# Financial Analysis Summary

20 June 2018

Issuer

## Hili Properties p.l.c.

Guarantors

## Harbour (APM) Investments Limited

## Hili Estates Limited

CHARTS
WEALTH MANAGEMENT • CORPORATE BROKING

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

20 June 2018

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 2018 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 2015 to 31 December 2017 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 2015 to 2017 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 years ending 31 December 2018 and 31 December 2019 have 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.

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(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,

**Evan Mohnani**
Head – Corporate Finance

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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. In 2017, €12 million of the remaining balance was settled, €5 million of which was settled in cash and €7 million was settled pursuant to an assignment of debt to Hili Ventures Limited and subsequently capitalised in the share capital of the Company. Both the Company and the vendor have the unilateral and unconditional right to rescind the agreement, in which case the deposit already paid of €24.5 million becomes repayable on the demand by the Company. At the end of FY2017, the agreement was expected to be executed by the end of 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* 5,635m$^2$ 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 seven directors entrusted with its overall direction and management.

**Board of Directors**

| | |
|---|---|
| Carmelo *sive* Melo Hili | Chairman |
| Sandra Murniece | Managing Director |
| David Aquilina | Director |
| Laragh Cassar | Director |
| Richard Abdilla Castillo | Director |
| Victor Tedesco | Director |
| Geoffrey Camilleri | Director |

The Managing Director 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***

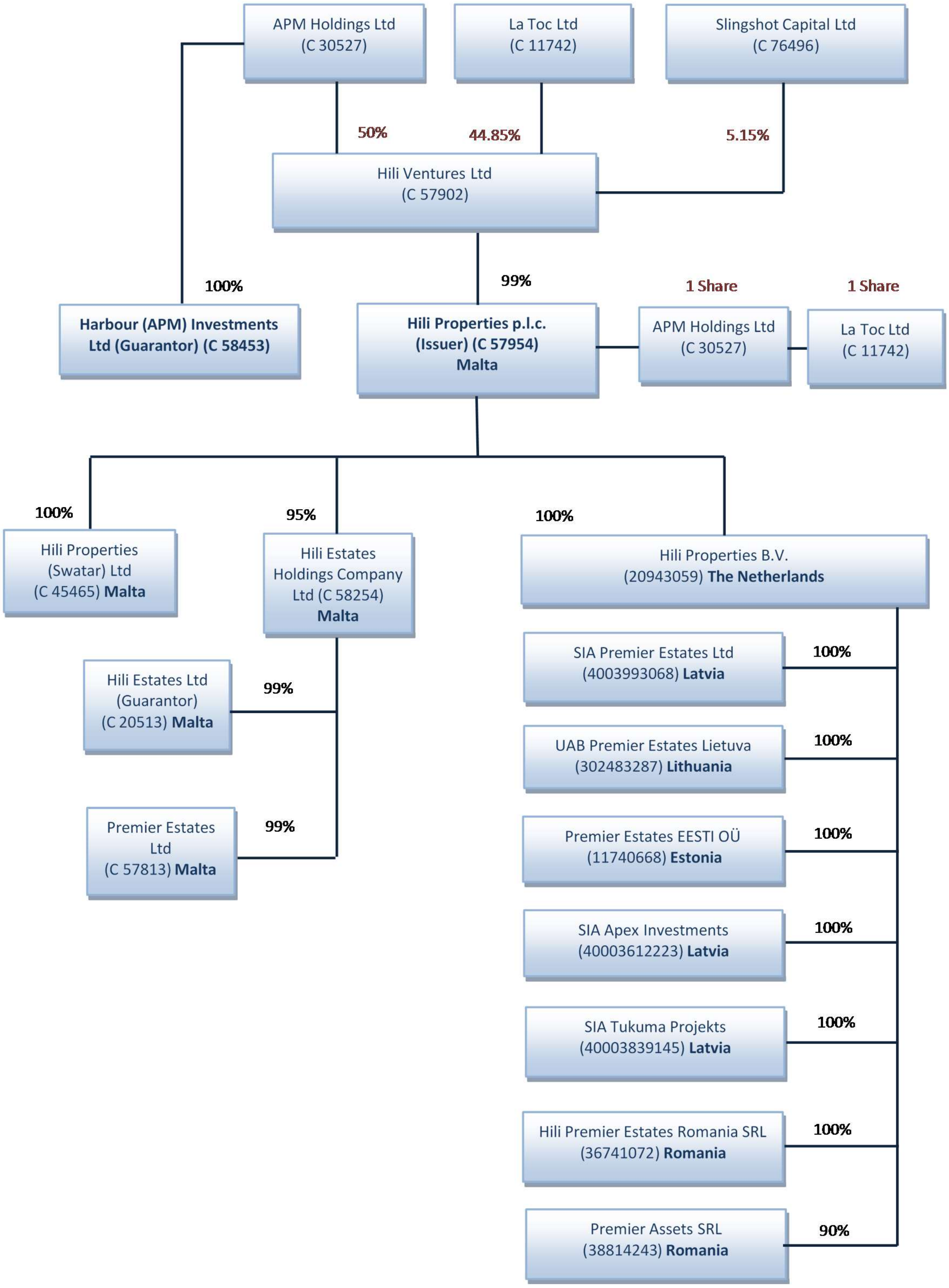
| | |
|---|---|
| Carmelo *sive* Melo Hili | Sole Director |

***Hili Estates Limited***

| | |
|---|---|
| Sandra Murniece | Director |
| Geoffrey Camilleri | 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.

**Events after the reporting period**

On 7 February 2018, a new entity, Premier Assets SRL, was registered in Romania, with the Issuer having indirect shareholding of 90% in such entity. The purpose of this company is to develop customised commercial property to be leased to Premier Restaurants Romania SRL (a subsidiary of Premier Capital p.l.c. which forms part of Hili Ventures). The plan of this new entity is to develop two restaurants on a yearly basis.

# 4. REAL ESTATE PORTFOLIO

**THE COMPANY (INCLUDING HILI ESTATES LIMITED)**

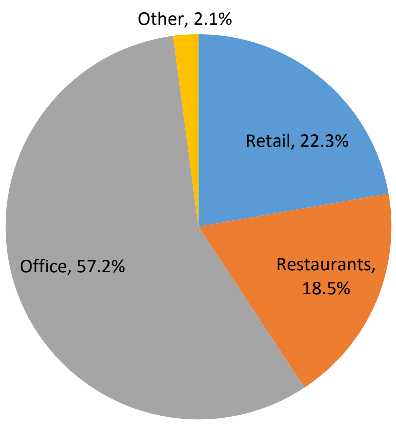
The table below provides an overview of the 24 properties held by the Group, valued at €104.0 million (being the fair value of the properties as at 31 December 2017). The portfolio comprises aggregate rentable space of 69,361m$^2$ and annualised rental income is estimated at €7.1 million.

| Name of Property | Location | Description | Main Tenant | Rentable Area (m$^2$) | Valuation as at 31.12.2017 (€'000) | Annualised Rent (€'000) | Occupancy rate (%) as at 31.12.17 | WALT (in years) | Contracted rental yield, gross % | Ownership |
|---|---|---|---|---|---|---|---|---|---|---|
| Imanta Restaurant | Riga, Latvia | McDonald's restaurant (with drive thru) | McDonald's | 2,709 | 2,126 | 130 | 100 | 13.8 | 6.1 | Freehold |
| Vienibas Restaurant | Riga, Latvia | McDonald's restaurant (with drive thru) | McDonald's | 3,497 | 2,079 | 127 | 100 | 14.3 | 6.1 | Freehold |
| Ulmana Restaurant | Riga, Latvia | McDonald's restaurant (with drive thru) | McDonald's | 2,000 | 1,626 | 99 | 100 | 17.4 | 6.1 | Freehold |
| Apartment 79, Duntes | Riga, Latvia | Apartment | | 65 | 115 | 6 | 100 | 0.3 | 5.2 | Freehold |
| Apartment 84, Duntes | Riga, Latvia | Apartment | | 131 | 174 | 6.6 | 100 | 1.1 | 3.8 | Freehold |
| Dainava Restaurant | Kaunas, Lithuania | McDonald's restaurant (with drive thru) | McDonald's | 3,021 | 2,072 | 128 | 100 | 13.0 | 6.2 | Freehold |
| Svajone Restaurant | Vilnius, Lithuania | McDonald's restaurant (in a building complex) | McDonald's | 580 | 2,119 | 131 | 100 | 13.3 | 6.2 | Land is leased, building is freehold |
| Parnu Restaurant | Parnu, Estonia | McDonald's restaurant (with drive thru) | McDonald's | 1,803 | 1,664 | 110 | 100 | 12.5 | 6.6 | Freehold |
| M DIY Retails Centre | Tukums, Latvia | Retail | Kesko Senukai | 3,370 | 1,600 | 153 | 100 | 4.3 | 9.6 | Freehold |
| Supermarket and Retail Centre | Nicgales Street 2, Riga, Latvia | Retail | Rimi Latvia | 2,890 | 6,330 | 549 | 100 | 2.6 | 8.7 | Freehold |
| Supermarket and Retail Centre | Augusta Dombrovska Street 23, Riga, Latvia | Retail | Rimi Latvia | 4,365 | 4,760 | 470 | 100 | 2.7 | 9.9 | Freehold |
| Supermarket and Retail Centre | Vienibas Ave. 95, Riga, Latvia | Retail | Rimi Latvia | 1,343 | 1,540 | 130 | 98.8 | 3.2 | 8.4 | Freehold |
| Supermarket and Retail Centre | Kremienu Street 4A, Riga, Latvia | Retail | Rimi Latvia | 953 | 1,220 | 100 | 100 | 2.5 | 8.2 | Land 700m$^2$ is leased, building is freehold |

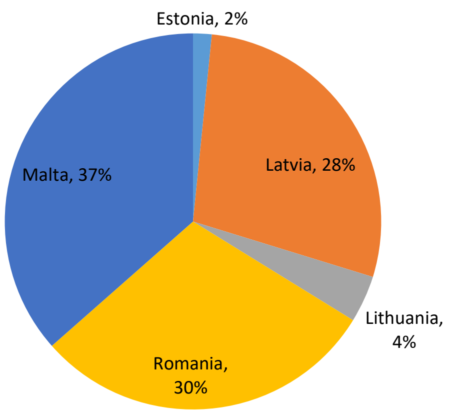
| Name of Property | Location | Description | Main Tenant | Rentable Area ($m^2$) | Valuation as at 31.12.2017 (€'000) | Annualised Rent (€'000) | Occupancy rate (%) as at 31.12.17 | WALT (in years) | Contracted rental yield, gross % | Ownership |
|---|---|---|---|---|---|---|---|---|---|---|
| Shopping Centre | Dzelzavas Street 78, Riga, Latvia | Retail | Rimi Latvia | 1,231 | 2,084 | 169 | 100 | 7.0 | 8.1 | Freehold |
| Supermarket and Retail Centre | Smilšu Street, 92B Daugavpils, Latvia | Retail | DLV & Rimi Latvia | 1,053 | 1,420 | 122 | 100 | 4.6 | 8.6 | Freehold |
| Hypermarket and Retail Centre | Viestura Street, 10 Daugavpils, Latvia | Retail | DLV & Rimi Latvia | 2,609 | 3,010 | 249 | 100 | 2.1 | 8.3 | Land is leased, building is freehold |
| Supermarket and Retail Centre | Spidolas Street, Aizkraukle, Latvia | Retail | Rimi Latvia | 951 | 1200 | 105 | 100 | 3.0 | 8.8 | Land is leased, building is freehold |
| Vecmīlgrāvja 3. līnija | Riga, Latvia | Land | | n/a | 8 | n/a | n/a | n/a | n/a | Freehold |
| Hili Building | Luqa, Malta | Office space/ Warehousing facilities | Hili Ventures | 5,635 | 15,244 | 756 | 100 | 9.4 | 5.0 | Freehold |
| Transport House | Floriana, Malta | Office space | Ministry of Energy | 900 | 2,080 | 80 | 0 | n/a | 3.8 | Freehold |
| Villa Marika | Madliena, Malta | Private residence | | n/a | 1,900 | n/a | n/a | n/a | n/a | Freehold |
| Tower Business Centre | Swatar B'Kara, Malta | Office space | Grant Thornton - Regus | 4,672 | 11,213 | 584 | 85 | 7.3 | 5.2 | Freehold |
| McDonald's Sliema | Sliema, Malta | Restaurant and office space | McDonald's | 1,518 | 7,537 | 457 | 100 | 13.9 | 6.1 | Freehold |
| Art Business Centre 7 | Bucharest, Romania | Hospital and Office space | Delta Health Care and Delta Health Trade | 24,065 | 30,909 | 2,418 | 100 | 12.6 | 7.8 | Freehold |
| **Total** | | | | **69,361** | **104,030** | **7,080** | **98%** | **9.2** | **6.8** | |

The portfolio is diversified by geography and by asset type (as analysed below). Occupancy was 98% as at 31 December 2017, with a weighted average unexpired lease term (WALT) of 9.2 years and a current gross rental yield of 6.8%. From an annualised rent of €7.1 million, an amount of €2.0 million (27.6%) 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) 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.

**(v) 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.

**(vi) 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.

**(vii) 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.

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

The property is constructed on a 13,284m$^2$ plot and is rented out to one anchor tenant, AS Kesko Senukai (previously 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.

**(ix) 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.

**(x) 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.

**(xi) 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%.

**(xii) 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.

**(xiii) 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 has commenced and is expected to be completed by the end of 2018. Management is in the process to sign an agreement with the anchor tenant.

**(xiv) 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.

**(xv) 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.

**(xvi) 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.

**(xvii) 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. During FY2017, the Group constructed 500 sqm of recreation area at a cost of €1.2 million and this was leased out during FY2018.

**(xviii) 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 occupied as from July 2018.

**(xix) 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.

**(xx) 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.

**(xxi) 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.

**(xxii) 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* 24,000m$^2$ of gross leasable area (circa 5,000m$^2$ of which is storage space). 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 AND DISPOSALS

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 was held in escrow and 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.

During FY2017, the Group disposed of the APCO Building situated in Psaila Street in Birkirkara, Malta. This property was centrally located in Psaila Street, Birkirkara built on a site of *circa* 210m$^2$. The building included one basement level with three overlying floors used as office space however the property was vacated in May 2017 and subsequently sold for a consideration of €625,000, resulting in a loss on disposal of €96,170.

In FY2018, the Group disposed of the former McDonald’s Daugavplis Restaurant located at 42, 18, November Street, Daugavpils in Latvia. The property consisted of a plot and a building constructed thereon, however the property had been vacant since December 2013, since the discontinuation of the McDonald’s drive-thru restaurant.

During FY2018, construction works commenced in connection with the demolition and rebuilding of the retail centre located on Dzelzavas Street in Riga, Latvia. This was a decision taken by the Board of Directors back in 2016 and is expected to be opened in December 2018. The works are expected to cost *circa* €4.8 million.

Furthermore, management is actively seeking to dispose of the following properties, all of which are supermarket and retail centres:

- Vienias Ave, 95, Riga, Latvia
- Kremienu Street 4A, Riga, Latvia
- Spidolas Street, Aizkraukie, Latvia

## 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 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 appropriate knowledge and competence in order 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, which includes 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 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]

In Q4 2017, European commercial property investment reached one of the highest quarterly totals on record, at €80.7 billion. This took investment for the whole year to €231.8 billion, an increase of 8.4% on 2016.

Following a slow start to the year, investment in the UK accelerated in H2, bringing annual volumes to €59.3 billion. The continued flow of capital from Greater China into the Central London office market supported this improvement. The UK regained its position as Europe's most active market from Germany, which had edged ahead in H1. Nonetheless, the German investment volume of €50.9 billion was a ten-year high, and the country was the leading destination for US capital entering Europe in 2017.

The French investment market had an extremely slow start to the year, but it recovered in Q4, when more capital was invested than in the three previous quarters combined. This was partly due to a

[1] European Quarterly Commercial Property Outlook Q4 2017 (Knight Frank)

revival in investor confidence following political uncertainty earlier in the year. Domestic investors dominated the market in 2017, accounting for more than 70% of transaction volumes.

Elsewhere, stand-out markets in 2017 included the Netherlands and Finland, both of which had record years, on the back of large inflows of cross-border investment. While North American and European investors were the main sources of capital in these two markets, there was also increased investment from Asian investors, who are showing growing interest in a broadening range of European markets.

Despite already being at record low levels across much of Europe, further yield compression was recorded in Q4 in markets including Amsterdam, Dublin, Frankfurt and Milan. As a result, the Knight Frank European Weighted Average Prime Office Yield hardened by seven basis points to a new low of 4.20%. There is room for further yield compression in some markets in 2018, although a general stabilisation of European prime yields may be reached by the year-end.

Q4 was a stellar quarter for a number of European office occupier markets, with take-up in Dublin, Madrid, Munich and Prague increasing by well over 50% year-on-year. For 2017 as a whole, aggregate take-up in the major European markets monitored by Knight Frank was up by 9% compared with 2016.

On the back of strong demand and tightening availability, European rental growth gathered momentum in Q4. Markets such as Amsterdam, Berlin, Brussels, Frankfurt, Madrid and Paris all recorded increases in prime office rents, pushing the Knight Frank European Prime Office Rental Index up by 1.5% during the quarter.

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

2017 was marked by a lack of large transactions in Latvia and a widening gap between the expectations of owners and investors, leading to subdued investment volume. The year closed with total investment volume of €149 million, which was the lowest in four years. However, it is also important to note that investments in development schemes in Latvia are high, totalling an additional €207 million in 2017.

By the end of 2017 total space for Class A and B office premises in Riga amounted to approximately 632,600 sqm. Speculative space dominates with 430,300 sqm or 67%, while built-to-suit (BTS) office buildings account for 202,300 sqm or 32%. During 2017, office space was supplemented by four new properties with total leasable area of 23,400 sqm, of which all were speculative office buildings.

The industry received strong signals from occupiers in rising interest in modern high-quality office premises. This demand originates from businesses' need to expand as well as to increase efficiency and the need to provide additional non-material benefits to their workforce. As a result, newly-built office buildings are partly pre-leased before commissioning and further occupation is taken up in a short period, in turn shifting developers to start active construction on previously initiated projects.

The construction pipeline in Riga consists of fourteen speculative office buildings under development with total GLA 154,400 sqm, most of which is scheduled to be commissioned between 2018 and 2019.

[2] Real Estate Market Overview 2018 (Colliers International, Sorainen, EY)

Several projects with total area exceeding GLA 150,000 sqm are at the planning stage and might reach the market by 2022, provided positive trends continue.

The largest contribution in office take-up comes from IT and professional service companies, while finance / banking / insurance companies maintained their stable position with an average of 4,400 sqm annually. The growing GBS industry has been a key demand driver, securing the largest lease transactions in 2017. New entrants from this occupier segment include Webhelp Latvia, Genpact and Arvato Systems Latvia, who have already signed agreements and continue their expansion.

During 2017, the prime headline rent in Class A professional office buildings remained stable, though in Class B1 the lower bounds slightly increased. Rent rates were in the range 13 – 16 EUR/sqm per month for Class A premises, 9 – 12 EUR/sqm per month for Class B1 office premises and 6 – 9 EUR/sqm per month for B2 office premises. In Riga, prime yield for industrial objects compressed to 7.75%, with prime retail and office yields experiencing a decline to 6.5%.

The market is expected to build up activity, with a potential office commission pipeline of more than GLA 45,500 sqm for 2018 and GLA 108,000 sqm in the following two years.

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

In 2017, investment in the Lithuanian commercial real estate market reached €450 million, increasing by 2.4% compared to the previous year. Economic growth and favourable market conditions, coupled with capital availability, created strong preconditions for vibrant investment activity throughout the year. Lithuanian investment market continued to gain the confidence of both local and international investors. Baltic investors were responsible for 58% of total volume, followed by international (22%) and Nordic investors (20%).

In 2017, the Vilnius office market was highly dynamic in terms of both office space supply and demand. Nine speculative office projects were completed during the year, bringing to the market 66,000 sqm of modern office space. Consequently, total stock grew by 12% y-o-y. Looking at future perspectives, office market development shows no signs of slowing down, with an extensive pipeline of new projects planned for 2018 totalling 82,200 sqm of new leasable office space.

Strong demand for quality office space in the Vilnius office market decreased vacancy in Class A business centres, leaving it as low as 1% at the end of 2017, as well as stimulating slight growth of rent rates. In contrast, Class B business centres faced a more competitive environment in retaining and attracting new tenants. Vacancy was considerably higher than in Class A business centres, reaching 5.9%, which maintained rent rates unchanged. Overall, vacancy in the Vilnius office market stood at 4.3% on average, recording a 2% y-o-y decrease despite large new supply commissioned during the year.

New supply in the Kaunas office market was not absorbed as successfully as in the capital, accounting for circa 60% of all vacant space. Consequently, the vacancy rate was twice as high as in the previous year, reaching 14.9% at the end of 2017, allowing companies a choice of expansion and relocation opportunities. Active development of new office projects kept rent rates at a competitive level, with a decrease registered in rent rates for Class B1 office space.

Compression of prime investment yields continued in 2017, driven by cheap financial capital, shortage of investment grade products and strong investor appetite. In Vilnius, the lowest yields were recorded among the prime retail and office properties (6.5%) while the highest yields remained in the industrial segment (8.0%).

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

2017 was marked by a lack of large transactions in Estonia and a widening gap between the expectations of owners and investors, leading to subdued investment volume. In Estonia, total investment volume amounted to €325 million, or 23% down on 2016. Nordic capital was responsible for almost one fifth of acquisitions, while foreign capital in total was behind more than 65% of invested volume in 2017.

Approximately 24,040 sqm of new speculative office space was delivered to the market in 2017, bringing total speculative office stock to 628,540 sqm by the beginning of 2018. 2017 saw the completion of several new speculative and built-to-suit (BTS) office development projects started in 2015 and 2016, including the 14-storey Telia Eesti HQ; Lutheri Business House (redevelopment project) hosting Aripaev, the business newspaper; Tookoja 2 Office Building, occupied by companies providing healthcare services, and Tehnopol2kv Office Building (anchor tenant – IT and Development Centre (SMIT)) located in Tallinn Science Park Tehnopol.

More than half of new supply in 2017 came to the market in the City Centre, thus increasing the share of total speculative space in the City Centre to 24%, while the share of total speculative space in CBD amounted to 38% respectively (down from 39% at end-2016). Supply of office premises will grow considerably in CBD in the coming years due to completion of several development projects, including the Maakri 19/21 Office Building (large-scale high-rise project), a commercial and office building at Narva Rd. 7b and expansion of the Ravala 2 office building in 2018.

In 2017, rent rates for properties in a good location remained more or less stable compared to 2016 (13 – 16.4 EUR/sqm per month for Class A premises and 8.8 – 13.5 EUR/sqm per month for Class B1 premises), although the upper and lower margins of asking rents continued to widen and some downward pressure on rents in existing Class B1 and Class B2 office buildings increased.

In Estonia, prime yields continued to compress slightly by 10 – 20 bps throughout 2017 to 6.25% in the office sector.

**Romanian Real Estate Investment Market[3]**

Investor interest in Romania has strengthened thanks to the robust economic growth (the fastest in the EU by far), increased appetite from domestic banks to fund transactions, high-growth potential for

[3] Romania Research & Forecast Report 2018 (Colliers International)

various segments of the real estate market (especially office and industrial) and a fairly generous yield differential compared to most CEE countries and to wester EU states.

Liquidity neared the €1bn mark in 2017, despite some large office deals having been postponed towards 2018 due to a lengthier negotiation phase. As such, actual turnover stood at around €960m, some 5% above 2016. Looking beyond administrative hurdles and delays, 2017 saw a qualitative improvement of the market compared to 2016 as investor interest broadened and the number of deals increased.

The increased interest for domestic assets has been placing ever more upward pressures on prices, with some prime office properties receiving offers at 7.25% (down from 7.50% a year earlier). Prime retail yields were flat in the last year, at 7.00%. Prime industrial assets, with the best positioning and long duration of leases, saw their yields drop towards 8.50%. However, as the market is becoming increasingly more nuanced, projects with attractive commercial terms and features are looking to receive better pricing.

Meanwhile, the banks' interest for funding real estate deals has been on the rise, with central bank surveys among the top lenders suggesting a low risk perception is predominant. Margins remain lower than they were in previous years (250 basis points for prime properties), while stable and low Euribor rates offer further comfort, though strong Eurozone growth suggests the low rate environment might be slowly drawing to a close. Other funding options, like bonds, offer alternatives for investors to choose the most appropriate solution for a specific deal.

While investor sentiment towards Romania has improved markedly during 2017, transactions have lagged behind. There is a perception issue regarding Romania for the real estate market's participants, as other financial markets reflect more closely the favourable macro trends, however, 2018 is set to be a turning point as the type of assets that will come to the market are set to change significantly.

**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 2015 to 2017. The financial information for the year ending 31 December 2018 and 31 December 2019 have been provided by Group management.

## 8. FINANCIAL INFORMATION – THE GROUP

| **Hili Properties Group Income Statement for the year ended 31 December** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Actual €'000** | **2018 Forecast €'000** | **2019 Projection €'000** |
|---|---|---|---|---|---|
| Revenue | 4,126 | 4,841 | 6,337 | 7,012 | 8,916 |
| Net operating expenses | (1,472) | (1,709) | (1,859) | (2,076) | (2,158) |
| **EBITDA** | **2,654** | **3,132** | **4,479** | **4,936** | **6,758** |
| Depreciation & amortisation | (11) | (103) | (104) | (118) | (195) |
| Net investment income/(losses) | 1,079 | 1,959 | 1,186 | 341 | 1,205 |
| Net finance costs | (1,767) | (2,237) | (3,551) | (3,457) | (3,755) |
| **Profit before tax** | **1,955** | **2,751** | **2,010** | **1,703** | **4,013** |
| Taxation | 127 | (843) | 1,353 | (611) | (538) |
| **Profit after tax** | **2,082** | **1,908** | **3,363** | **1,092** | **3,475** |
| **Other comprehensive income** | | | | | |
| Exchange difference on translation of foreign operations | - | - | (228) | - | - |
| **Total comprehensive income** | **2,082** | **1,908** | **3,135** | **1,092** | **3,475** |

*Source: Management Information*

| **Hili Properties Group Cash Flow Statement for the year ended 31 December** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Actual €'000** | **2018 Forecast €'000** | **2019 Projection €'000** |
|---|---|---|---|---|---|
| Net cash from operating activities | 1,077 | 645 | 962 | 4,740 | 3,542 |
| Net cash from investing activities | (36,471) | (458) | (31,028) | (20,810) | (2,082) |
| Net cash from financing activities | 36,477 | 1,527 | 27,991 | 15,349 | (789) |
| **Net movement in cash and cash equivalents** | **1,083** | **1,714** | **(2,075)** | **(721)** | **671** |
| Foreign exchange on cash and cash equivalents | - | - | (2) | - | - |
| Cash and cash equivalents at beginning of year | 45 | 1,128 | 2,842 | 765 | 44 |
| **Cash and cash equivalents at end of year** | **1,128** | **2,842** | **765** | **44** | **714** |

| Hili Properties Group Balance Sheet<br>as at 31 December | 2015<br>Actual<br>€'000 | 2016<br>Actual<br>€'000 | 2017<br>Actual<br>€'000 | 2018<br>Forecast<br>€'000 | 2019<br>Projection<br>€'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill and intangible assets | 3,815 | 3,225 | 17 | 17 | 17 |
| Investment properties | 64,476 | 67,655 | 104,030 | 124,312 | 127,444 |
| Other financial assets | 12,500 | 12,500 | 24,500 | 25,000 | 25,000 |
| Loans and receivables | 1,745 | 2,323 | 2,323 | 2,548 | 2,398 |
| Other non-current assets | 642 | 792 | 1,051 | 1,365 | 953 |
| | **83,178** | **86,495** | **131,921** | **153,241** | **155,812** |
| **Current assets** | | | | | |
| Property for resale | 551 | 215 | 237 | - | - |
| Loans and other receivables | 4,663 | 6,069 | 280 | 379 | 267 |
| Other assets | 1,347 | 1,355 | 2,589 | 2,735 | 2,131 |
| Cash and cash equivalents | 1,128 | 2,907 | 853 | 44 | 714 |
| | 7,689 | 10,546 | 3,958 | 3,158 | 3,112 |
| **Total assets** | **90,867** | **97,041** | **135,879** | **156,399** | **158,924** |
| **EQUITY** | | | | | |
| **Equity and reserves** | | | | | |
| Called up share capital | 21,600 | 21,600 | 28,600 | 41,600 | 41,600 |
| Legal reserve | - | - | 104 | 104 | |
| Loss offset reserve | 748 | 748 | 748 | 748 | 748 |
| Foreign exchange reserve | - | - | (228) | (223) | (279) |
| Retained earnings/(accumulated losses) | 3,900 | 5,782 | 8,920 | 9,958 | 13,391 |
| Non-controlling interests | 67 | 92 | 213 | 424 | 466 |
| | **26,315** | **28,222** | **38,358** | **52,611** | **55,927** |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings and bonds | 51,024 | 57,749 | 83,457 | 90,752 | 88,113 |
| Other financial liabilities | 1,722 | 1,722 | 2,500 | 2,519 | 2,907 |
| Deferred tax liabilities | 4,408 | 4,950 | 3,439 | 3,666 | 3,161 |
| | **57,154** | **64,421** | **89,396** | **96,937** | **94,181** |
| **Current liabilities** | | | | | |
| Bank loans | 4,799 | 1,964 | 3,231 | 2,906 | 4,217 |
| Other financial liabilities | 389 | 151 | 1,719 | 856 | 1,427 |
| Other current liabilities | 2,210 | 2,283 | 3,175 | 3,089 | 3,172 |
| | 7,398 | 4,398 | 8,125 | 6,851 | 8,816 |
| | **64,552** | **68,819** | **97,521** | **103,788** | **102,997** |
| **Total equity and liabilities** | **90,867** | **97,041** | **135,879** | **156,399** | **158,924** |

| **Key Accounting Ratios** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **FY2019** |
|---|---|---|---|---|---|
| Operating profit margin<br>*(EBITDA/revenue)* | 64% | 65% | 71% | 70% | 76% |
| Interest cover (times)<br>*(EBITDA/net finance cost)* | 1.50 | 1.40 | 1.26 | 1.43 | 1.80 |
| Net profit margin<br>*(Profit after tax/revenue)* | 50% | 39% | 53% | 16% | 39% |
| Earnings per share (€)<br>*(Profit after tax/number of shares)* | 0.10 | 0.09 | 0.12 | 0.03 | 0.08 |
| Return on equity<br>*(Profit after tax/shareholders' equity)* | 8% | 7% | 9% | 2% | 6% |
| Return on capital employed<br>*(Operating profit/total assets less current liabilities)* | 3% | 3% | 4% | 3% | 5% |
| Return on assets<br>*(Profit after tax/total assets)* | 2% | 2% | 2% | 1% | 2% |
| Liquidity ratio (times)<br>*(Current assets/current liabilities)* | 1.04 | 2.40 | 0.49 | 0.46 | 0.38 |
| Value to loan ratio (times)<br>*(Investment property/net debt)* | 1.18 | 1.19 | 1.21 | 1.33 | 1.39 |
| Gearing ratio<br>*(Net debt/net debt and shareholders' equity)* | 71% | 72% | 68% | 64% | 61% |

*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 and annualised rent of €2.4 million, which property is fully leased. Revenue for **FY2017** amounted to €6.3 million, an increase of €1.5 million (+31%) from FY2016, mainly due to the rental income of the property in Romania received from May 2017, whilst this was set off by the losses in rent as a result of the disposal of the APCO Building in Birkirkara, Malta as well as decreases in annualised rents in a number of other properties. EBITDA for the year increased to €4.5 million from €3.1 million in FY2016, a positive increase of 43%, due to net operating expenses only increasing by 9%. A net investment income of €1.2 million was achieved during FY2017 due to an increase in fair value of €4.2 million which was partly offset by an impairment of goodwill of €3.2 million. Net profit before tax was lower in FY2017 by €0.7 million (-27%) compared to FY2016, however profit after tax increased by 76% to €3.4 million due to a positive tax credit of €1.4 million in FY2017.

Rental income for **FY2018** and **FY2019** is projected to amount to €7.0 million (+11%) and €8.9 million (+27%). EBITDA is forecasted to increase by €0.5 million (+10%) and €1.8 million (+37%), from €4.5 million in FY2017 to €4.9 million and €6.8 million in FY2018 and FY2019, respectively. Overall, the Group is projecting a decrease in profit after tax from €3.5 million in FY2017 to €1.1 million (-68%) in FY2018, mainly on account of a €2.0 million adverse change in taxation, from a positive tax credit of €1.4 million in FY2017, to a tax expense of €0.6 million in FY2018. FY2019 is projected to achieve the same level of profit after tax as FY2017 at €3.5 million without the benefit of tax credits. This will mainly be owing to increasing revenues whilst keeping costs relatively in line with FY2018.

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<br>for the year ended 31 December | 2017<br>Actual<br>€'000 | 2017<br>Forecast<br>€'000 | Variance<br>€'000 |
|---|---|---|---|
| Revenue | 6,337 | 6,527 | (190) |
| Net operating expenses | (1,859) | (1,767) | (92) |
| **EBITDA** | **4,479** | **4,760** | **(281)** |
| Depreciation & amortisation | (104) | (114) | 10 |
| Net investment income | 1,186 | 533 | 653 |
| Net finance costs | (3,551) | (2,943) | (608) |
| **Profit before tax** | **2,010** | **2,236** | **(226)** |
| Taxation | 1,353 | (200) | 1,553 |
| **Profit after tax** | **3,363** | **2,036** | **1,327** |

As presented in the above table, the Group's revenue for FY2017 was lower than forecasted by €190,000. The Group had also projected to generate positive net investment income and incur a lesser amount of net operating expenses and finance costs during FY2017 which did not materialise. This decrease in revenue and increase in costs was mitigated by tax credits utilised during the year of €1.6 million which gave a higher than expected profit after tax of €3.4 million (actual) compared to €2 million (forecast), a €1.3 million positive difference.

# 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 2015 to 2017. The financial information for the year ending 31 December 2018 and 31 December 2019 have been provided by Group management.

| **Harbour (APM) Investments Ltd Income Statement for the year ended 31 December** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Actual €'000** | **2018 Forecast €'000** | **2019 Projection €'000** |
|---|---|---|---|---|---|
| Administrative expenses | (13) | (5) | (8) | (4) | (4) |
| Investment gain | 5,887 | 86 | 86 | 86 | 86 |
| Net finance costs | (80) | (77) | (67) | (54) | (43) |
| **Profit/(loss) before tax** | **5,794** | **4** | **11** | **28** | **39** |
| Taxation | (2,000) | (3) | (7) | (11) | (15) |
| **Profit/(loss) after tax** | **3,794** | **1** | **4** | **17** | **24** |

| **Harbour (APM) Investments Ltd Cash Flow Statement for the year ended 31 December** | **2015 Actual €'000** | **2016 Actual €'000** | **2017 Actual €'000** | **2018 Forecast €'000** | **2019 Projection €'000** |
|---|---|---|---|---|---|
| Net cash from operating activities | (76) | 56 | 8 | 524 | 246 |
| Net cash from investing activities | (7) | - | (233) | - | - |
| Net cash from financing activities | 83 | (56) | 225 | (524) | (246) |
| **Net movement in cash and cash equivalents** | **-** | **-** | **-** | **-** | **-** |
| Cash and cash equivalents at beginning of year | 1 | 1 | 1 | 1 | 1 |
| **Cash and cash equivalents at end of year** | **1** | **1** | **1** | **1** | **1** |

| Harbour (APM) Investments Ltd Balance Sheet as at 31 December | 2015 Actual €'000 | 2016 Actual €'000 | 2017 Actual €'000 | 2018 Forecast €'000 | 2019 Projection €'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Investment property | 25,007 | 25,007 | 25,007 | 25,007 | 25,007 |
| Loans and other receivables | 1,722 | 1,722 | 1,956 | 2,040 | 2,126 |
| | 26,729 | 26,729 | 26,963 | 27,047 | 27,133 |
| **Current assets** | | | | | |
| Loans and other receivables | 213 | 294 | - | - | - |
| Cash and cash equivalents | 1 | 1 | 1 | 1 | 1 |
| | 214 | 295 | 1 | 1 | 1 |
| **Total assets** | **26,943** | **27,024** | **26,964** | **27,048** | **27,134** |
| **EQUITY** | | | | | |
| Equity and reserves | 22,985 | 22,985 | 22,990 | 23,007 | 23,031 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Bank borrowings and other financial liabilities | 1,740 | 1,518 | 1,284 | 749 | 490 |
| Deferred tax liabilities | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| | 3,740 | 3,518 | 3,284 | 2,749 | 2,490 |
| **Current liabilities** | | | | | |
| Other payables | 5 | 297 | 455 | 1,046 | 1,354 |
| Bank loans | 213 | 224 | 235 | 246 | 259 |
| | 218 | 521 | 690 | 1,292 | 1,613 |
| | **3,958** | **4,039** | **3,974** | **4,041** | **4,103** |
| **Total equity and liabilities** | **26,943** | **27,024** | **26,964** | **27,048** | **27,134** |

| **Key Accounting Ratios** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **FY2019** |
|---|---|---|---|---|---|
| Value to loan ratio (times)<br>*(Investment property/net debt)* | 12.81 | 14.36 | 16.47 | 25.16 | 33.43 |
| Gearing ratio<br>*(Net debt/net debt and shareholders' equity)* | 0.08 | 0.07 | 0.06 | 0.04 | 0.03 |

*Source: Charts Investment Management Service Limited*

The company is the owner of land at Benghajsa, Malta, which as at 31 December 2017 was valued at €25 million. The expectation as at 31 December 2017 was for the Company to acquire HIL for €25 million by end 2018 (further detail provided in section 1 of this report).

No significant activities occurred during FY2017 and no material movements are forecasted for FY2018.

# 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 2015 to 2017. The financial information for the year ending 31 December 2018 and 31 December 2019 have been provided by Group management.

| **Hili Estates Ltd Income Statement**<br>**for the year ended 31 December** | **2015**<br>**Actual**<br>**€'000** | **2016**<br>**Actual**<br>**€'000** | **2017**<br>**Actual**<br>**€'000** | **2018**<br>**Forecast**<br>**€'000** | **2019**<br>**Projection**<br>**€'000** |
|---|---|---|---|---|---|
| Revenue | 677 | 778 | 820 | 873 | 890 |
| Net operating expenses | (5) | (179) | (208) | (91) | (88) |
| **EBITDA** | **672** | **599** | **613** | **782** | **802** |
| Investment income/(losses) | (507) | 64 | 313 | 134 | (106) |
| Net finance income | (191) | - | 50 | 44 | 48 |
| **Profit/(loss) before tax** | **(26)** | **663** | **975** | **960** | **744** |
| Taxation | 381 | (163) | (312) | (371) | (210) |
| **Profit/(loss) after tax** | **355** | **500** | **663** | **589** | **534** |

| **Hili Estates Ltd Cash Flow Statement**<br>**for the year ended 31 December** | **2015**<br>**Actual**<br>**€'000** | **2016**<br>**Actual**<br>**€'000** | **2017**<br>**Actual**<br>**€'000** | **2018**<br>**Forecast**<br>**€'000** | **2019**<br>**Projection**<br>**€'000** |
|---|---|---|---|---|---|
| Net cash from operating activities | 465 | 758 | 909 | 645 | 513 |
| Net cash from investing activities | (718) | (532) | (6,766) | (668) | - |
| Net cash from financing activities | 261 | (270) | 5,925 | 150 | (287) |
| **Net movement in cash and cash equivalents** | **8** | **(44)** | **68** | **127** | **226** |
| Cash and cash equivalents at beginning of year | 83 | 91 | 47 | 115 | 242 |
| **Cash and cash equivalents at end of year** | **91** | **47** | **115** | **242** | **468** |

| Hili Estates Ltd Balance Sheet as at 31 December | 2015 Actual €'000 | 2016 Actual €'000 | 2017 Actual €'000 | 2018 Forecast €'000 | 2019 Projection €'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Investment property | 13,522 | 13,685 | 15,244 | 15,562 | 15,562 |
| Property, plant and equipment | 41 | 379 | 284 | 178 | 72 |
| Loans and other receivables | 1,239 | 1,439 | 7,541 | 2,516 | 2,516 |
| | 14,802 | 15,503 | 23,069 | 18,256 | 18,150 |
| **Current assets** | | | | | |
| Loans and other receivables | 497 | 383 | 548 | 660 | 811 |
| Cash and cash equivalents | 91 | 47 | 115 | 242 | 468 |
| | 588 | 430 | 663 | 902 | 1,279 |
| **Total assets** | **15,390** | **15,933** | **23,732** | **19,158** | **19,429** |
| **EQUITY** | | | | | |
| Equity and reserves | 14,015 | 14,353 | 14,016 | 14,605 | 15,139 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Bank borrowings and loans | - | - | 5,943 | 1,752 | 1,541 |
| Deferred tax liabilities | 1,080 | 1,080 | 1,227 | 1,311 | 1,311 |
| | 1,080 | 1,080 | 7,169 | 3,063 | 2,852 |
| **Current liabilities** | | | | | |
| Bank overdraft and loans | - | - | 433 | 100 | 100 |
| Other financial liabilities | 38 | 326 | 1,000 | 768 | 756 |
| Other payables | 257 | 174 | 1,113 | 622 | 582 |
| | 295 | 500 | 2,547 | 1,490 | 1,438 |
| | **1,375** | **1,580** | **9,716** | **4,553** | **4,290** |
| **Total equity and liabilities** | **15,390** | **15,933** | **23,732** | **19,158** | **19,429** |

| **Key Accounting Ratios** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **FY2019** |
|---|---|---|---|---|---|
| Value to loan ratio (times) *(Investment property/net debt)* | n/a | n/a | 2.10 | 6.54 | 8.07 |
| Gearing ratio *(Net debt/net debt and shareholders' equity)* | 0% | 2% | 34% | 14% | 11% |

*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. During FY2017, the Group constructed 500 sqm of recreation area at a cost of €1.2 million and this was leased out during FY2018.

Rental income generated in FY2017 amounted to €0.8 million, in line with prior year revenue of €0.8 million in FY2016. Overall, the company registered a profit after tax amounting to €0.6 million (FY2016: €0.5 million). It is projected that revenue will increase from €0.8 million in FY2017 to €0.9 million in FY2018, and profit after tax is projected to amount to €0.6 million (FY2017: €0.6 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 2017, the aggregate net asset value of the Guarantors amounted to €37.0 million (FY2016: €37.3 million). It is projected that the net asset value of the Guarantors as at 31 December 2018 and 31 December 2019 will, in aggregate, amount to €37.6 million and €38.2 million, respectively.

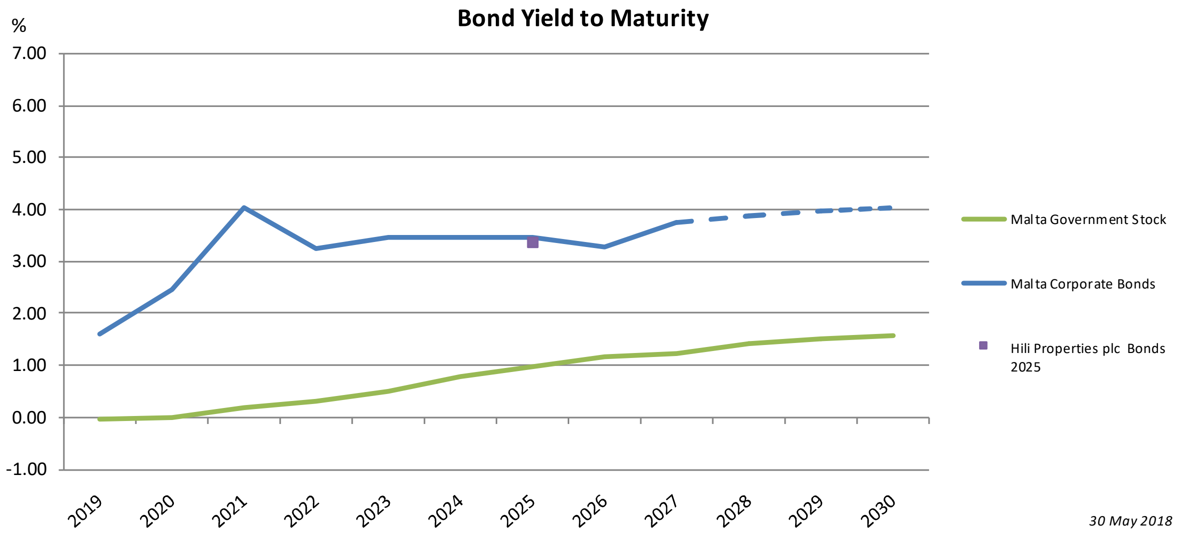
# PART 3 – COMPARABLES

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 | 2.44 | 6.29 | 68,589 | 14,418 | 66.04 |
| 6% Pendergardens Dev. plc Secured € 2022 Series II | 27,000,000 | 3.23 | 6.29 | 68,589 | 14,418 | 66.04 |
| 4.25% Gap Group plc Secured € 2023 | 40,000,000 | 3.47 | 2.61 | 56,906 | 6,696 | 85.08 |
| 5.3% United Finance Plc Unsecured € Bonds 2023 | 8,500,000 | 4.14 | 1.19 | 21,625 | 4,844 | 69.04 |
| 6% AX Investments Plc Unsecured € 2024 | 40,000,000 | 3.47 | 4.44 | 286,318 | 173,323 | 26.09 |
| 5.3% Mariner Finance plc Unsecured € 2024 | 35,000,000 | 3.45 | 4.42 | 77,088 | 38,701 | 45.62 |
| 5% Hal Mann Vella Group plc Secured Bonds € 2024 | 30,000,000 | 3.74 | 3.05 | 107,801 | 39,813 | 54.01 |
| 5.1% 1923 Investments plc Unsecured € 2024 | 36,000,000 | 4.38 | 1.79 | 118,490 | 33,711 | 58.11 |
| **4.5% Hili Properties plc Unsecured € 2025** | **37,000,000** | **3.47** | **1.26** | **135,879** | **38,358** | **68.23** |
| 4.25% Corinthia Finance plc Unsecured € 2026 | 40,000,000 | 3.51 | 2.59 | 1,765,072 | 901,595 | 40.43 |
| 4.0% International Hotel Invest. plc Secured € 2026 | 55,000,000 | 3.43 | 3.03 | 1,602,317 | 884,632 | 36.36 |
| 4.0% MIDI plc Secured € 2026 | 50,000,000 | 3.28 | - 0.98 | 235,302 | 86,621 | 39.27 |
| 3.75% Premier Capital plc € Unsecured Bonds 2026 | 65,000,000 | 3.12 | 7.90 | 161,128 | 47,607 | 57.32 |
| 4.35% Hudson Malta plc Unsecured 2026 | 12,000,000 | 3.63 | 39.11 | 17,088 | 5,835 | 30.63 |
| 4.35% SD Finance plc € Unsecured Bonds 2027 | 65,000,000 | 3.74 | 5.46 | 217,599 | 65,698 | 47.74 |
| 4.0% Eden Finance plc Unsecured 2027 | 40,000,000 | 3.46 | 4.46 | 169,936 | 90,162 | 36.52 |
| 4% Stivala Group Finance plc Secured 2027 | 45,000,000 | 3.40 | 6.21 | 199,560 | 121,041 | 31.54 |

*30 May '18*

*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. |