# Financial Analysis Summary

26 June 2017

Issuer

## Hili Properties p.l.c.

Guarantors

## Harbour (APM) Investments Limited

## Hili Estates Limited

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The Directors
Hili Properties p.l.c.
Nineteen Twenty Three
Valletta Road
Marsa MRS 3000

26 June 2017

Dear Sirs

**Hili Properties p.l.c. Financial Analysis Summary**

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the 2017 Financial Analysis Summary (the "Analysis") set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to Hili Properties p.l.c. (the "**Group**" or the "**Company**"), and Harbour (APM) Investments Limited and Hili Estates Limited (the "**Guarantors**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the years ended 31 December 2014 to 31 December 2016 has been extracted from the audited consolidated financial statements of Hili Properties p.l.c.

(b) Historical financial data for the years ended 31 December 2014 to 2016 has been extracted from the audited financial statements of Harbour (APM) Investments Limited and Hili Estates Limited.

(c) The forecast data of the Company and Guarantors for the year ending 31 December 2017 has been provided by management of the respective companies.

(d) Our commentary on the results of the Company and the Guarantors, and on their respective financial position is based on the explanations provided by the Company.

(e) The ratios quoted in the Analysis have been computed by us applying the definitions set out in Part 4 of the Analysis.

(f) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the Company and the Guarantors. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Company and should not be interpreted as a recommendation to invest in any of the Company's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Company's securities.

Yours faithfully,

**Wilfred Mallia**
Director

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# PART 1 – INFORMATION ABOUT THE COMPANY AND GUARANTORS

## 1. KEY ACTIVITIES

### THE COMPANY

The principal object of Hili Properties p.l.c. (the "**Company**" or the "**Group**") is to purchase or otherwise acquire, under any title whatsoever, to hold and manage, by any title, movable and immovable property or other assets, both locally and overseas.

The Company was registered on 23 October 2012 as a private limited liability company and was subsequently converted into a public limited liability company on 22 June 2015. It is a wholly-owned subsidiary of Hili Ventures Limited and is the parent company of the property division of the Hili Ventures Group.

The Company's strategy is to create a property portfolio consisting primarily of commercial and retail property in Europe, to deliver income and capital growth through active asset management. The Company relies on active asset management to maximise operating efficiency and profitability at the property level.

### THE GUARANTORS

Harbour (APM) Investments Limited ("**HIL**") was registered on 4 December 2012 as a private limited liability company. It is a wholly-owned subsidiary of APM Holdings Company Limited. The principal object of HIL is to purchase or otherwise acquire, under any title whatsoever, to hold and manage, by any title, movable and immovable property or other assets, both locally and overseas.

HIL owns one property which comprises a parcel of land measuring *circa* 92,000m$^2$ in Benghajsa, Malta. In virtue of a promise of share purchase agreement entered into by and between APM Holdings Limited, the Company and Hili Ventures Limited on 25 August 2015, the Company agreed to acquire from APM Holdings Limited all of the ordinary shares held by APM Holdings Limited in HIL, in consideration of the total price of €25 million. The final deed of acquisition of the shares in question is to be executed by 2018.

Hili Estates Limited ("**HEL**") was registered on 30 August 1996 as a private limited liability company and forms part of the Group. The principal object of HEL is to purchase or otherwise acquire, under any title whatsoever, to hold and manage, by any title, movable and immovable property or other assets, both locally and overseas.

HEL owns and manages one property, the Hili Building situated in Luqa, Malta, and includes *circa* 5,015m$^2$ of office and warehouse space. The property is fully leased to companies forming part of the Hili Ventures Group and other related parties.

# 2. DIRECTORS AND KEY EMPLOYEES

**THE COMPANY**

The Company is managed by a Board consisting of six directors entrusted with its overall direction and management.

**Board of Directors**

| | |
|---|---|
| Margrith Lütschg-Emmenegger | Chairperson and Chief Executive Officer |
| Carmelo *sive* Melo Hili | Non-executive Director |
| Geoffrey Camilleri | Non-executive Director |
| Martin Xuereb | Non-executive Director |
| Victor Tedesco | Independent Non-executive Director |
| David Aquilina | Independent non-executive Director |

The Chief Executive Officer is entrusted with the Company's day-to-day management. She is supported in this role by several consultants and benefits from the know-how gained by members and officers of the HP Group.

**THE GUARANTORS**

Each of the Guarantors is managed by a Board of Directors entrusted with its overall direction and management, and is composed as follows:

***Harbour (APM) Investments Limited***

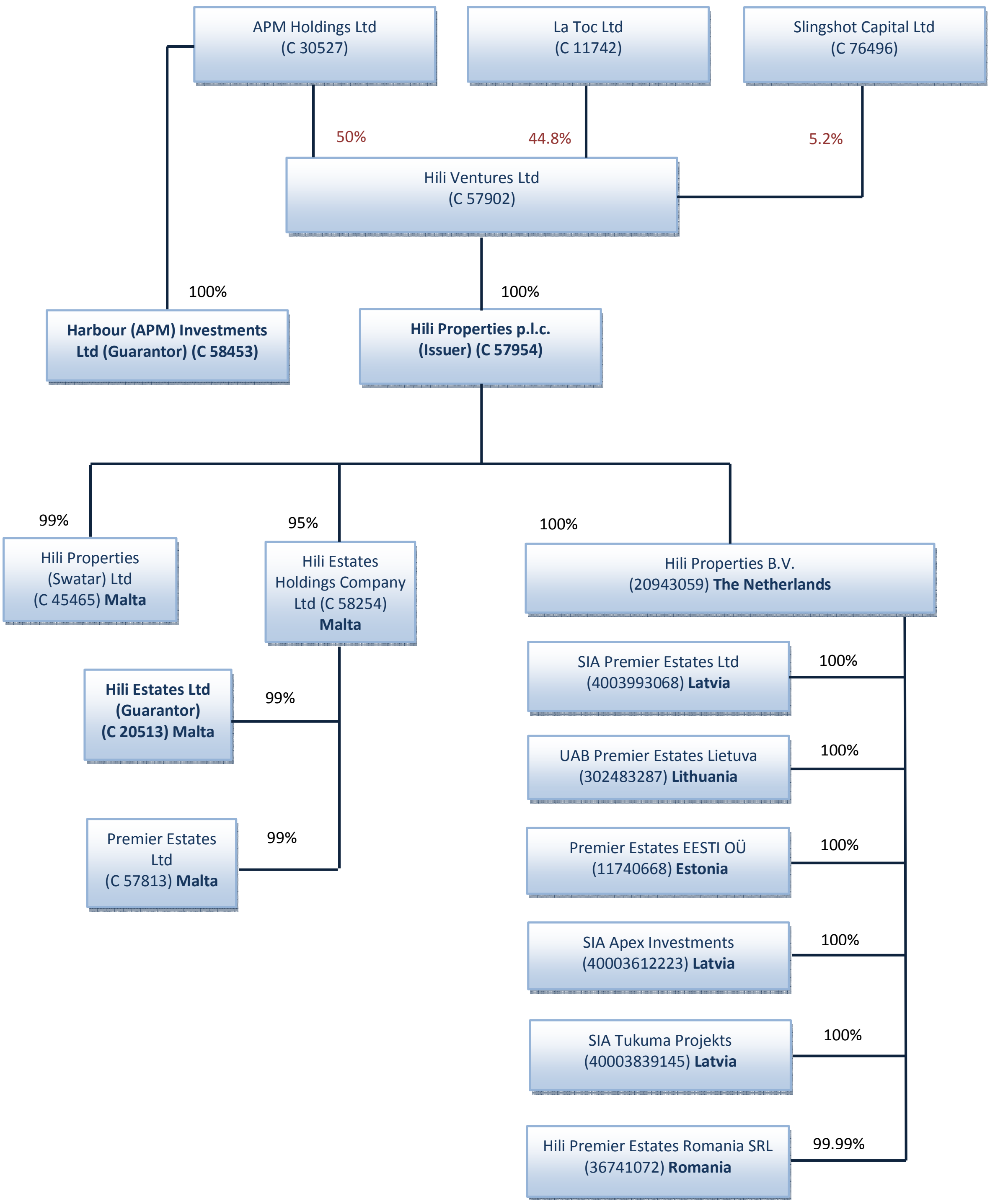
| | |
|---|---|
| Carmelo sive Melo Hili | Sole Director |

***Hili Estates Limited***

| | |
|---|---|
| Margrith Lütschg-Emmenegger | Director |
| Albert Galea | Director |

## 3. ORGANISATIONAL STRUCTURE

The organisational structure of the group is illustrated in the diagram below:




A summary table of properties held by the respective companies is provided in section 4 of this report.

# 4. REAL ESTATE PORTFOLIO

## THE COMPANY (INCLUDING HILI ESTATES LIMITED)

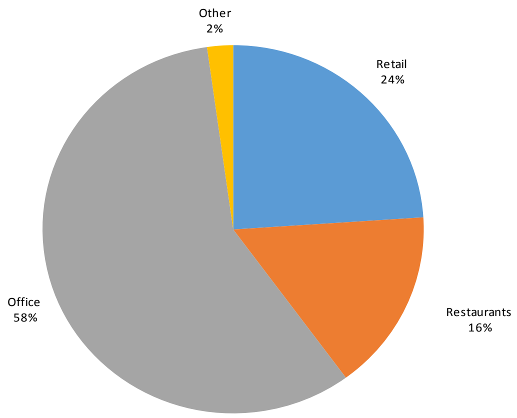
The table below provides an overview of the 25 properties held by the Group, valued at €98.4 million (being the fair value as at 31 December 2016 and the consideration of the newly acquired property in Romania). The portfolio comprises aggregate rentable space of 65,799m$^2$ and annualised rental income is estimated at €7.3 million.

| Name of Property | Location | Description | Main Tenant | Rentable Area (m$^2$) | Valuation (€'000) | Annualised Rent (€'000) | Occupancy rate (%) as at 31.12.16 | WALT (in years) | Contracted rental yield, gross % | Ownership |
|---|---|---|---|---|---|---|---|---|---|---|
| Imanta Restaurant | Riga, Latvia | McDonald's restaurant (with drive thru) | McDonald's | 2,709 | 1,553 | 126 | 100 | 14.9 | 8.1 | Freehold |
| Vienibas Restaurant | Riga, Latvia | McDonald's restaurant (with drive thru) | McDonald's | 3,497 | 1,514 | 123 | 100 | 15.3 | 8.1 | Freehold |
| Ulmana Restaurant | Riga, Latvia | McDonald's restaurant (with drive thru) | McDonald's | 2,000 | 1,267 | 99 | 100 | 18.4 | 7.8 | Freehold |
| Daugavpils Restaurant | Daugavpils, Latvia | Vacant (previously a McDonald's restaurant) | | 1,692 | 215 | 42 | 0 | n/a | 19.5 | Freehold |
| Apartment 79, Duntes | Riga, Latvia | Apartment | | 65 | 115 | 6 | 100 | 1.3 | 5.2 | Freehold |
| Apartment 84, Duntes | Riga, Latvia | Apartment | | 131 | 230 | 0 | 0 | n/a | 0.0 | Freehold |
| Dainava Restaurant | Kaunas, Lithuania | McDonald's restaurant (with drive thru) | McDonald's | 3,021 | 1,321 | 124 | 100 | 14.1 | 9.4 | Freehold |
| Svajone Restaurant | Vilnius, Lithuania | McDonald's restaurant (in a building complex) | McDonald's | 580 | 1,529 | 127 | 100 | 14.3 | 8.3 | Land is leased, building is freehold |
| Parnu Restaurant | Parnu, Estonia | McDonald's restaurant (with drive thru) | McDonald's | 1,803 | 1,699 | 110 | 100 | 13.4 | 6.5 | Freehold |
| M DIY Retails Centre | Tukums, Latvia | Retail | K Rauta | 3,370 | 1,580 | 300 | 100 | 6.1 | 19.0 | Freehold |
| Wholesale & Retail Trade Building | Nicgales Street 2, Riga, Latvia | Retail | Rimi Latvia | 3,680 | 6,130 | 546 | 100 | 2.5 | 8.9 | Freehold |
| Supermarket and Retail Centre | Augusta Dombrovska Street 23, Riga, Latvia | Retail | Rimi Latvia | 4,211 | 5,110 | 474 | 100 | 4.3 | 9.3 | Freehold (277m$^2$ is leased) |
| Supermarket and Retail Centre | Vienibas Ave. 95, Riga, Latvia | Retail | Rimi Latvia | 1,300 | 1,570 | 134 | 100 | 6.3 | 8.6 | Freehold |
| Supermarket and Retail Centre | Kreimenu Street 4A, Riga, Latvia | Retail | Rimi Latvia | 952 | 1,240 | 102 | 100 | 2.6 | 8.2 | Freehold |
| Shopping Centre | Dzelzavas Street 78, Riga, Latvia | Retail | Rimi Latvia | 1,230 | 2,038 | 169 | 100 | 6.2 | 8.3 | Freehold |
| Supermarket and Retail Centre | Smilšu Street, 92B Daugavpils, Latvia | Retail | DLV & Rimi Latvia | 1,068 | 1,510 | 121 | 100 | 6.3 | 8.0 | Freehold |
| Hypermarket and Retail Centre | Viestura Street, 10 Daugavpils, Latvia | Retail | DLV & Rimi Latvia | 2,602 | 3,040 | 253 | 100 | 3.0 | 8.3 | Leased |

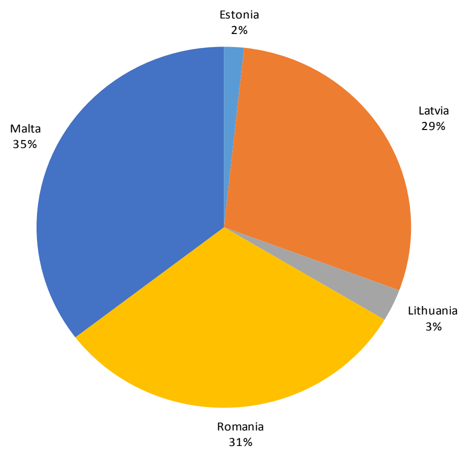
| Name of Property | Location | Description | Main Tenant | Rentable Area ($m^2$) | Valuation (€'000) | Annualised Rent (€'000) | Occupancy rate (%) as at 31.12.16 | WALT (in years) | Contracted rental yield, gross % | Ownership |
|---|---|---|---|---|---|---|---|---|---|---|
| Supermarket and Retail Centre | Spidolas Street, Aizkraukle, Latvia | Retail | Rimi Latvia | 964 | 1,360 | 115 | 100 | 5.5 | 8.4 | Leased |
| Hili Building | Luqa, Malta | Office space/ Warehousing facilities | Hili Ventures | 5,015 | 13,685 | 803 | 100 | 9.5 | 5.9 | Freehold |
| APCO Building | B'Kara, Malta | Office space | Secure Trading | 415 | 720 | 64 | 100 | 0.7 | 8.9 | Freehold (71$m^2$ is subject to ground rent) |
| Transport House | Floriana, Malta | Office space | Ministry of Energy | 900 | 1,772 | 80 | 0 | n/a | 4.5 | Freehold |
| Villa Marika | Madliena, Malta | Private residence | | n/a | 1,600 | n/a | n/a | n/a | n/a | Freehold |
| Tower Business Centre | Swatar B'Kara, Malta | Office space | Grant Thornton - Regus | 4,630 | 10,258 | 605 | 100 | 8.8 | 5.9 | Freehold |
| McDonald's Sliema | Sliema, Malta | Restaurant and office space | McDonald's | 1,518 | 6,821 | 455 | 100 | 16.7 | 6.7 | Freehold |
| Art Business Centre | Bucharest, Romania | Office Block | Ponderas - Regina Maria | 18,446 | 30,500 | 2,282 | 100 | 17.0 | 7.5 | Freehold |
| **Total** | | | | **65,799** | **98,377** | **7,260** | **95.86** | **11.0** | **7.4** | |

The portfolio is diversified by geography and by asset type (as analysed below). Occupancy was 96% as at 31 December 2016, with a weighted average unexpired lease term (WALT) of 11.0 years and a current gross rental yield of 7.4%. From an annualised rent of €7.3 million, an amount of €2.0 million (*circa* 28%) is receivable from Hili Ventures Group companies and other related parties.

**Split of fair value by asset type**




**Geographical split of fair value**



A brief description of each property is included hereunder:

**(i) McDonald's Imanta, Riga, Latvia**

The Imanta property consists of a land plot and a building constructed thereon. The site is located in Kurzemes Prospekts, Imanta, a residential neighbourhood of Riga inhabited by approximately 40,000 residents. Kurzemes Prospekts is a large street with a dual carriageway and a number of supermarkets (Maxima, Prisma and Rimi) located in the vicinity. The building is provided with six guest and staff entrances and has an internal seating capacity of 98 persons. The external areas within the site consist of an external terrace with a seating capacity of 44 persons and a car park with the capacity to hold 16 motor vehicles.

**(ii) McDonald's Vienibas, Riga, Latvia**

The Vienibas property consists of a land plot and a building constructed thereon. The site is located at 115A Vienibas Avenue, which is situated outside the centre of Riga and on one of the busiest exit streets (A8/E77), and is around 7km away from the centre and old town of Riga. The neighbourhood is a residential area inhabited by approximately 30,000 residents, with a number of supermarkets (Maxima and Rima) located in the vicinity. The building comprises six entrances and has an internal seating capacity of 105 persons. The external areas within the site consist of an external seating space with a capacity of 48 persons and a parking area with the capacity to hold 18 motor vehicles.

**(iii) McDonald's Ulmana, Riga, Latvia**

The Ulmana property consists of a land plot and a building constructed thereon. The site is located at 88, Karla Ulmana Street, which is situated outside the centre of Riga and on one of the busiest exit streets (A10/E22), and is around 8km away from the centre and old town of Riga. Karla Ulmana is a large street with a dual-carriageway and the site has excellent visibility from the road. The site benefits from high traffic volume, particularly due to its close proximity to a number of supermarkets and retail shops, a shopping mall (2km), Riga International Airport (4km) and a popular highway leading to the Jurmula sea-side resort. The restaurant commenced its operations on 2 July 2015. The building provides an internal seating capacity of 78 persons, whilst the external area provides seating space for an additional 40 persons, as well as an area with the capacity to hold 16 motor vehicles.

**(iv) Former McDonald's Daugavpils, Latvia**

The Daugavpils property consists of a land plot and a building constructed thereon. The site is located at 42, 18, Novembra Street, Daugavpils and is next to the largest road in the city. However, the area does not enjoy significant levels of pedestrian traffic. The permitted use of the land is designated as commercial development territory whilst the permitted use of the building is designated as a restaurant building. Since the discontinuation of the operation of McDonald's drive-thru restaurant in December 2013, the property has remained vacant.

**(v) Apartments 79 and 84, Duntes Street, Riga, Latvia**

The properties are located in a residential multi-apartment building located at 28, Duntes Street, Riga, Latvia. The large apartment block, set in a neighbourhood on the outskirts of the centre of Riga, comprises 17 floors and a total number of 208 apartments.

**(vi) McDonald's Dainava, Kaunas, Lithuania**

The Dainava property consists of a land plot, a building structure constructed thereon and an ancillary building that operates as a car park. The site is located in Pramones Ave. 8B, Kaunas, which is in the vicinity of three shopping centres, a petrol station, and a fast food restaurant. Furthermore, the site is adjacent to a busy two-lane road approximately 7km away from the city centre. The building comprises of five entrances and has an internal seating capacity of 130 persons. The external areas within the site consist of external seating space with a capacity of 44 persons as well as a car park with the capacity to hold 22 motor vehicles.

**(vii) McDonald's Svajone, Vilnius, Lithuania**

The Svajone property consists of a property located within a larger building complex with the intended use of providing catering services. The building is constructed on a state-owned land plot and is located at 15, Gedimino Avenue, a favourable and prestigious location in the centre of Vilnius in V. Kurika's square. The property is in the heart of the city and in close proximity to Lithuania's Government Building, the National opera and Ballet Theatre and other important state institutions. The site is located in an area that enjoys a heavy pedestrian traffic flow and within a mixed residential and commercial area of high density, surrounded by a large number of shops and restaurants. The restaurant has an internal seating capacity of 128 persons, whilst the external areas consist of external seating space with a capacity for an additional 12 persons, and there is also a take away window to the sidewalk. The building enjoys exclusive views of one of the main streets of Vilnius.

**(viii) McDonald's Parnu, Estonia**

The Parnu property consists of a land plot and a building constructed thereon. The property is located at 74, Tallinna Maante, Parnu, an area outside the city centre next to a two-lane road at the entrance to Parnu from Tallinn. The restaurant is in the vicinity of office buildings, a large supermarket and several car dealerships. The building comprises six entrances and has an internal seating capacity of 130 persons, whilst the external areas consist of external seating space with a capacity for an additional 30 persons and a car park with a capacity to hold 16 motor vehicles.

**(ix) M DIY Retails Centre, Tukums, Latvia**

The property is constructed on a 13,284m$^2$ plot and is rented out to one anchor tenant, Rautakesko AS (the single tenant). The property is located in Tukums, a small city located in Tukuma district with a population of 19,729 inhabitants. The main use of the land, buildings or parts thereof for this site, is commercial including retail and service buildings.

**(x) Wholesale & retail trade building, Nicgales Street, Riga, Latvia**

The property is constructed on a 16,785m$^2$ plot. The property is located in a zone of Riga called Purvciems, on the east bank of the Paugava River. The property is currently used as a retail and shopping centre. The anchor tenant is a major supermarket chain, occupying 71% of the total leasable areas. Other tenants occupy the remaining 29% of the lettable areas. To further enhance convenience for shopping centre customers, in 2017, an adjacent plot was acquired and converted into a 120-vehicle car park.

**(xi) Supermarket and Retail Centre, Augusta Dombrovska Street, Riga, Latvia**

The property is constructed on a 8,368m$^2$ plot. The property is located in a part of Riga known as Vecmīlgravīs in the northern part of the city, near the mouth of the Daugava River. The property is currently used as a retail and shopping centre with 33 tenants and enjoys significant footfall. The anchor tenant is a high profile supermarket chain, occupying 47% of the total leasable areas. Other tenants occupy 38% of the lettable areas with 15% currently vacant. In 2017, a previously rented car park was acquired and is being leased to the anchor tenant.

**(xii) Supermarket and Retail Centre, Vienibas Street, Riga, Latvia**

The property is constructed on a 6,670m$^2$ plot. The property is located in Atgāzene in the south of Riga, on the west bank of the Daugava River. The property was refurbished in 2013 and is currently used as a supermarket and retail centre. The anchor tenant is a high profile supermarket chain, occupying 86% of the total leasable areas. The remaining floor space is leased to another three tenants apart from small units like ATM's. The occupancy rate of this property is 100%.

**(xiii) Supermarket and Retail Centre, Kreimeņu Street, Riga, Latvia**

The property is constructed on a 3,733m$^2$ plot. The property is located in Vecmīlgrāvis, a town in the North of Riga near the mouth of the Daugava River. The building consists of one floor, and 81% thereof is rented out to an anchor tenant being a high profile supermarket chain in the Baltics. The remaining area is rented out to a second tenant gambling hall.

**(xiv) Shopping Centre, Dzelzavas Street, Riga, Latvia**

The property is constructed on an 8,062m$^2$ plot. The property is located in Purvciems, in the west of Riga on the east bank of the Daugava River. The property is 100% leased out to two tenants, of which a high profile supermarket chain occupies 91% of the lettable area, whilst the remaining area is occupied by another tenants.

In 2016, the Directors took the decision to demolish and rebuild the retail centre at an estimated cost of *circa* €4.5 million. Development is expected to commence in 2017 and should be completed in 2018. Management is in the process to sign an agreement with the anchor tenant.

**(xv) Supermarket and Retail Centre, Smilšu Street, Daugavpils, Latvia**

The property is constructed on a 2,770m$^2$ plot. The property is located in the north-east part of the city of Daugavpils, the second largest city in Latvia, about 230km to the East. The property is 100% leased out to a well-established hypermarket chain that occupies 64% of the lettable area whilst another two tenants occupy the remaining area.

**(xvi) Hypermarket and Retail Centre, Viestura Street, Daugavpils, Latvia**

The property is constructed on a 7,679m$^2$ plot. The property is located in the centre of Daugavpils. This property has an occupancy rate of 100% - the anchor tenant is a well-established hypermarket chain which rents and occupies 28% of the area at ground floor level, with 10 other tenants taking up the remaining rental area.

**(xvii) Supermarket and Retail Centre, Spidolas Street, Aizkraukle, Latvia**

The property is constructed on a 4,000m$^2$ plot. The property is located in the centre of Aizkraukle, a small city located about 110km East of Riga and plays a significant role in the daily trading activity of the city. This property is 100% leased out. The anchor tenant of the property is a well-renowned hypermarket chain which rents and occupies 70%, and 6 other tenants taking up the remaining rental area.

**(xviii) Hili Building, Nineteen Twenty Three, Valletta Road, Luqa, Malta**

The property, built on a plot area of 2,585m$^2$, is developed mainly as an office block with part of the premises at ground and intermediate levels used as a warehouse/storage area. The building is sited at the periphery of the industrial park in Luqa/Marsa. The property is 100% leased out, predominantly to a number of subsidiary companies forming part of the Hili Ventures Group.

**(xix) APCO Building, 213, Psaila Street, Birkirkara, Malta**

The property is centrally located in Psaila Street, Birkirkara built on a site of *circa* 210m$^2$. The building includes one basement level with three overlying floors currently used as office space. The property was vacated in May 2017 and is currently available for rent.

**(xx) Transport House, Triq San Frangisk, Floriana, Malta**

The property is located in a central area in Floriana and comprises of a three storey building, a receded penthouse, and two interconnected apartments at the first and second floors, all for use as office space. The property will be leased as from July 2017.

**(xxi) Villa Marika, High Ridge, Madliena**

The property consists of a fully detached bungalow located at a prime location at High Ridge, Madliena with a superficial area of *circa* 1,250m$^2$. The site is developed with a detached bungalow including a basement garage and external soft and hard landscaping including a swimming pool. The bungalow is laid out in two unequal wings on either side of the entrance hall which overlooks the swimming pool. This property is held for resale.

**(xxii) Tower Business Centre, Tower Street, Swatar, Birkirkara, Malta**

The property is located within a prime commercial and office area in Swatar, in the vicinity of Mater Dei Hospital and the University of Malta. The business centre is an office block with six floors comprising underground parking, a semi-basement level used as a training centre with some office space, and three floors and the penthouse level utilised as office space.

**(xxiii) McDonald's Restaurant and overlying office, Sliema, Malta**

The property in Sliema is leased as a McDonald's outlet at ground and mezzanine levels, and the first floor is completed as office space and rented out to a third party. The premises form part of a development block overlooking two streets, namely The Strand, Sliema at the Waterfront and Sqaq il-Fawwara, Sliema at the back of the property.

**(xxiv) ART Business Centre, Bucharest, Romania**

The property is located in the affluent Nordului neighbourhood in northern Bucharest. The nine-storey property has a footprint of 3,400m$^2$ and comprises *circa* 18,500m$^2$ of gross leasable area. The three underground floors accommodate 407 parking spaces. The property is fully leased out and its anchor tenant is Ponderas Academic Hospital which was recently taken over by the Regina Maria Private Healthcare Network (Romania's largest private health care network).

**HARBOUR (APM) INVESTMENTS LIMITED (GUARANTOR)**

Harbour (APM) Investments Limited owns land at Benghajsa, Malta, valued at *circa* €25 million. The property comprises a number of sites at Benghajsa and is flanked by the Freeport and its service road to the Northeast, by Hal Far Road to the Northwest, by the new LPG depot & Fort Benghajsa to the South and by agricultural fields, Benghajsa Village and Hal Far Industrial Estate beyond to the South. The sites mainly consist of undeveloped agricultural fields having a cumulative total area of approximately 92,000m$^2$. No income is currently generated from the aforementioned land and as such the company is ultimately dependent on the support provided by its shareholder.

**Planning Considerations and Site Potential**

The sites at Benghajsa are predominantly located within the 'Reserved Area' in accordance to the respective Marsaxlokk Bay Local Plan. The strategy for this zone as outlined in the respective local plan issued in 1995 is detailed as follows:

> *"The area between Hal Far and the Freeport was designated as a Primary Development Area in the sixties for possible eventual industrial use. The Structure Plan confirms the designation subject however to Policy IND1 which delays the use of this land until needs arise which cannot be accommodated elsewhere. On available evidence, it is unlikely that the area will be required for such purpose within the ten-year period of the Local Plan. It is therefore proposed that the current status of the area is retained and is also to be referred to as a Reserved Area."*

From research undertaken by Architects Bencini & Associates (valuation report dated 10 September 2015), it appears that over the past 20 years since the issue of the above mentioned Local Plan the footprint of the Freeport has generally been developed to its full capacity with respect to its key activities that comprise the container terminal, the oil terminal and the ancillary warehousing facilities. The location of the Benghajsa sites that fall within this 'Reserved Area', particularly those contiguous to the Freeport, form a natural extension of the Freeport area as envisaged by both the Structure & Local Plans. Architects Bencini & Associates also noted that an LPG terminal has since been developed within the said 'Reserved Area' duly covered by Malta Environment & Planning Authority (“MEPA”) permit PA 867/09, while outline applications for the development of an Oil Tanking & Warehousing Facility along the Freeport access road have also been submitted to MEPA (PA 1504/10 & PA 2071/10).

A number of the Benghajsa sites are situated within the boundaries of the aforesaid outline applications (that are pending processing by MEPA). During the course of the above mentioned applications a Tender for the 'Preparation of an Action Plan for Benghajsa' was issued with the scope of considering the said 'Reserved Area' for the following:

- Provide sufficient expansion space for Freeport Activities;
- Provide for long term expansion of the Hal Far Industrial Estate;
- Provide for the warehousing/distribution depots for both the local and transhipment markets;
- Provide for fuel storage facilities and ancillary services that are required or may be required considering the country's economic development;
- Promote financial investment in the private sector;
- Generate employment opportunities.

Considering the above, Architects Bencini & Associates conclude that, while currently schemed as a 'Reserved Area', the Benghajsa sites offer significant medium to long term commercial/investment opportunities.

# 5. INVESTMENTS

On 25 August 2015, APM Holdings Limited, the Company and Hili Ventures Limited entered into a promise of share purchase agreement, whereby the Company agreed to acquire from APM Holdings Limited 100% shareholding of HIL (currently held by APM Holdings Limited) for the sum of €25 million. HIL is the company that owns the land at Benghajsa described in section 4 above. A deposit of €12.5 million was paid on signing of the afore-mentioned promise of share purchase agreement. The remaining balance of €12.5 million will be settled by 2018 through equity.

During the financial year ended 31 December 2016, the Group did not carry out any investment transactions.

In May 2017, the Group acquired the ART Business Centre 7 situated at 85A, Nicolae Caramfil Street, Bucharest, Romania, including the underlying land, for an aggregate consideration of €30,575,000. The amount of €28,575,000 was paid on execution of the sale contract, while €2,000,000 is held in escrow and may only be released after the lapse of 12 months from signing of the agreement. The deal was principally funded through bank facilities. This property is further described in section 4 above.

# 6. BUSINESS DEVELOPMENT STRATEGY

It is the objective of the Group to continue to act as the property holding vehicle of the Hili Ventures Group. In this regard, the Group aims to continue to manage existing properties, and to acquire and dispose of properties as necessary to meet the needs of the Group's business operations. The rents chargeable by the Group to the Hili Ventures Group companies are based on commercial rental rates and respective lease agreements are entered into on an arms-length basis.

With respect to the remaining portfolio, the Group's strategy is to create a property portfolio consisting primarily of attractively-located, institutional and high quality, income-producing investment properties in Malta, Estonia, Latvia, Lithuania and other developed countries (the "Target Countries") to deliver income and capital growth through active asset management. The Company believes that its Board of Directors, with the support of external advisors and property experts, has distinct knowledge of and competence within, the immovable property markets of the Target Countries, thereby placing the Group in an appropriate position to capitalise on the opportunities presented by current and expected market conditions.

The Company intends to source its investment opportunities primarily through the Board of Directors' extensive network of relationships within the immovable property markets of the Target Countries, which include the corporate and private landlords, brokers, domestic banks and others. The Board of Directors expects to create both sustainable income and strong capital returns for the Group.

In carrying out its functions, the Board of Directors aims to focus its investment decisions on the acquisition of primarily investment properties in the Target Countries with some of the following characteristics:

- Retail properties in city centres and certain suburban areas (shopping centres and high street retail outlets);
- Office properties that the Board of Directors expects to be in demand by high demand tenants;
- Other selected commercial real estate properties, for example, warehousing, industrial and distribution facilities;
- Such other specialist building or property that the Board of Directors considers will give attractive investor return.
- In line with the current property portfolio available for rent which presently reflects an overall average occupancy rate of 96%, the Board of Directors shall aim to maintain a similar high level of occupancy rates for future investment properties.

When investing in property, the Board of Directors shall concentrate on assets priced at significant discounts to fair value or assets with active asset management opportunities, for example through repositioning, rental extension or rental optimisation, and adopt a conservative approach with regard to development opportunities in the context of the whole portfolio as the Company's primary focus is on cash flow and active asset management.

The intention of the Board of Directors is, where appropriate, to improve income profiles and add value to the Group's property portfolio through asset management techniques which include:

- Renegotiating or surrendering leases;
- Improving lease terms/duration and tenant profile;
- Undertaking physical improvements when and where considered appropriate;
- Improving layouts and space efficiency of specific assets;
- Changing the tenant mix of certain properties;
- Maintaining dialogue with tenants to assess their requirements;
- Taking advantage of planning opportunities where appropriate; and
- Repositioning and upgrading assets.

In the implementation of the above strategy, the Company shall seek to use prudent levels of leverage to enhance equity returns over the long-term. The indicative aggregate borrowing as a percentage of gross asset value of the Group is expected not to exceed 70%. The Group may modify the leverage policy from time to time in light of then-current economic conditions, the relative costs of debt and equity capital, the fair value of the Group's assets, growth and acquisition opportunities or other factors it deems appropriate.

# 7. PROPERTY MARKET

**European Commercial Property**[1]

The European commercial property investment market ended 2016 strongly, with €65.1 billion transacted in Q4, a 62% jump from Q3. This took volumes for the whole year to €201.7 billion, a 20% decrease from 2015. Nonetheless, 2016 was the second strongest year since the previous market peak of 2007, with volumes 25% above the 10-year average.

The drop in investment activity in 2016 primarily resulted from a sharp decline in the UK in the wake of the Brexit vote in June, which was augmented in Euro terms by the depreciation of the Pound. There were smaller, but still significant, decreases in activity in Europe's two other largest markets, Germany and France. However, countries including the Netherlands, Poland and the Czech Republic had strong years, driven partly by investors seeking pricing opportunities in non-core markets.

Although the UK remained the most active market in Europe for 2016 as a whole, it was second to Germany during H2. With geopolitical uncertainties increasing elsewhere, Germany has become the favoured European location for investors seeking a "safe haven" market. Its low-risk reputation should boost investment activity throughout 2017, as long as the German federal elections later in the year have no negative impact on sentiment.

Although transaction volumes have fallen in the UK, this market will attract investor demand in 2017, albeit with a much-changed buyer profile. The London market is currently seeing a wave of new market entrants from Asia, who are taking advantage of currency movements and reduced competition from more cautious established investors.

Aggregate office take-up in the European markets monitored by Knight Frank increased by 3% in 2016. Markets including Amsterdam, Berlin, Brussels, Frankfurt and Paris all recorded significant improvements in leasing activity, although these were to some extent counterbalanced by reduced take-up in London, Madrid and Milan. With the exception of London, most major European markets are forecast to record moderate rental increases in 2017, with the most likely rental growth hotspots being markets in Ireland, Spain, Sweden and Germany, particularly Berlin and Munich.

**Latvian Real Estate Investment Market**[2]

In 2016, the Latvian real estate investment market continued to be active. The year closed with a total investment volume of €341.3 million, compared to €394.4 million in 2015. The retail sector continued to dominate the investment horizon with 53% of investment volume driven by acquisitions of three shopping centres, namely Riga Plaza, Domina Shopping and Galerija Azur.

During 2016, 64% of total investment volume was generated by transactions exceeding €20 million in size. Despite large total volumes, investment transactions below €3 million still constitute 72% of

[1] European Quarterly Commercial Property Outlook Q4 2016 (Knight Frank)
[2] Real Estate Market Overview 2017 (Colliers International, Sorainen, EY)

transaction numbers. At the same time, these transactions generate only 12% of total annual investment volume.

Recent market activity has shown that local Baltic investors are becoming more active and better capitalised. Among Baltic investors in Latvia, Estonians are the more active, followed by domestic investors. Only a few acquisitions were by Lithuanian investors, but such interest should grow in 2017 as competition in Lithuania tightens. Private Commonwealth of Independent States (CIS) investors are still present in the region but on a smaller scale and often looking for income-generating assets located in the city centre. The number of direct Nordic and international investments remains limited, but such investors do consider the Baltics as a potential investment market and can be attracted by large scale properties and portfolios, thus making a significant impact on investment volumes.

Although interest in the country increases, the number of available high-grade properties is declining along with yields, so that investors are becoming more careful when considering new acquisitions. Additionally, activity from end-users continued in 2016. Transactions with properties acquired for own business or occupation needs provided a further €30 million to the transaction volumes mentioned above. While still significant, this number is much lower compared to €120 million in 2015.

During 2016, division of investment volume between the main property segments remained similar to the previous year. The retail segment was a dominant investment target in 2016, generating 57% of total investment volume. High volume was driven by several large transactions and by more individual transactions above €3 million. The share of office investment deals accounted for 30%. The industrial segment continued to be less active compared to the office and retail sectors, which led to industrial segment investment volume of just 6% of the total. Residential developers switched their attention to the local consumer and are actively pursuing new opportunities by acquiring well located sites in the city centre and popular suburbs. For this reason, the number of transactions with sites for residential development has grown, reaching approx. €30 million by the end of 2016.

Prime asking yields continued to show improvements driven by several factors. These include a general improvement in the Latvian economy, a favourable interest rate environment and availability of leverage, as well as demand exceeding supply for good quality and cash flow generating buildings. By the end of 2016, prime yield for industrial properties reached 8.25%, while prime retail and office yields experienced a decline to 6.8%.

**Lithuanian Real Estate Investment Market[2]**

After the record-breaking year of 2015, high investment activity in the Lithuanian real estate market continued throughout 2016, resulting in total investment volume of €430 million. Attractive market conditions, economic growth and membership in the Eurozone ensured further investment in commercial real estate during the year, even though total investment volume was 14% higher in 2015. Nevertheless, the number of closed transactions did not significantly differ from the previous year, standing only 4% lower.

The Lithuanian market continued to gain confidence among local investors as well as international investment funds. Although Baltic and Nordic investors maintained a dominant hold of the market, one of the biggest investment transactions was executed by an American fund.

During 2016, in search of attractive investment alternatives, investors shifted focus to the industrial segment, which witnessed a substantial growth of interest in comparison to the previous year, when major investments were allocated to retail and office properties. Consequently, the share of investments dedicated to industrial properties reached 39% of total investment volume, compared to 18% a year earlier. The office segment accounted for 26% of total investment volume, while the share of the retail segment stood at 21%.

2016 saw a further slight compression of prime investment yields across all commercial real estate segments, which by the end of the year reached 6.75% (2015: 7%) for both office and retail properties, and 8.25% (2015: 8.75%) for industrial properties located in the Lithuanian capital.

The increased confidence by investors in the country's economic outlook, coupled with higher investment returns in comparison to the Nordic and Western countries, will ensure a steady interest in the Lithuanian commercial real estate market, encouraging the portfolio expansion of existing international investors and the entry of notable new players. Consequently, prime yields are expected to follow a downward trend in 2017.

**Estonian Real Estate Investment Market**[2]

Total investment volume in 2016 amounted to €420 million (2015: €544 million). Investment activity in 2016 was driven by several large single deals and portfolio sales. Generally, the same players continued to dominate the Estonian investment market throughout 2016. Nordic capital and domestic spend were each responsible for almost one third of acquisitions.

Investment activity in 2016 was dominated by retail and office segments, attracting 32% (2015: 29%) and 38% (2015: 29%) respectively of total volume in 2016. At €52 million, investment in the industrial/warehouse property segment accounted for 12% of total volume (up from 9% in 2015).

Prime yields remain under pressure as supply of assets lagged the demand side. By end-2016, prime office yield compressed by 15 - 25 basis points (bps), while prime retail and industrial yield compressed by 5 - 15 bps. At the beginning of 2017, prime office yields and retail yields for best in class products are expected to produce 6.4 - 6.6%, while truly prime warehouse asset yields are expected to produce 7.75 – 7.8%.

As a result of low interest rates and a large amount of equity capital available, pressure for additional yield compression remains. However, together with lowering yields, risks related to exit strategy have increased, resulting in prolongation of the holding period. As rent income growth is expected to be rather modest in the near term, not much room remains for additional yield compression. Several larger investors have announced that they will not go along with the yield rally and will look for alternative investment options instead.

**Maltese Real Estate Investment Market**

National statistics relating to commercial property in Malta are currently not captured and therefore it is more difficult to gauge the health of this sector. Notwithstanding the lack of such data, general business sentiment and the continued drive to promote Malta as a regional hub for the provision of business related services, notably in the financial, i-gaming, back-office services, information technology, aircraft registration and maritime has continued to generate a positive trend in the commercial property sector, in particular office space. In addition, Malta's highly skilled and competitive labour costs have also been vital in sustaining this success. This view is substantiated when assessing the lack of availability of large office and commercial space, as well as, the number of projects earmarked for development and set to commence in the near future.

# PART 2 – PERFORMANCE REVIEW

**The projected financial statements detailed below relate to events in the future and are based on assumptions which the Company believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.**

The following financial information is extracted from the audited consolidated financial statements of Hili Properties p.l.c. (the "**Company**") for the financial years ended 31 December 2014 to 2016. The financial information for the year ending 31 December 2017 has been provided by Group management.

## 8. FINANCIAL INFORMATION – THE GROUP

| **Hili Properties Group Income Statement**<br>**for the year ended 31 December** | **2014**<br>**Actual**<br>**€'000** | **2015**<br>**Actual**<br>**€'000** | **2016**<br>**Actual**<br>**€'000** | **2017**<br>**Forecast**<br>**€'000** |
|---|---|---|---|---|
| Revenue | 1,678 | 4,126 | 4,841 | 6,527 |
| Net operating expenses | (760) | (1,472) | (1,709) | (1,767) |
| **EBITDA** | **918** | **2,654** | **3,132** | **4,760** |
| Depreciation & amortisation | (6) | (11) | (103) | (114) |
| Net investment income/(losses) | (149) | 1,079 | 1,959 | 533 |
| Net finance costs | (687) | (1,767) | (2,237) | (2,943) |
| **Profit before tax** | **76** | **1,955** | **2,751** | **2,236** |
| Taxation | 113 | 127 | (843) | (200) |
| **Profit after tax** | **189** | **2,082** | **1,908** | **2,036** |
| **Total comprehensive income** | **189** | **2,082** | **1,908** | **2,036** |

| **Hili Properties Group Cash Flow Statement**<br>**for the year ended 31 December** | **2014**<br>**Actual**<br>**€'000** | **2015**<br>**Actual**<br>**€'000** | **2016**<br>**Actual**<br>**€'000** | **2017**<br>**Forecast**<br>**€'000** |
|---|---|---|---|---|
| Net cash from operating activities | 933 | 1,077 | 645 | 4,799 |
| Net cash from investing activities | 233 | (36,471) | (458) | (36,771) |
| Net cash from financing activities | (2,016) | 36,477 | 1,527 | 29,893 |
| **Net movement in cash and cash equivalents** | **(850)** | **1,083** | **1,714** | **(2,079)** |
| Cash and cash equivalents at beginning of year | 895 | 45 | 1,128 | 2,842 |
| **Cash and cash equivalents at end of year** | **45** | **1,128** | **2,842** | **763** |

| Hili Properties Group Balance Sheet as at 31 December | 2014 Actual €'000 | 2015 Actual €'000 | 2016 Actual €'000 | 2017 Forecast €'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill and intangible assets | - | 3,815 | 3,225 | 3,231 |
| Investment properties | 33,217 | 64,476 | 67,655 | 110,246 |
| Other financial assets | - | 12,500 | 12,500 | 12,500 |
| Loans and receivables | - | 1,745 | 2,323 | 2,511 |
| Other non-current assets | 544 | 642 | 792 | 691 |
| | 33,761 | 83,178 | 86,495 | 129,179 |
| **Current assets** | | | | |
| Property for resale | 150 | 551 | 215 | 215 |
| Loans and other receivables | 2,048 | 4,663 | 6,069 | 1,191 |
| Other assets | 717 | 1,347 | 1,355 | 736 |
| Cash and cash equivalents | 92 | 1,128 | 2,907 | 763 |
| | 3,007 | 7,689 | 10,546 | 2,905 |
| **Total assets** | **36,768** | **90,867** | **97,041** | **132,084** |
| **EQUITY** | | | | |
| **Equity and reserves** | | | | |
| Called up share capital | 15,000 | 21,600 | 21,600 | 21,600 |
| Loss offset reserve | - | 748 | 748 | 748 |
| Retained earnings/(accumulated losses) | (1,333) | 3,900 | 5,782 | 7,638 |
| Non-controlling interests | 66 | 67 | 92 | 132 |
| | **13,733** | **26,315** | **28,222** | **30,118** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings and bonds | 10,804 | 51,024 | 57,749 | 88,724 |
| Other financial liabilities | 5,919 | 1,722 | 1,722 | 1,722 |
| Deferred tax liabilities | 1,560 | 4,408 | 4,950 | 5,100 |
| | 18,283 | 57,154 | 64,421 | 95,546 |
| **Current liabilities** | | | | |
| Bank loans | 2,815 | 4,799 | 1,964 | 3,666 |
| Other financial liabilities | 1,125 | 389 | 151 | 2,369 |
| Other current liabilities | 812 | 2,210 | 2,283 | 385 |
| | 4,752 | 7,398 | 4,398 | 6,420 |
| | **23,035** | **64,552** | **68,819** | **101,966** |
| **Total equity and liabilities** | **36,768** | **90,867** | **97,041** | **132,084** |

| **Key Accounting Ratios** | **FY2014** | **FY2015** | **FY2016** | **FY2017** |
|---|---|---|---|---|
| Operating profit margin<br>*(EBITDA/revenue)* | 55% | 64% | 65% | 73% |
| Interest cover (times)<br>*(EBITDA/net finance cost)* | 1.34 | 1.50 | 1.40 | 1.62 |
| Net profit margin<br>*(Profit after tax/revenue)* | 11% | 50% | 39% | 31% |
| Earnings per share (€)<br>*(Profit after tax/number of shares)* | 0.01 | 0.10 | 0.09 | 0.09 |
| Return on equity<br>*(Profit after tax/shareholders' equity)* | 1% | 8% | 7% | 7% |
| Return on capital employed<br>*(Operating profit/total assets less current liabilities)* | 3% | 3% | 3% | 4% |
| Return on assets<br>*(Profit after tax/total assets)* | 1% | 2% | 2% | 2% |
| Liquidity ratio (times)<br>*(Current assets/current liabilities)* | 0.63 | 1.04 | 2.40 | 0.45 |
| Value to loan ratio (times)<br>*(Investment property/net debt)* | 2.46 | 1.18 | 1.19 | 1.20 |
| Gearing ratio<br>*(Net debt/net debt and shareholders' equity)* | 42% | 71% | 72% | 75% |

*Source: Charts Investment Management Service Limited*

In **2015**, the Group generated rental income of €4.1 million, an increase of €2.4 million when compared to 2014. During the said year (FY2015), the Group commenced earning income from the newly acquired properties – SIA Tukuma, SIA Apex and Swatar Business Centre. As a consequence, EBITDA increased from €0.9 million in FY2014 to €2.7 million in FY2015. Net investment income amounted to €1.1 million (FY2014: €0.1 million), principally on account of the gain on acquisition of the Swatar property company of €1.9 million. Finance costs represent interest payable on bank loans, related party borrowings and Bonds (as from 16 October 2015), and in FY2015 amounted to €1.8 million (FY2014: €0.7 million). Overall, the Group generated profit after tax of €2.1 million in FY2015 as compared to €0.2 million a year earlier.

Revenue for **FY2016** amounted to €4.8 million, an increase of €0.7 million (+17%) when compared to the prior year, principally as a result of the effect of a full year's rent receivable on properties acquired during FY2015. EBITDA increased by €0.5 million from €2.7 million in FY2015 to €3.1 million. During the year under review, the Group registered net investment income of €2.0 million (FY2015:

€1.1 million), primarily as a result of a net increase in fair value of the Group's properties (an uplift of €3.1 million in value of the nine retail properties owned by Apex Investments SIA and Tukuma Projekts SIA, less an impairment in a property situated in Parnu, Estonia of €0.3 million and an impairment in goodwill of €0.6 million). After accounting for net investment income, depreciation and net finance costs, the Group reported a profit before tax of €2.8 million (FY2015: €2.0 million) and a profit after tax of €1.9 million (FY2015: €2.1 million).

In Q2 **2017**, the Group acquired a property in Romania for a total consideration of €30.6 million, which property is fully leased. Furthermore, the Group is projecting to purchase another property during the reviewed financial year for *circa* €8 million and plans to incur *circa* €3 million in capital expenditure, thereby increasing the property portfolio to 27 properties with an aggregate value of €110.2 million.

Rental income for FY2017 is projected to amount to €6.5 million, an increase of €1.7 million (+35%) when compared to the prior year. EBITDA is forecasted to increase by €1.6 million (+52%), from €3.1 million in FY2016 to €4.8 million. Overall, the Group is projecting a marginal increase in profit after tax from €1.9 million in FY2016 to €2.0 million in FY2017, mainly on account of lower estimated net investment income in FY2017 of €0.5 million (comprising a €1 million gain in fair value of investment properties less acquisition costs of €0.5 million) as compared to €2.0 million registered in FY2016.

Other than equity, the Group is principally financed through bank loans and Bonds. The Group's bank borrowings are secured by general hypothecs, pledges and guarantees provided by Group companies, by companies forming part of the Hili Ventures Group and by the Company's ultimate shareholders. The Bonds constitute unsecured obligations of the Company, and rank equally without priority or preference with all other present and future unsecured and unsubordinated obligations of the Company.

## VARIANCE ANALYSIS

| **Hili Properties Group Income Statement for the year ended 31 December** | **2016 Actual €'000** | **2016 Forecast €'000** | **Variance €'000** |
|---|---|---|---|
| Revenue | 4,841 | 5,560 | (719) |
| Net operating expenses | (1,709) | (1,724) | 15 |
| **EBITDA** | **3,132** | **3,836** | **(704)** |
| Depreciation & amortisation | (103) | (100) | (3) |
| Net investment income | 1,959 | 1,200 | 759 |
| Net finance costs | (2,237) | (2,459) | 222 |
| **Profit before tax** | **2,751** | **2,477** | **274** |
| Taxation | (843) | (371) | (472) |
| **Profit after tax** | **1,908** | **2,106** | **(198)** |

As presented in the above table, the Group's revenue for FY2016 was lower than forecasted by €719,000. The Group had projected to generate rental income from additional property acquisitions during FY2016 which did not materialise. This decrease in revenue was mitigated by a higher than projected net investment income and lower net finance costs, in aggregate, amounting to €981,000. After taking into consideration a higher than expected tax charge, from €371,000 (forecast) to €843,000 (actual), profit for the year was lower than projected by €198,000.

# 9. FINANCIAL INFORMATION - HARBOUR (APM) INVESTMENTS LTD

**The projected financial statements detailed below relate to events in the future and are based on assumptions which Harbour (APM) Investments Limited ("HIL") believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.**

The following financial information is extracted from the audited financial statements of HIL for the financial periods ended 31 December 2014 to 2016. The financial information for the year ending 31 December 2017 has been provided by Group management.

| **Harbour (APM) Investments Ltd Income Statement for the year ended 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| Administrative expenses | (7) | (13) | (5) | (6) |
| Investment gain | - | 5,887 | 86 | - |
| Net finance costs | (103) | (80) | (77) | 21 |
| **Profit/(loss) before tax** | **(110)** | **5,794** | **4** | **15** |
| Taxation | - | (2,000) | (3) | (5) |
| **Profit/(loss) after tax** | **(110)** | **3,794** | **1** | **10** |

| **Harbour (APM) Investments Ltd Cash Flow Statement for the year ended 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| Net cash from operating activities | (3) | (76) | 56 | (11) |
| Net cash from investing activities | - | (7) | - | - |
| Net cash from financing activities | 3 | 83 | (56) | 11 |
| **Net movement in cash and cash equivalents** | **-** | **-** | **-** | **-** |
| Cash and cash equivalents at beginning of year | 1 | 1 | 1 | 1 |
| **Cash and cash equivalents at end of year** | **1** | **1** | **1** | **1** |

| **Harbour (APM) Investments Ltd Balance Sheet as at 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Investment property | 19,174 | 25,007 | 25,007 | 25,007 |
| Loans and other receivables | - | 1,722 | 1,722 | 1,722 |
| | 19,174 | 26,729 | 26,729 | 26,729 |
| **Current assets** | | | | |
| Loans and other receivables | 92 | 213 | 294 | 384 |
| Cash and cash equivalents | 1 | 1 | 1 | 1 |
| | 93 | 214 | 295 | 385 |
| **Total assets** | **19,267** | **26,943** | **27,024** | **27,114** |
| **EQUITY** | | | | |
| Equity and reserves | (111) | 22,985 | 22,985 | 22,995 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Bank borrowings and other financial liabilities | 19,370 | 1,740 | 1,518 | 1,584 |
| Deferred tax liabilities | - | 2,000 | 2,000 | 2,000 |
| | 19,370 | 3,740 | 3,518 | 3,584 |
| **Current liabilities** | | | | |
| Other payables | 8 | 5 | 297 | 6 |
| Bank loans | - | 213 | 224 | 529 |
| | 8 | 218 | 521 | 535 |
| | **19,378** | **3,958** | **4,039** | **4,119** |
| **Total equity and liabilities** | **19,267** | **26,943** | **27,024** | **27,114** |

| **Key Accounting Ratios** | **FY2014** | **FY2015** | **FY2016** | **FY2017** |
|---|---|---|---|---|
| Value to loan ratio (times)<br>*(Investment property/net debt)* | 0.99 | 12.81 | 14.36 | 11.84 |
| Gearing ratio<br>*(Net debt/net debt and shareholders' equity)* | 1.01 | 0.08 | 0.07 | 0.08 |

*Source: Charts Investment Management Service Limited*

The company is the owner of land at Benghajsa, Malta which, as at 31 December 2016, was valued at €25 million. As detailed in section 5 of this document, the Company is committed to acquire HIL for €25 million by 2018. No significant activities occurred during FY2016 and no material movements are projected for FY2017.

# 10. FINANCIAL INFORMATION - HILI ESTATES LIMITED

**The projected financial statements detailed below relate to events in the future and are based on assumptions which Hili Estates Limited ("HEL") believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.**

The following financial information is extracted from the audited financial statements of HEL for the financial years ended 31 December 2014 to 2016. The financial information for the year ending 31 December 2017 has been provided by Group management.

| **Hili Estates Ltd Income Statement for the year ended 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| Revenue | 650 | 677 | 778 | 874 |
| Net operating expenses | (24) | (5) | (179) | (227) |
| **EBITDA** | **626** | **672** | **599** | **647** |
| Investment income/(losses) | - | (507) | 64 | - |
| Net finance income | (241) | (191) | - | 39 |
| **Profit/(loss) before tax** | **385** | **(26)** | **663** | **686** |
| Taxation | (29) | 381 | (163) | (169) |
| **Profit/(loss) after tax** | **356** | **355** | **500** | **517** |

| **Hili Estates Ltd Cash Flow Statement for the year ended 31 December** | **2014 Actual €'000** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Forecast €'000** |
|---|---|---|---|---|
| Net cash from operating activities | 1,522 | 465 | 758 | 881 |
| Net cash from investing activities | 180 | (718) | (532) | (6,382) |
| Net cash from financing activities | (1,766) | 261 | (270) | 5,609 |
| **Net movement in cash and cash equivalents** | **(64)** | **8** | **(44)** | **108** |
| Cash and cash equivalents at beginning of year | 147 | 83 | 91 | 47 |
| **Cash and cash equivalents at end of year** | **83** | **91** | **47** | **155** |

| Hili Estates Ltd Balance Sheet as at 31 December | 2014 Actual €'000 | 2015 Actual €'000 | 2016 Actual €'000 | 2017 Forecast €'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Investment property | 13,351 | 13,522 | 13,685 | 14,698 |
| Property, plant and equipment | - | 41 | 379 | - |
| Loans and other receivables | - | 1,239 | 1,439 | 6,662 |
| | 13,351 | 14,802 | 15,503 | 21,360 |
| **Current assets** | | | | |
| Loans and other receivables | 1,650 | 497 | 383 | 277 |
| Cash and cash equivalents | 83 | 91 | 47 | 155 |
| | 1,733 | 588 | 430 | 432 |
| **Total assets** | **15,084** | **15,390** | **15,933** | **21,792** |
| **EQUITY** | | | | |
| Equity and reserves | 5,609 | 14,015 | 14,353 | 14,870 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Bank borrowings and loans | 3,786 | - | - | 5,164 |
| Deferred tax liabilities | 1,560 | 1,080 | 1,080 | 1,080 |
| | 5,346 | 1,080 | 1,080 | 6,244 |
| **Current liabilities** | | | | |
| Bank overdraft and loans | 2,010 | - | - | 495 |
| Other financial liabilities | 1,877 | 38 | 326 | 183 |
| Other payables | 242 | 257 | 174 | - |
| | 4,129 | 295 | 500 | 678 |
| | **9,475** | **1,375** | **1,580** | **6,922** |
| **Total equity and liabilities** | **15,084** | **15,390** | **15,933** | **21,792** |

| **Key Accounting Ratios** | **FY2014** | **FY2015** | **FY2016** | **FY2017** |
|---|---|---|---|---|
| Value to loan ratio (times)<br>*(Investment property/net debt)* | 1.76 | n/a | n/a | 2.58 |
| Gearing ratio<br>*(Net debt/net debt and shareholders' equity)* | 58% | 0% | 2% | 28% |

*Source: Charts Investment Management Service Limited*

During the period under review, HEL was principally engaged in the management of one property – the Hili Building in Luqa, Malta. The company plans to develop, during FY2017, an extension to the building on the third level, at an estimated cost of €1 million.

Rental income generated in FY2016 amounted to €0.8 million, an increase of €0.1 million when compared to the prior year (FY2015: €0.7 million). Overall, the company registered a profit after tax amounting to €0.5 million (FY2015: €0.4 million). It is projected that revenue will increase from €0.8 million in FY2016 to €0.9 million in FY2017, and profit after tax is projected to amount to €0.5 million (FY2016: €0.5 million).

## 11. THE BOND GUARANTEE

For the purposes of the Guarantee, the Guarantors irrevocably and unconditionally guarantee to each Bondholder that if for any reason the Company fails to pay any sum payable by it to such Bondholder pursuant to the terms and conditions of the Bonds as and when the same shall become due under any of the foregoing, the Guarantors will pay to such Bondholder on demand the amount payable by the Company to such Bondholder. The obligations of the Guarantors under the Guarantee shall remain in full force and effect until no sum remains payable to any Bondholder pursuant to the issue of the Bonds.

The Guarantors undertake that so long as any Bond remains outstanding, the Guarantors shall collectively ensure that their aggregate net asset value (being the value of an entity's assets minus the value of its liabilities) will amount to not less than €37 million on each Financial Reporting Date (being 30 June and 31 December in each year as from 31 December 2015). As at 31 December 2016, the aggregate net asset value of the Guarantors amounted to €37.3 million.

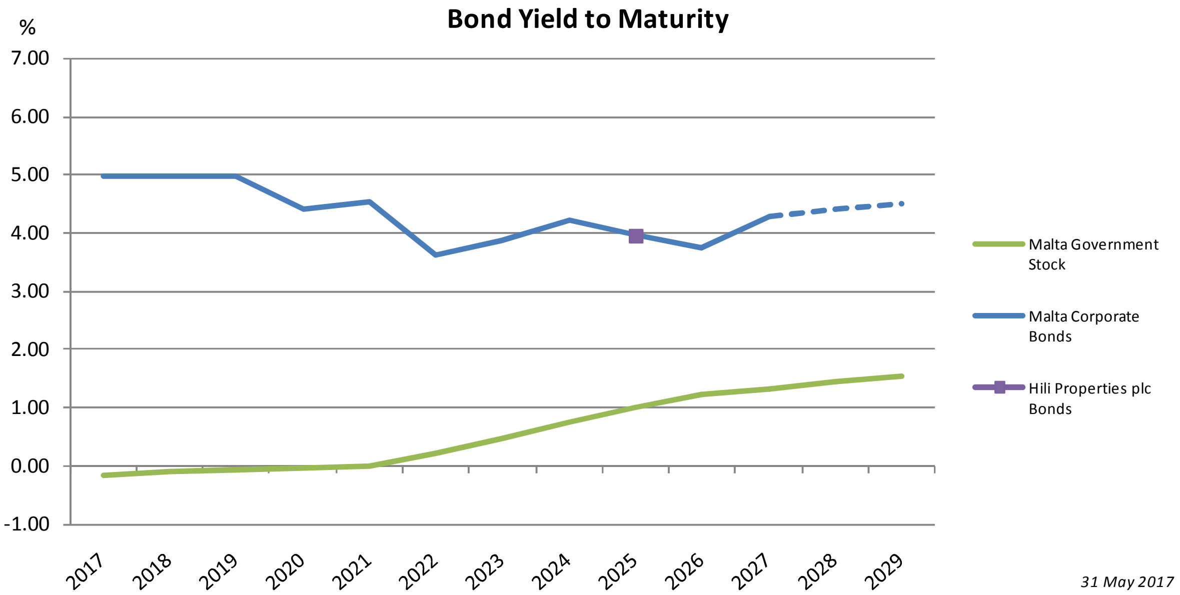
# PART 3 – COMPARABLES

The table below compares the Company and its bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. Although there are significant variances between the activities of the Company and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Company's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Company.

| **Comparative Analysis** | **Nominal Value (€)** | **Yield to Maturity (%)** | **Interest Cover (times)** | **Total Assets (€'000)** | **Net Asset Value (€'000)** | **Gearing Ratio (%)** |
|---|---|---|---|---|---|---|
| 5.5% Pendergardens Dev. plc Secured € 2020 Series I | 15,000,000 | 4.41 | 1.49 | 63,273 | 11,488 | 63.23 |
| 6% Pendergardens Dev. plc Secured € 2022 Series II | 27,000,000 | 3.62 | 1.49 | 63,273 | 11,488 | 63.23 |
| 4.25% Gap Group plc Secured € 2023 | 40,000,000 | 3.80 | 2.48 | 57,086 | 6,004 | 86.39 |
| 5.3% United Finance Plc Unsecured € Bonds 2023 | 8,500,000 | 3.87 | 2.05 | 18,153 | 3,796 | 73.85 |
| 6% AX Investments Plc € 2024 | 40,000,000 | 4.26 | 3.62 | 270,425 | 163,719 | 27.97 |
| 6% Island Hotels Group Holdings plc € 2024 | 35,000,000 | 4.71 | 0.98 | 144,003 | 52,994 | 53.41 |
| 5.3% Mariner Finance plc Unsecured € 2024 | 35,000,000 | 4.22 | 4.25 | 72,117 | 30,380 | 52.06 |
| 5% Hal Mann Vella Group plc Secured Bonds € 2024 | 30,000,000 | 4.46 | -0.02 | 82,096 | 32,298 | 54.54 |
| 5.1% PTL Holdings plc Unsecured € 2024 | 36,000,000 | 4.61 | 1.59 | 71,711 | 4,751 | 89.91 |
| 4.5% Hili Properties plc Unsecured € 2025 | 37,000,000 | 3.96 | 1.40 | 97,042 | 28,223 | 72.36 |
| 4.0% International Hotel Invest. plc Secured € 2026 | 55,000,000 | 3.68 | 2.46 | 1,220,254 | 646,822 | 36.39 |
| 4.0% MIDI plc Secured € 2026 | 50,000,000 | 3.58 | 0.59 | 203,780 | 67,359 | 40.62 |
| 3.75% Premier Capital plc € Unsecured Bonds 2026 | 65,000,000 | 3.50 | 6.87 | 193,351 | 41,630 | 58.76 |
| 4.35% SD Finance plc € Unsecured Bonds 2027 | 65,000,000 | 4.28 | 4.82 | 156,433 | 56,697 | 53.20 |
| 4.0% Eden Finance plc 2027 | 40,000,000 | 3.75 | 3.98 | 165,496 | 92,620 | 34.60 |

*31 May'17*

*Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts Investment Management Service Limited*




To date, there are no corporate bonds which have a redemption date beyond 2027 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

# PART 4 – EXPLANATORY DEFINITIONS

| | |
|---|---|
| **Income Statement** | |
| Revenue | Total revenue generated by the Group from its business activities during the financial year, including rent receivable and related services. |
| Net operating expenses | Net operating expenses include the direct expenses and administrative costs. |
| EBITDA | EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. |
| Profit after tax | Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities. |
| **Profitability Ratios** | |
| Operating profit margin | Operating profit margin is operating income or EBITDA as a percentage of total revenue. |
| Net profit margin | Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue. |
| **Efficiency Ratios** | |
| Return on equity | Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity. |
| Return on capital employed | Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed. |
| Return on Assets | Return on assets (ROA) is computed by dividing profit after tax by total assets. |
| **Cash Flow Statement** | |
| Cash flow from operating activities | Cash generated from the principal revenue-producing activities of the Company. |
| Cash flow from investing activities | Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company. |

| | |
|---|---|
| Cash flow from financing activities | Cash generated from the activities that result in change in share capital and borrowings of the Company. |
| **Balance Sheet** | |
| Non-current assets | Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Such assets of the Group principally comprise of investment properties. |
| Current assets | Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, and cash and bank balances. |
| Current liabilities | All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt. |
| Net debt | Borrowings before unamortised issue costs less cash and cash equivalents. |
| Non-current liabilities | The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include bank borrowings and bonds. |
| Total equity | Total equity includes share capital, reserves & other equity components, and retained earnings. |
| **Financial Strength Ratios** | |
| Liquidity ratio | The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities. |
| Interest cover | The interest coverage ratio is calculated by dividing a company's EBITDA of one period by the company's interest expense of the same period. |
| Gearing ratio | The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity. For the purposes of calculating gearing, related party balances have been treated as equity. |
| Value to loan ratio | The value to loan ratio is calculated by dividing the fair value of the Group's properties by the borrowings used to finance such properties. |