Other related companies	25,615			21,837		
	27,610	55,860	49	21,837	74,560	29
Investment losses:						
Related party transactions with:						
Parent	10,000	2,167,722	0.46	-	1,837,732	-
Finance income:						
Related party transactions with:						
Parent company	206,034			13,699		
Other related companies	125,253			44,981		
	331,287	331,300	99	58,680	63,081	93
Finance costs:						
Related party transactions with:						
Parent company	-			90,215		
Other related companies	192,570			33,819		
	192,570	2,666,400	7	124,034	1,629,993	7

34. Related party transactions (continued)

Holding Company

	2016 Related party activity €	2016 Total activity €	2016 %	2015 Related party activity €	2015 Total activity €	2015 %
Revenue:						
Related party transactions with:						
Subsidiaries	274,506	338,253	81	-	52,354	-
Administrative expenses:						
Related party transactions with:						
Parent company	325,000			395,000		
Other related companies	6,614			5,972		
	331,614	868,505	38	400,972	880,112	46
Other operating income:						
Related party transactions with:						
Other related companies	-	10,595	-	21,837	22,217	98
Investment income:						
Related party transactions with:						
Subsidiaries	250,000	250,000	100	-	194,024	-
Investment losses:						
Related party transactions with:						
Parent	10,000	61,256	16	-	235,076	-
Finance income:						
Related party transactions with:						
Parent company	125,075			13,699		
Subsidiaries	797,935			839,925		
Other related companies	98,607			17,534		
	1,021,617	1,021,617	100	871,158	871,158	100
Finance costs:						
Related party transactions with:						
Parent company	-			77,496		
Subsidiaries	54,589			62,374		
Other related companies	192,570			33,819		
	247,159	1,988,888	12	173,689	944,572	18

The transaction entered into in 2015 in relation to the deposit on acquisition of investment as disclosed in more detail in note 21 is with a related party.

34. Related party transactions (continued)

No expense has been recognised in the period for bad or doubtful debts in respect of amounts due by related parties and there are no provisions for doubtful debts in respect of outstanding amounts due by related parties.

Key management personnel compensation is disclosed in note 13 and recharges of staff costs to related parties are disclosed in note 14. Contingent liabilities are disclosed in note 35.

The amounts due to/from other related parties at year-end are disclosed in notes 22, 24, 25 and 26. No guarantees have been given or received. The terms and conditions in respect of the related party balances do not specify the nature of the consideration to be provided in settlement.

35. Contingent liabilities

At 31 December 2015 a subsidiary of the group has guaranteed the repayment of a bank loan of a related party outside of Hili Properties group. Total guarantee according to the Pledge agreement amounted to *€4,000,000*.

This contingent liability was revoked in 2016 and therefore there were no contingent liabilities as at 31 December 2016.

36. Capital commitments

	Group		Holding company	
	2016	2015	**2016**	2015
	€	€	**€**	€
Investment property	**5,722,816**	2,515,000	**213,000**	100,000
Authorised but not contracted for	**5,722,816**	2,515,000	**213,000**	100,000

37. Operating leases – the Group as lessee

The rental expense incurred under operating leases during the year amounted to *€44,140* (2015: *€24,023*).

At the end of the reporting period, the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

37. Operating leases – the Group as lessee (continued)

	Group	
	2016	2015
	€	€
Within one year	**30,000**	27,500
Between one and five years	**92,500**	120,000
Over 5 years	**-**	2,500
	122,500	150,000

Operating lease payments represent rentals payable by the group for land. Leases are negotiated and rentals are fixed for a term of five years. The group does not have the option to purchase the land at the expiry of the lease period. The land is being subleased to tenants and the total future minimum lease payments expected to be received under these sub-lease agreements amount to *€291,434* (2015: *nil*).

38. Fair values of financial assets and financial liabilities

At 31 December 2016 and 2015 the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values due to the short-term maturities of these assets and liabilities.

The fair values of the debt securities in issue are disclosed in note 28. The fair values of the other non-current financial liabilities and the non-current financial assets are not materially different from their carrying amounts due to the fact that the interest rates are considered to represent market rates at the year end. The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories below have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

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 or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

38. Fair values of financial assets and financial liabilities (continued)

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the company and the group determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

The following table provides an analysis of financial instruments that are not measured subsequent to initial recognition at fair value, other than those with carrying amounts that are reasonable approximations of fair value, and other than investments in subsidiaries, associates and jointly controlled entities, grouped into Levels 1 to 3.

Group

	Level 1 €	Level 2 €	Level 3 €	Total €	Carrying amount €
2016					
Financial assets					
Deposit on acquisition of investment	-	12,500,000	-	12,500,000	12,500,000
Receivables from related parties	-	6,068,525	2,322,974	8,391,499	8,391,499
Total	-	18,568,525	2,322,974	20,891,499	20,891,499
Financial liabilities at amortised cost					
Related party loans	-	151,032	1,721,802	1,872,834	1,872,834
Bank loans	-	23,321,233	-	23,321,233	23,321,233
Debt securities	38,850,000	-	-	38,850,000	36,326,320
Total	38,850,000	23,472,265	1,721,802	64,044,067	61,520,387
2015					
Financial assets					
Deposit on acquisition of investment	-	12,500,000	-	12,500,000	12,500,000
Receivables from related parties	-	4,663,161	1,745,474	6,408,635	6,408,635
Total	-	17,163,161	1,745,474	18,908,635	18,908,635
Financial liabilities at amortised cost					
Related party loans	-	388,852	1,721,802	2,110,654	2,110,654
Bank loans	-	19,573,828	-	19,573,828	19,573,828
Debt securities	39,775,000	-	-	39,775,000	36,249,693
Total	39,775,000	19,962,680	1,721,802	61,459,482	57,934,175

38. Fair values of financial assets and financial liabilities (continued)

Holding company

	Level 1 €	Level 2 €	Level 3 €	Total €	Carrying amount €
2016					
Financial assets					
Deposit on acquisition of investment	-	12,500,000	-	12,500,000	12,500,000
Receivables from related parties	-	3,494,728	4,798,329	8,293,057	8,293,057
Total	-	15,994,728	4,798,329	20,793,057	20,793,057
Financial liabilities at amortised cost					
Related party loans	-	263,679	2,979,934	3,243,613	3,243,613
Debt securities	38,850,000	-	-	38,850,000	36,326,320
Total	38,850,000	263,679	2,979,934	42,093,613	39,569,933
2015					
Financial assets					
Deposit on acquisition of investment	-	12,500,000	-	12,500,000	12,500,000
Receivables from related parties	-	4,967,163	22,660,858	27,628,021	27,628,021
Total	-	17,467,163	22,660,858	40,128,021	40,128,021
Financial liabilities at amortised cost					
Related party loans	-	287,375	2,629,544	2,916,919	2,916,919
Debt securities	39,775,000	-	-	39,775,000	36,249,693
Total	39,775,000	287,375	2,629,544	42,691,919	39,166,612

39. Financial risk management

The exposures to risk and the way risks arise, together with the group's and company's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development. Where applicable, any significant changes in the group's and company's exposure to financial risks or the manner in which the group and company manage and measure these risks are disclosed below.

39. **Financial risk management (continued)**

Where possible, the group and company aim to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

Credit risk

Financial assets which potentially subject the group and the company to concentrations of credit risk consist principally of receivables and cash at bank.

Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Credit risk with respect to receivables is limited due to the majority of the receivables being due from related parties and the credit control procedures in place. Credit risk is monitored regularly by the group based on the underlying assets.

Cash at bank is placed with reliable financial institutions. The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies. The rating of the main bank with which the group places 85% of its cash at bank is BBB (2015: BBB+). The company holds all its cash at bank with this same financial institution.

Management considers the credit quality of these financial assets as being acceptable.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk without taking account of the value of any collateral obtained. Guarantees are disclosed in note 27 and contingent liabilities are disclosed in note 35.

Interest rate risk

The group has taken out interest-bearing liabilities to finance its operations as disclosed in notes 27, 28 and 32. The interest rates thereon and the terms of such borrowings are disclosed accordingly. The effective interest rates on loans and receivables are disclosed in note 22. The group is exposed to cash flow interest rate risk on borrowings and debt instruments carrying a floating interest.

The group is exposed to cash flow interest rate risk on borrowings and debt instruments carrying a floating interest.

39. Financial risk management (continued)

Interest rate risk (continued)

Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by restructuring its financing structure.

The carrying amounts of the group's and company's financial instruments carrying a rate of interest at the end of the reporting period are disclosed in the notes to the financial statements.

Sensitivity analysis

The group has used a sensitivity analysis technique that measures the change in cash flows of the group's bank borrowings, net of cash at bank and on hand, at the end of the reporting period for hypothetical changes in the relevant market risk variables. The sensitivity due to changes in the relevant risk variables is set out below.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

The estimated change in cash flows for changes in market interest rates are based on an instantaneous increase or decrease of 50 basis points at the end of the reporting period, with all other variables remaining constant.

The sensitivity of the relevant risk variables is as follows:

	Group Profit or loss sensitivity	
	2016	2015
	€	€
Market interest rates – cash flow	**+/- 102,070**	+/- 92,229

The sensitivity on profit or loss in respect of market interest rates is mainly attributable to bank loans.

39. Financial risk management (continued)

Liquidity risk

The group monitors and manages its risk to a shortage of funds by maintaining sufficient cash, by matching the maturity of both its financial assets and financial liabilities and by monitoring the availability of raising funds to meet commitments associated with financial instruments.

The following maturity analysis for financial liabilities shows the remaining contractual maturities using the contractual undiscounted cash flows on the basis of the earliest date on which the company can be required to pay. The analysis includes both interest and principal cash flows.

Group

	On demand or within 1 year €	2 - 5 years €	5+ years €	Total €
2016				
Non-derivative financial liabilities				
Non-interest bearing	1,909,102	-	-	1,909,102
Variable rate instruments	2,602,999	10,374,232	13,262,364	26,239,595
Fixed rate instruments	1,751,090	8,381,802	43,313,125	53,446,017
	6,263,191	**18,756,034**	**56,575,489**	**81,594,714**
2015				
Non-derivative financial liabilities				
Non-interest bearing	2,215,692	-	1,721,802	3,937,494
Variable rate instruments	5,314,207	5,655,213	9,632,424	20,601,844
Fixed rate instruments	1,665,000	6,660,000	44,978,125	53,303,125
	9,194,899	12,315,213	56,332,351	77,842,463

39. Financial risk management (continued)

Liquidity risk (continued)

Holding company

	On demand or within 1 year €	2 - 5 years €	5+ years €	Total €
2016				
Non-derivative financial liabilities				
Non-interest bearing	**751,630**	**-**	**-**	**751,630**
Fixed rate instruments	**1,810,997**	**9,814,404**	**43,313,125**	**54,938,526**
	2,562,627	**9,814,404**	**43,313,125**	**55,690,156**
2015				
Non-derivative financial liabilities				
Non-interest bearing	923,831	-	1,721,802	2,645,633
Fixed rate instruments	1,707,387	7,390,492	45,178,867	54,276,746
	2,631,218	7,390,492	46,900,669	56,922,379

Capital risk management

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

The capital structure of the group and the company consists of debt, which includes the borrowings disclosed in notes 26, 27 and 28, cash and cash equivalents as disclosed in note 32 and of items presented within equity in the statement of financial position.

The group's directors manage the capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the directors, the group balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

40. Comparative figures

Comparative figures have been reclassified in order to comply with the current year's presentation of financial statements. This consisted of an increase in the fair value of investment property of the company and the group of *€164,024* which was reclassified from investment losses (note 9) to investment income (note 8) in order to disaggregate increases and decreases of fair value in compliance with current year presentation.

Deloitte.

Deloitte Audit Limited
Deloitte Place
Mriehel Bypass
Mriehel BKR 3000
Malta

Tel: +356 2343 2000, 2134 5000
Fax: +356 2133 2606
info@deloitte.com.mt
www.deloitte.com/mt

Company Ref No: C51312
VAT Reg No: MT2013 6121
Exemption number: EX02155

Independent auditor's report

to the members of
Hili Properties plc

Report on the Audit of the Financial Statements

Opinion

We have audited the individual financial statements of Hili Properties plc (the Company) and the consolidated financial statements of the Company and its subsidiaries (together, the Group), set out on pages 19 to 75, which comprise the statements of financial position of the Company and the Group as at 31 December 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements 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 accompanying financial statements give a true and fair view of the financial position of Hili Properties plc and its Group as at 31 December 2016, and of the Company's and its Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. The following key audit matter relating to valuation of investment property applies to the Group and the Company. This matter was addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion thereon.

Valuation of investment property

The Group and the Company account for investment properties at fair value. Accordingly, the establishment of the fair value of these commercial properties situated both locally and overseas, is significant to our audit because the recognised fair value of investment properties held by the Group and the Company as at 31 December 2016 amounted to *€67.7m* and *€4.1m* respectively, and these amounts are material to the financial statements.

In addition the directors' assessment process of fair value as at 31 December 2016 is highly judgemental. As explained in note 19 this was based on internal assessments made by the directors to reflect market conditions at the end of the reporting period which also took into account independent external valuations obtained by the directors for all of the Group's properties during 2015 together with independent external valuations obtained by the directors during *2016* for a selection of properties, and is based on assumptions, such as growth rates, discount rates and fair market rents, which are affected by expected future market or economic conditions.

Deloitte.

Independent auditor's report (continued)

to the members of
Hili Properties plc

Key Audit Matters (continued)

Valuation of investment property (continued)

Our audit response in respect of the directors' valuation of investment properties included the following:

- Involving internal valuation specialists to review the directors' assessment of fair value in order to determine if the directors' assessment falls within an acceptable range which included reviewing the appropriateness of key assumptions and factors used in the directors' assessment;
- Assessing the competency, capability and objectivity of the independent external valuation experts appointed by the directors;
- Evaluating the adequacy of the Group's disclosures about those assumptions to which the outcome of the valuations is most sensitive, that is, those that have the most significant effect on the determination of the fair value of the investment properties.

The Group's disclosures about fair value are included in Note 19, which explains the manner in which the fair value of the investment properties was determined by the directors.

Information Other than the Financial Statements and the Auditor's Report thereon

The directors are responsible for the other information. The other information comprises the Company information on pages 1 to 2, the Directors' report on pages 3 to 6, the Statement of Directors' responsibilities on page 7 and the Corporate Governance Statement on pages 8 to 11, but does not include the individual and consolidated financial statements and our auditor's report thereon.

Except for our opinions on the Directors' report in accordance with the Companies Act (Cap. 386) and on the Corporate Governance Statement in accordance with the Listing Rules issued by the Maltese Listing Authority, our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosure requirements of Article 177 of the Companies Act (Cap. 386).

In accordance with the requirements of sub-article 179(3) of the Companies Act (Cap. 386) in relation to the Directors' Report on page 3 to 6, in our opinion, based on the work undertaken in the course of the audit:

the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

the Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.

Deloitte.

Independent auditor's report (continued)

to the members of
Hili Properties plc

Responsibilities of the Directors and the Audit Committee for the Financial Statements
As explained more fully in the statement of directors' responsibilities on page 7, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs 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 and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 judgment 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

Deloitte.

Independent auditor's report (continued)

to the members of
Hili Properties plc

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Report on Other Legal and Regulatory Requirements

Report on Corporate Governance Statement

Pursuant to Listing Rule 5.94 issued by the Malta Financial Services Authority, in its capacity as the Listing Authority in Malta, the directors are required to include in the Company's annual financial report a Corporate Governance Statement explaining the extent to which they have adopted the Code of Principles of Good Corporate Governance set out in Appendix 5.1 to Chapter 5 of the Listing Rules, and the effective measures that they have taken to ensure compliance with those principles. The Corporate Governance Statement of Compliance is to contain at least the information set out in Listing Rule 5.97.

Our responsibility is laid down by Listing Rule 5.98, which requires us to include a report to shareholders on the Corporate Governance Statement in the Company's annual financial report.

We read the Corporate Governance Statement and consider the implications for our report if we become aware of any information therein that is materially inconsistent with the financial statements or our knowledge obtained in the audit, or that otherwise appears to be materially misstated. We also review whether the Corporate Governance Statement contains at least the information set out in Listing Rule 5.97.

We are not required to, and we do not, consider whether the directors' statements on internal control 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 Corporate Governance Statement set out on pages 8 to 11 has been properly prepared in accordance with the requirements of Listing Rules 5.94 and 5.97.

Deloitte.

Independent auditor's report (continued)

to the members of
Hill Properties plc

Report on Other Legal and Regulatory Requirements (continued)

Matters on which we are required to report by exception
Under the Companies Act (Cap. 386), we have responsibilities to report to you if in our opinion:

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

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

The engagement director on the audit resulting in this independent auditor's report is Annabelle Zammit Pace.

Annabelle Zammit Pace as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor
Mrichel, Malta

26 April 2017