Financial Analysis Summary

28 August 2020

Issuer

Hili Properties p.l.c.

Guarantors

Harbour (APM) Investments Limited

Hili Estates Limited

MZ INVESTMENT SERVICES

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

28 August 2020

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 2020 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 2017 to 31 December 2019 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 2017 to 2019 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 2020 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,

Evan Mohnani
Senior Financial Advisor

MZ Investment Services Ltd
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Rabat RBT 1523,
Malta
Tel: 2145 3739

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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, for the consideration 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 FY2019, the agreement was expected to be executed by the year 2022.

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 five directors entrusted with its overall direction and management.

Board of Directors

Geoffrey Camilleri	Acting Chairman
George T. Kakouras	Managing Director
Peter Hili	Non-Executive Director
David Aquilina	Independent Non-Executive Director
Laragh Cassar	Independent Non-Executive Director

The Managing Director is entrusted with the Company’s day-to-day management. He is supported in this role by Ms Daniela Pavia (Chief Financial Officer) together with several consultants, and benefits from the know-how gained by members and officers of the 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

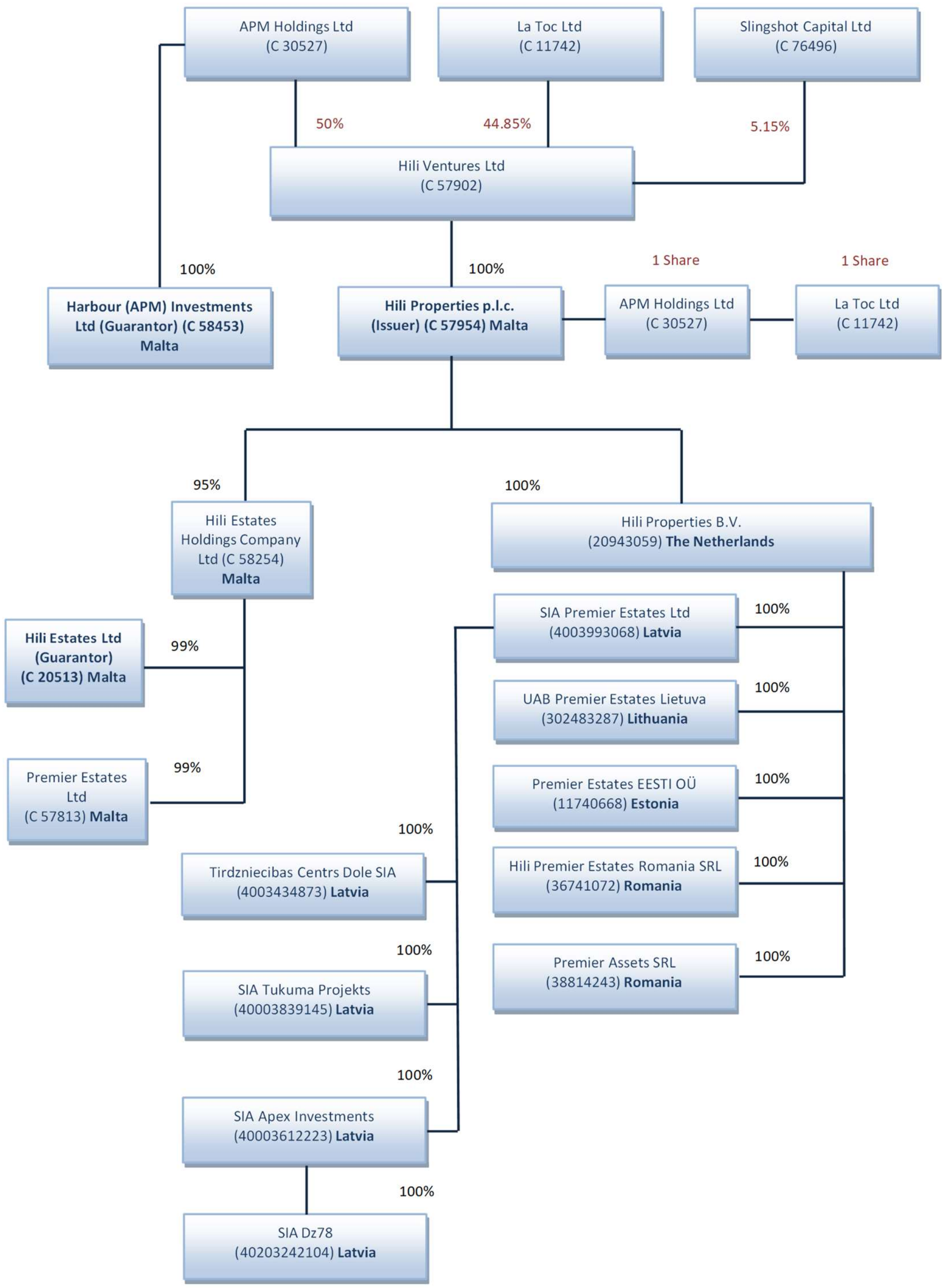
Carmelo *sive* Melo Hili	Sole Director

Hili Estates Limited

Peter Hili	Director
Geoffrey Camilleri	Director

3. ORGANISATIONAL STRUCTURE

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



In FY2019, the Group disposed of its 100% shareholding in Hili Properties (Swatar) Limited for a consideration of €7.1 million (see section 5 below for further detail).

4. REAL ESTATE PORTFOLIO

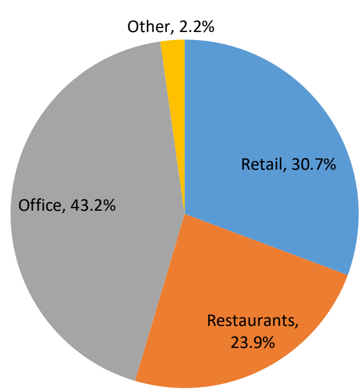
The table below provides an overview of the 23 properties held by the Group as at the date of this report (classified as 'investment property' in the statement of financial position), valued at €109.9 million. The portfolio comprises aggregate rentable space of 76,766m^2 which generates an annualised rental income of €8.0 million. The contracted gross rental yield is estimated at 7.3%.

Name of Property	Location	Description	Main Tenant	Rentable Area (m^2)	Valuation as at 31.12.2019 (€'000)	Occupancy rate (%) as at 31.12.19	WALT (in years)	Ownership
Imanta Restaurant	Riga, Latvia	McDonald's restaurant (with drive thru)	McDonald's	2,709	2,200	100	11.8	Freehold
Vienibas Restaurant	Riga, Latvia	McDonald's restaurant (with drive thru)	McDonald's	3,497	2,200	100	12.3	Freehold
Ulmana Restaurant	Riga, Latvia	McDonald's restaurant (with drive thru)	McDonald's	2,000	1,700	100	15.4	Freehold
Dainava Restaurant	Kaunas, Lithuania	McDonald's restaurant (with drive thru)	McDonald's	3,021	2,200	100	11.0	Freehold
Svajone Restaurant	Vilnius, Lithuania	McDonald's restaurant (in a building complex)	McDonald's	580	2,200	100	11.3	Land is leased, building is freehold
Parnu Restaurant	Parnu, Estonia	McDonald's restaurant (with drive thru)	McDonald's	1,803	1,700	100	10.5	Freehold
M DIY Retails Centre	Tukums, Latvia	Retail	Kesko Senukai	3,370	1,600	100	2.3	Freehold
Supermarket and Retail Centre	Nicgales Street 2, Riga, Latvia	Retail	Rimi Latvia	2,890	6,500	100	4.3	Freehold
Supermarket and Retail Centre	Augusta Dombrovska Str. 23, Riga, Latvia	Retail	Rimi Latvia	4,365	5,400	97	3.0	Freehold
Supermarket and Retail Centre	Vienibas Ave. 95, Riga, Latvia	Retail	Rimi Latvia	1,343	1,660	94	3.7	Freehold
Supermarket and Retail Centre	Kremienu Street 4A, Riga, Latvia	Retail	Rimi Latvia	953	1,250	100	5.5	Land 700sqm is leased, building is freehold
Shopping Centre	Dzelzavas Street 78, Riga, Latvia	Retail	Rimi Latvia	3,448	6,600	100	8.3	Freehold
Vecmīlgrāvja 3. līnija	Riga, Latvia	Land		n/a	39	n/a	n/a	Freehold
Dole, Maskavas Street 357	Riga, Latvia	Retail	Rimi Latvia & Eliza K	8,039	10,729	98	3.1	734sqm of land is leased, other property is freehold
Hili Building	Luqa, Malta	Office space/ Warehousing facilities	Hili Ventures	5,535	15,731	100	8.7	Freehold
Transport House	Floriana, Malta	Office space	Ministry of Energy	900	2,105	100	7.9	Freehold

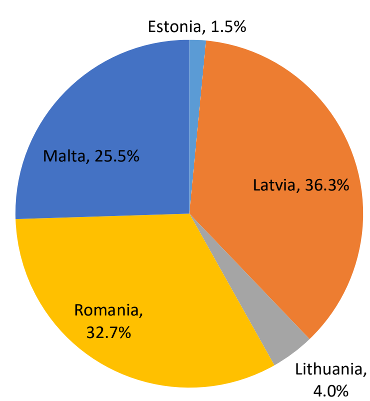
Name of Property	Location	Description	Main Tenant	Rentable Area (m^2)	Valuation as at 31.12.2019 (€'000)	Occupancy rate (%) as at 31.12.19	WALT (in years)	Ownership
Villa Marika	Madliena, Malta	Private residence		n/a	2,455	n/a	n/a	Freehold
McDonald's Sliema	Sliema, Malta	Restaurant and office space	McDonald's	1,518	7,743	100	10.7	Freehold
Art Business Centre 7	Bucharest, Romania	Hospital and Office space	Delta Health Care and Delta Health Trade	24,065	29,580	96	11.5	Freehold
Alba Iulia Restaurant	Alba, Romania	McDonald's restaurant (with drive thru)	McDonald's	1,185	1,227	100	20.0	Freehold
Satu Mare Restaurant	Satu Mare, Romania	McDonald's restaurant (with drive thru)	McDonald's	1,346	1,252	100	20.0	Freehold
Selgros Restaurant	Bucharest, Romania	McDonald's restaurant (with drive thru)	McDonald's	1,499	2,156	100	19.8	Freehold
Bragadiru Restaurant	Bucharest, Romania	McDonald's restaurant (with drive thru)	McDonald's	2,700	1,677	100	20.0	Freehold
Total				**76,766**	**109,904**	**98%**	**8.8**	

The portfolio is diversified by asset type and geography (as analysed below). The occupancy as at the date of this report is 98% with a weighted average unexpired lease term (WALT) of 8.8 years.

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) 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.

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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.

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

The property is constructed on an 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.

(x) 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%.

(xi) 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.

(xii) Shopping Centre, Dzelzavas Street, Riga, Latvia

The footprint of the property measures 8,062m^2 and is located in Purvciems, in the west of Riga on the east bank of the Daugava River. During FY2018, the property was demolished and re-development works commenced to construct a shopping centre at an estimated cost of *circa* €4.3 million. The leasable area of the new property has increased threefold to *circa* 4,000m^2. The new shopping centre was inaugurated in March 2019 and is 100% leased to two tenants, whereby a high profile supermarket chain occupies 91% of the lettable area, whilst the remaining area is occupied by another tenants. Agreements for 10-year-plus leases have been secured for the vast majority of the new building's leasable area spread across two floors.

(xiii) Dole, Retail Centre, Maskavas Street 257, Riga, Latvia

The property is a three-storey building having 8,000m^2 of gross leasable area and is occupied by more than 60 tenants. The shopping centre's tenants include supermarket chain Rimi, Olimpic Casino, quick service restaurant brand Hesburger, and beauty and household essentials chain Drogas. Dole is situated in the Kengarags neighbourhood, one of Riga's southern suburbs with an extensive catchment area. Located in a densely populated residential district, the shopping centre is well-positioned to offer a comprehensive range of everyday goods and services.

(xiv) 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.

(xv) 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.

(xvi) 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.

(xvii) 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.

(xviii) 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).

(xix) Alba lulia Restaurant, Alba, Romania

The McDonald's Alba lulia restaurant commenced operations on 21 December 2019. It is a drive-thru restaurant located near the city center of Alba lulia, in the premises of Kaufland parking area, in the central part of the country, in Alba County.

(xx) Satu Mare Restaurant, Satu Mare, Romania

The McDonald's Satu Mare restaurant commenced operations on 30 December 2019. It is a drive-thru restaurant located near the city center of Satu Mare in the northern part of the country, in Satu Mare County.

(xxi) Selgros Restaurant, Bucharest, Romania

The McDonald's Berceni Selgros restaurant commenced operations on 21 November 2018. It is a drive-thru restaurant located in a busy area in the 4th district in Bucharest.

(xxii) Bragadiru, Bucharest, Romania

The McDonald's Bragadiru restaurant is a drive-thru restaurant located on a busy road in a town called Bragadiru, which is 10km from Bucharest. The restaurant initiated operations on 31 December 2018.

HARBOUR (APM) INVESTMENTS LIMITED (GUARANTOR)

Harbour (APM) Investments Limited owns land at Benghajsa, Malta, valued at €25.5 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.

Two sites have been approved for the development of a solar farm as per Planning Authority permit PA10665/17. The proposed solar farm covers a larger area of land partly owned by 2 other third parties. This land is being leased to a third party to develop and operate a solar farm.

Planning Considerations and Site Potential

The sites at Benghajsa are predominantly located within a 'Reserve Site' 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 23 July 2020), it appears that over the past 25 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 'Reserve Site', 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, aside from the more recent solar farm permit noted above, an LPG terminal has already been developed within the said 'Reserved Area' duly covered by Malta Environment & Planning Authority ("MEPA") permit PA 867/09.

Considering the above, it therefore appears that while currently schemed as a 'Reserve Site', the areas concerned however offer significant medium to long term commercial/investment opportunities.

5. INVESTMENTS AND DISPOSALS

(a) **Disposal** - On 20 December 2019, the Group disposed of its shareholding in Hili Properties (Swatar) Limited for the consideration of €7.1 million. The said company owns a property, known as Tower Business Centre, 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. The company was sold at net asset value.

Furthermore, in FY2019, the Group sold Apartment 84, Duntes Street, Riga, Latvia for the amount of €152,000.

(b) **Property held for sale** – As at 31 December 2018, property held for sale amounted to €6.5 million and included the following supermarket and retail centres: (i) Smilšu Street, 92B Daugavpils, Latvia; (ii) Viestura Street, 10 Daugavpils, Latvia; (iii) Vienibas Ave. 95, Riga, Latvia; and (iv) Kremienu Street 4A, Riga, Latvia. The first 2 properties [(i) and (ii)] were sold in 2019 for €4.0 million, being the carrying aggregate value of the properties. At year end, the latter 2 properties [(iii) and (iv)] were reclassified from property held for sale to investment property.

(c) **Acquisition** - On 18 January 2019, the Group acquired a plot measuring 10,680 square metres located in Sporta Street in Riga, Latvia for a consideration of €2.3 million. This land was classified as property held for sale, where the value was uplifted to €3.8 million. The property was subsequently sold in FY2020.

6. BUSINESS DEVELOPMENT STRATEGY

Following the outbreak of the COVID-19 pandemic, the Directors are monitoring the situation to safeguard the interests of the Group and its stakeholders. The pandemic has had a significant impact on the economies in which the Group operates and given that a number of tenants may be in difficult financial circumstances, Group results may be impacted with material implications on the profitability, cash flows and financial position of the Group. Based on the outcome of cash flow projections prepared by the Group under a pessimistic scenario, factoring significant strain on rental rates and occupancy, the Directors consider the going concern assumption in the preparation of the financial statements as appropriate.

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 build 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 94%, 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

The COVID-19 pandemic has unsettled the global markets and obviously has impacted the real estate market. Therefore, the perspectives of the real estate market below are based on the assumption that the spread of this virus will be brought under control in the course of the year and the situation in the respective economies will remain positive in general. Nevertheless, the probability of an economic downturn in each of the reviewed countries remains high, which could lead to noticeable consequences for the real estate market.

Latvian Real Estate Retail Market[1]

Following strong, investment driven growth of 4.8% in 2018, GDP growth in Latvia slowed down considerably to 2.3% in 2019. With weaker demand from Latvia's major trading partners, both exports and investment are growing at a slower pace, and domestic consumption remains central to sustaining GDP growth.

2019 has been quite active for the development of the retail segment with almost 81,000 sqm of newly opened retail space in Riga. At the end of 2019, Riga had 730,000 sqm of total leasable space in shopping centres or 1.16 sqm of shopping area per capita (counting those over 5,000 sqm of gross leasable area "**GLA**" with over 10 tenants).

The largest multifunctional retail and office project Akropole was opened in Q2 2019. Located 5 km from Old Town in Salaspils Street, Riga, it comprises 60,000 sqm of shopping area and around 9,000 sqm of office space.

Expansion of the shopping park 'Alfa' was completed in Q3 2019, increasing the centre's total area from 99,000 sqm to 154,000 sqm. Alfa is considered to be the largest shopping centre in Latvia, providing its visitors with services from 210 different tenants and parking for 1,750 cars.

In Q4 2019, the new concept shopping centre Ozols was opened on the site of the former Galerija Azur shopping centre (total area of 29,500 sqm), with its largest tenants being K-Senukai and RIMI. The building and territory were reconstructed and expanded by the Lithuanian company KS Holding, which invested €35 million in the project.

[1] Real Estate Market Report 2020 (Ober-Haus, Sorainen, PWC)

The major retail chains RIMI and MAXIMA have also continued their expansion throughout Latvia. As at end of 2019, RIMI operated 128 stores within 4 concepts (RIMI Hyper, RIMI Super, RIMI Mini and RIMI Express), while Maxima operated 168 stores.

2019 saw an increase in the number of households that purchased various food products and household goods on the internet. In November 2019, RIMI's new online shopping site was launched; the company also launched the RIMI Drive in shopping centre Ozols, where shoppers pre-order their goods and complete the purchase directly from their car. Although such a shopping habit is gaining popularity, it is still a niche ripe for development, as only 5% of the population in Latvia regularly used such services in 2019.

Overall economic growth, salary and consumption increases influenced higher activity in the retail market during 2019. Retail trade turnover in Latvia increased by 2% in 2019. However, online shopping activity continues to have a negative impact on high-street retail market turnover. Every year more and more people turn to online shopping. The vacancy rate of shopping centres in Riga decreased from 4.0% to 3.2% in 2019.

In 2019, there were no significant changes in retail property rents in the centre of the city and shopping centres.

Romanian Real Estate Investment Market[2]

Romania’s investment volume broke the one-billion-euro barrier and totalled at the end of 2019 €1.06 billion, finally surpassing the previous peak volume reached 5 years ago. The year-end total investment volume was 7% higher than the figure registered in 2018 reflecting an upward trend since 2015. The average deal value for the entire year stood at €29 million, similar to previous year’s average value.

Bucharest attracted 64% of the total investment volume. The office sector dominated the transactional activity with 74% of the total volume, followed by retail with 16%, while industrial, hotels and mixed-use projects claimed a combined share of 10%.

2020 and beyond should see steady growth of investment volumes in line with the growth of the investible stock. Yield compression is expected to continue in the near future on the back of continuously low interest rates and some degree of convergence with other CEE markets notably Hungary. In Romania, investors mainly search for newly developed schemes in good locations, with high occupancy rates and strong covenants. Properties with already implemented new technology will be the most desired assets as the global trend is towards innovation, and the workplace infrastructure will support extensive collaborative working environments through technologies.

[2] Romania Real Estate Market Outlook 2020 (CBRE Research)

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. Prior to COVID-19, 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) generated a positive trend in the commercial property sector, in particular office space.

It is too early to reliably determine the impact that the pandemic may have on the commercial property sector in Malta. It is possible that landowners will proceed with the completion of projects currently under development, but new projects will be put on hold or commence once the situation stabilises. Rent rates may have to be reduced until there is a return to normality. Despite the uncertainty of the current situation, there is a cautiously optimistic sentiment that business activity can recover to some extent in Q1 2021.

PART 2 – PERFORMANCE REVIEW

The projected financial information detailed below relates to events in the future and is 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 COVID-19 outbreak has negatively impacted various industries across the business spectrum, causing a cutback in business operations across many sectors. In Q1 2020, a number of countries, including those in which the Group has operating activities, took preventative and protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their activities outside of their homes.

There remains significant uncertainty in the market and predictions, financial or otherwise, remain highly subjective. Given that a number of tenants may be in difficult financial circumstances, results expected to be registered during FY2020 may be impacted with material adverse implications on the profitability, cash flows and financial position of the Group.

8. FINANCIAL INFORMATION – THE GROUP

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 2017 to 2019. The financial information for the year ending 31 December 2020 has been provided by Group management.

Hili Properties p.l.c. **Consolidated Statement of Total Comprehensive Income** **for the year ended 31 December**	**2017** **Actual** **€'000**	**2018** **Actual** **€'000**	**2019** **Actual** **€'000**	**2020** **Forecast** **€'000**
Revenue	6,337	7,286	8,745	8,019
Net operating expenses	(1,859)	(1,857)	(2,546)	(3,063)
EBITDA	**4,479**	**5,429**	**6,199**	**4,956**
Depreciation & amortisation	(104)	(113)	(150)	(186)
Net investment income	1,186	724	3,942	1,539
Net finance costs	(3,551)	(3,496)	(3,758)	(3,378)
Profit before tax	**2,010**	**2,544**	**6,233**	**2,931**
Taxation	1,353	(434)	(779)	(602)
Profit after tax	**3,363**	**2,110**	**5,454**	**2,329**
Other comprehensive income				
Exchange diff. on translation of foreign operations	(228)	(27)	-	-
Total comprehensive income	**3,135**	**2,083**	**5,454**	**2,329**

Hili Properties p.l.c. **EBITDA (Earnings before interest, tax, depreciation and amortisation)** **for the year ended 31 December**	**2017** **Actual** **€'000**	**2018** **Actual** **€'000**	**2019** **Actual** **€'000**	**2020** **Forecast** **€'000**
EBITDA has been calculated as follows:				
Operating profit	4,375	5,316	6,049	4,770
Add back:				
Depreciation	104	113	150	186
EBITDA	**4,479**	**5,429**	**6,199**	**4,956**

Key Accounting Ratios	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Forecast
Operating profit margin *(EBITDA/revenue)*	71%	75%	71%	62%
Interest cover (times) *(EBITDA/net finance cost)*	1.26	1.55	1.65	1.47
Net profit margin *(Profit after tax/revenue)*	53%	29%	62%	29%
Earnings per share (€) *(Profit after tax/number of shares)*	0.12	0.05	0.14	0.06
Return on equity *(Profit after tax/shareholders' equity)*	9%	4%	9%	4%
Return on capital employed *(Operating profit/total assets less current liabilities)*	4%	4%	4%	4%
Return on assets *(Profit after tax/total assets)*	2%	1%	4%	2%

Source: MZ Investment Services Ltd

Revenue generated in **FY2017** amounted to €6.3 million, an increase of €1.5 million (+31%) from FY2016. In Q2 2017, the Group acquired a property in Romania, which generates €2.4 million in rent annually, for a total consideration of €30.6 million. The net increase in revenue emanated from the additional rental income from the mentioned property as from May 2017, partly offset 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.

Revenue for **FY2018** amounted to €7.3 million, an increase of €1.0 million (+15%) from FY2017, mainly on account of the first full year's rent receivable from the Romanian property acquired in Q2 2017. As a consequence, EBITDA increase by 21% from €4.5 million in FY2017 to €5.4 million in FY2018. Net investment income in FY2018 amounted to €0.7 million (FY2017: €1.2 million) and primarily comprised a gain on bargain purchase of €1.6 million relating to the acquisition of SIA Tirdzniecibas Centrs Dole, Riga, Latvia in December 2018, less a net decrease in fair value of investment properties amounting to €0.2 million, loss on disposal of investment property of €0.6 million and acquisition related costs amounting to €0.2 million.

Net finance costs were broadly unchanged when compared to the prior year at €3.5 million. Overall, total comprehensive income for FY2018 was lower by €1.0 million from a year earlier at €2.1 million (FY2017: €3.1 million), primarily due to a tax charge in FY2018 of €0.4 million as compared to a tax credit in FY2017 of €1.4 million, thus resulting in an adverse movement of €1.8 million.

In **FY2019**, revenue generated by the Group amounted to €8.7 million, a y-o-y increase of €1.5 million (+20%), principally due to rental income receivable from the supermarket & retail centre in Latvia acquired in the latter part of FY2018 as well as 2 newly acquired McDonald's restaurants in Romania. The increase in revenue more than offset the increase of €0.7 million in operating expenses. As a result, EBITDA increased from €5.4 million in FY2018 to €6.2 million (+14%).

During the year, net investment income amounted to €3.9 million (FY2018: €0.7 million) and mainly related to net increases in fair value of investment properties. Net finance costs amounted to €3.8 million in FY2019 compared to €3.5 million in FY2018. The primary difference was a loss of €240,000 on a derivative financial instrument. The Company reported in FY2019 total comprehensive income amounting to €5.4 million (FY2018: €2.1 million).

Rental income for **FY2020** is projected to decrease to €8.0 million, from €8.7 million in the prior year, mainly due to the loss of rental income from the Swatar property which was sold in FY2019. On the other hand, net operating expenses are expected to increase by €0.5 million to €3.1 million. As a consequence, EBITDA is projected to decrease considerably by 20% from €6.2 million in FY2019 to €5.0 million. The Group shall consider acquiring other properties in replacement of the Swatar property only when the current economic instability caused by the COVID-19 pandemic subsides. Net investment income in FY2020 is expected to amount to €1.5 million and includes a €1.1 million uplift in fair value of the Hili Building in Luqa.

Profit for the year has been estimated at €2.3 million compared to €5.5 million in FY2019 (-57%), on account of the above-mentioned decline in EBITDA as well as lower net investment income on a comparable basis.

Key accounting ratios – Operating profit margin is expected to decline from 71% in FY2019 to 62% due to higher net operating costs, but interest cover will only decline marginally from 1.65 times in FY2019 to 1.47 times. The significant reduction in projected net profit will adversely impact net profit margin by 33% to 29% (FY2019: 62%).

Hili Properties p.l.c. **Consolidated Statement of Cash Flows** **for the year ended 31 December**	**2017** **Actual** **€'000**	**2018** **Actual** **€'000**	**2019** **Actual** **€'000**	**2020** **Forecast** **€'000**
Net cash from operating activities	962	2,119	206	656
Net cash from investing activities	(31,028)	(10,757)	8,053	2,209
Net cash from financing activities	27,991	10,697	(4,003)	(7,169)
Net movement in cash and cash equivalents	**(2,075)**	**2,059**	**4,256**	**(4,304)**
Foreign exchange on cash and cash equivalents	(2)	(27)	-	-
Cash and cash equivalents at beginning of year	2,842	853	2,885	7,141
Cash and cash equivalents at end of year	**765**	**2,885**	**7,141**	**2,837**

Net cash generated from operating activities during 2019 amounted to €206,000 compared to €2.1 million in the prior financial year, primarily due to an adverse movement in trade and other payables and higher income tax paid.

With regard to investing activities, net cash inflows in 2019 amounted to €8.1 million and mainly included proceeds of €11.2 million received from sale of investment property and subsidiary company, less capital expenditure amounting to €3.7 million. In contrast, the Group had utilised €10.8 million in the previous year primarily to finance capital expenditure and acquisitions.

Net cash used in financing activities in 2019 amounted to €4.0 million (FY2018: cash inflow of €10.7 million). During the reviewed year, the Group effected net repayments of bank loans of €0.9 million, while amounts transferred to related parties and restricted cash amounted to €3.1 million. In the prior year, the Group increased its issued share capital by €11.8 million and net payments to banks and related parties amounted to €1.1 million.

In FY2020, net cash from operating activities is projected to amount to €656,000 compared to €205,000 in FY2019, the y-o-y increase emanating from higher revenues from Hili Estates Limited and higher rents throughout the portfolio. Net cash inflows from investing activities is estimated at €2.2 million. This amount is expected to be derived from the sale of land in Latvia (Sporta Street, Riga) for €3.9 million which will partly offset capital expenditure projected to amount to €1.7 million. The amount of €7.2 million is expected to be used in financing activities, of which, €4.0 million has been advanced to related companies while the remaining balance mainly relates to repayment of bank loans.

Hili Properties p.l.c. Consolidated Statement of Financial Position as at 31 December	**2017 Actual €'000**	**2018 Actual €'000**	**2019 Actual €'000**	**2020 Forecast €'000**
ASSETS				
Non-current assets				
Goodwill and intangible assets	17	17	16	16
Property, plant and equipment	323	316	194	214
Investment properties	104,030	113,016	109,904	112,553
Property held for sale	237	6,478	3,774	-
Other financial assets	24,500	26,800	24,500	24,500
Loans and receivables	2,323	1,226	1,232	5,352
Other non-current assets	728	1,286	1,635	1,883
	132,158	**149,139**	**141,255**	**144,518**
Current assets				
Loans and other receivables	280	291	140	322
Other assets	2,589	2,395	1,942	1,256
Cash and cash equivalents	853	2,917	7,141	2,837
	3,721	5,603	9,223	4,415
Total assets	**135,879**	**154,742**	**150,478**	**148,933**
EQUITY				
Equity and reserves				
Called up share capital	28,600	40,400	40,400	41,592
Other reserves	625	597	638	744
Retained earnings	8,920	10,937	16,083	18,612
Non-controlling interests	213	308	514	250
	38,358	**52,242**	**57,635**	**61,198**
LIABILITIES				
Non-current liabilities				
Borrowings and bonds	83,457	83,659	78,423	74,429
Other financial liabilities	2,500	2,518	3,778	2,087
Deferred tax & other non-current liabilities	3,439	3,497	2,536	3,305
	89,396	**89,674**	**84,737**	**79,821**
Current liabilities				
Bank loans	3,231	3,487	3,487	4,383
Other financial liabilities	1,719	4,205	552	548
Other current liabilities	3,175	5,134	4,067	2,983
	8,125	12,826	8,106	7,914
	97,521	**102,500**	**92,843**	**87,735**
Total equity and liabilities	**135,879**	**154,742**	**150,478**	**148,933**

Key Accounting Ratios	**FY2017 Actual**	**FY2018 Actual**	**FY2019 Actual**	**FY2020 Forecast**
Net debt to EBITDA (years) *(Net debt/EBITDA)*	19.16	15.51	12.06	15.33
Liquidity ratio (times) *(Current assets/current liabilities)*	0.46	0.44	1.14	0.56
Value to loan ratio (times) *(Investment property/net debt)*	1.21	1.34	1.47	1.48
Gearing ratio *(Net debt/net debt and shareholders' equity)*	69%	62%	56%	55%

Source: MZ Investment Services Ltd

As at 31 December 2019, total assets of the Group amounted to €150.5 million (FY2018: €154.7 million) and primarily comprised investment properties and property held for sale of €113.7 million (FY2018: €119.5 million), which are described in further detail in sections 4 and 5 of this report.

Other than equity, the Group is principally financed through bank loans and bonds, which amounted to €81.9 million in FY2019 compared to €87.1 million in FY2018. 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.

Following the disposal of assets in FY2019, the gearing ratio of the Group decreased from 62% in FY2018 to 56%. An alternative to assessing leverage is the net debt to EBITDA ratio, which improved from 15.51 years in FY2018 to 12.06 years in FY2019. Similarly, the value to loan ratio showed a healthier position at 1.47 times from 1.34 times in FY2018.

Total assets in FY2020 is expected to decrease by €1.5 million to €148.9 million, mainly due to the sale of property amounting to €3.9 million, partly offset by an increase in investment properties of €2.7 million. Furthermore, cash balances are expected to decrease by €4.3 million while loans and receivables to related parties are projected to increase by €4.1 million.

In FY2020, total liabilities are forecast to decrease by €5.1 million to €87.7 million. A decrease of €4.8 million and €1.1 million is projected in borrowings & financial liabilities and other current liabilities respectively when compared to the prior year. No material change to the Company's gearing is being projected, but net debt to EBITDA is expected to deteriorate from 12.06 years in FY2019 to 15.33 years in FY2020.

Called up share capital is projected to increase by €1.2 million to €41.6 million through capitalisation of a loan advanced from the ultimate parent company.

VARIANCE ANALYSIS

The following financial information relates to the variance analysis between the forecasted financial information for the year ended 31 December 2019 included in the prior year's Financial Analysis Summary dated 24 June 2019 and the audited consolidated financial statements for the year ended 31 December 2019.

Hili Properties p.l.c. **Consolidated Statement of Total Comprehensive Income** **for the year ended 31 December 2019**	**Actual** **€'000**	**Forecast** **€'000**	**Variance** **€'000**
Revenue	8,745	8,617	128
Net operating expenses	(2,546)	(2,382)	(164)
EBITDA	**6,199**	**6,235**	**(36)**
Depreciation & amortisation	(150)	(129)	(21)
Net investment income	3,942	1,023	2,919
Net finance costs	(3,758)	(3,762)	4
Profit before tax	**6,233**	**3,367**	**2,866**
Taxation	(779)	(574)	(205)
Profit after tax	**5,454**	**2,793**	**2,661**
Other comprehensive income			
Exchange diff. on translation of foreign operations	-	-	-
Total comprehensive income	**5,454**	**2,793**	**2,661**

As presented in the above table, the Group's revenue for FY2019 was marginally higher than forecast by €128,000, whilst net operating expenses were higher than projected by €164,000. This resulted in an adverse variance at EBITDA level of €36,000.

Actual profit after tax was higher than forecast by €2.7 million on account of net investment income amounting to €3.9 million compared to the estimate of €1.0 million. The favourable difference of €2.9 million related to higher fair values on land in Latvia and three properties in Romania.

Hili Properties p.l.c.
Consolidated Statement of Financial Position
as at 31 December 2019

	Actual €'000	Forecast €'000	Variance €'000
ASSETS			
Non-current assets			
Goodwill and intangible assets	16	16	-
Property, plant and equipment	194	194	-
Investment properties	109,904	106,624	3,280
Property held for sale	3,774	-	3,774
Other financial assets	24,500	24,900	(400)
Loans and receivables	1,232	1,228	4
Other non-current assets	1,635	1,314	321
	141,255	**134,276**	**6,979**
Current assets			
Loans and other receivables	140	289	(149)
Other assets	1,942	2,695	(753)
Cash and cash equivalents	7,141	8,964	(1,823)
	9,223	11,947	(2,724)
Total assets	**150,478**	**146,224**	**4,255**
EQUITY			
Equity and reserves			
Called up share capital	40,400	40,400	-
Other reserves	638	597	41
Retained earnings	16,083	13,681	2,402
Non-controlling interests	514	356	158
	57,635	**55,034**	**2,601**
LIABILITIES			
Non-current liabilities			
Borrowings and bonds	78,423	76,977	1,446
Other financial liabilities	3,778	2,900	878
Deferred tax & other non-current liabilities	2,536	2,311	225
	84,737	**82,188**	**2,549**
Current liabilities			
Bank loans	3,487	4,048	(561)
Other financial liabilities	552	391	161
Other current liabilities	4,067	4,562	(495)
	8,106	9,001	(895)
	92,843	**91,189**	**1,654**
Total equity and liabilities	**150,478**	**146,223**	**4,255**

Actual amount of total assets were higher than forecast by €4.3 million, mainly on account of uplifts in fair values of investment property amounting to €2.9 million not reflected in the projections, lower than expected asset disposals of *circa* €2.5 million and lower cash balances amounting to €1.8 million.

Total equity and reserves were higher than expected by €2.6 million in consequence of the gains in fair value of property mentioned above. Borrowings and other financial liabilities were higher than expected by €1.9 million.

Hili Properties p.l.c. **Consolidated Statement of Cash Flows** **for the year ended 31 December 2019**	**Actual** **€'000**	**Forecast** **€'000**	**Variance** **€'000**
Net cash from operating activities	206	1,033	(827)
Net cash from investing activities	8,053	14,775	(6,722)
Net cash from financing activities	(4,003)	(9,729)	5,726
Net movement in cash and cash equivalents	**4,256**	**6,079**	**(1,823)**
Foreign exchange on cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of year	2,885	2,885	-
Cash and cash equivalents at end of year	**7,141**	**8,964**	**(1,823)**

Actual net movement in cash and cash equivalents was lower than projected by €1.8 million. Net operating cashflow was lower by €0.8 million, mainly on account of higher income tax and adverse working capital movements.

In investing activities, the Group had projected a higher amount of asset disposals which would have generated €6.7 million of additional funds, part of which would have been deployed to repay bank borrowings and effect payments to related parties. As such, net cash inflows from investing activities was lower than expected by €6.7 million, while net cash used in financing activities was lower than projected by €5.7 million.

9. FINANCIAL INFORMATION - HARBOUR (APM) INVESTMENTS LTD

The projected financial information detailed below relates to events in the future and is 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 years ended 31 December 2017 to 2019. The financial information for the year ending 31 December 2020 has been provided by Group management.

Harbour (APM) Investments Ltd Income Statement for the year ended 31 December	**2017 Actual €'000**	**2018 Actual €'000**	**2019 Actual €'000**	**2020 Forecast €'000**
Administrative expenses	(8)	(7)	(8)	(8)
Finance and other income	86	-	86	86
Net finance costs	(67)	34	(44)	(28)
Profit before tax	**11**	**27**	**34**	**50**
Taxation	(7)	(12)	(14)	(20)
Profit after tax	**4**	**15**	**20**	**30**

Harbour (APM) Investments Ltd Cash Flow Statement for the year ended 31 December	**2017 Actual €'000**	**2018 Actual €'000**	**2019 Actual €'000**	**2020 Forecast €'000**
Net cash from operating activities	8	15	(63)	30
Net cash from investing activities	(233)	-	-	-
Net cash from financing activities	225	(15)	64	(30)
Net movement in cash and cash equivalents	**-**	**-**	**1**	**-**
Cash and cash equivalents at beginning of year	1	1	1	2
Cash and cash equivalents at end of year	**1**	**1**	**2**	**2**

Harbour (APM) Investments Ltd Balance Sheet as at 31 December	2017 Actual €'000	2018 Actual €'000	2019 Actual €'000	2020 Forecast €'000
ASSETS				
Non-current assets				
Investment property	25,007	25,007	25,507	25,507
Loans and other receivables	1,956	1,721	1,722	1,722
	26,963	26,728	27,229	27,229
Current assets				
Loans and other receivables	-	323	405	491
Cash and cash equivalents	1	1	2	2
	1	324	407	493
Total assets	**26,964**	**27,052**	**27,636**	**27,722**
EQUITY				
Equity and reserves	22,990	23,005	23,485	23,515
LIABILITIES				
Non-current liabilities				
Bank borrowings and other financial liabilities	1,284	1,039	289	289
Deferred tax liabilities	2,000	2,000	2,040	2,040
	3,284	3,039	2,329	2,329
Current liabilities				
Other payables	455	762	1,072	1,642
Bank loans	235	246	750	236
	690	1,008	1,822	1,878
	3,974	**4,047**	**4,151**	**4,207**
Total equity and liabilities	**26,964**	**27,052**	**27,636**	**27,722**

Key Accounting Ratios	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Value to loan ratio (times) *(Investment property/net debt)*	16.47	19.48	24.60	48.77
Gearing ratio *(Net debt/net debt and shareholders' equity)*	0.06	0.05	0.04	0.02

Source: MZ Investment Services Ltd

The company is the owner of land at Benghajsa, Malta, which as at 31 December 2019 was valued at €25.5 million. An agreement has been signed where the Company is to acquire HIL by 2022 (further detail provided in section 1 of this report).

No significant activities occurred during FY2019 and no material movements are forecasted for FY2020.

10. FINANCIAL INFORMATION - HILI ESTATES LIMITED

The projected financial information detailed below relates to events in the future and is 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 2017 to 2019. The financial information for the year ending 31 December 2020 has been provided by Group management.

Hili Estates Ltd Income Statement for the year ended 31 December	**2017 Actual €'000**	**2018 Actual €'000**	**2019 Actual €'000**	**2020 Forecast €'000**
Revenue	820	940	994	1,073
Net operating expenses	(208)	(29)	(153)	(187)
Operating profit	**613**	**911**	**841**	**886**
Investment income/(losses)	313	215	(13)	1,066
Net finance income	50	70	69	90
Profit before tax	**975**	**1,196**	**897**	**2,042**
Taxation	(312)	(258)	(290)	(413)
Profit after tax	**663**	**938**	**607**	**1,629**

Hili Estates Ltd Cash Flow Statement for the year ended 31 December	**2017 Actual €'000**	**2018 Actual €'000**	**2019 Actual €'000**	**2020 Forecast €'000**
Net cash from operating activities	909	(429)	818	578
Net cash from investing activities	(6,766)	4,718	(3,084)	(69)
Net cash from financing activities	5,925	(4,296)	2,398	(371)
Net movement in cash and cash equivalents	**68**	**(7)**	**132**	**138**
Cash and cash equivalents at beginning of year	47	115	108	240
Cash and cash equivalents at end of year	**115**	**108**	**240**	**378**

Hili Estates Ltd Balance Sheet as at 31 December	**2017 Actual €'000**	**2018 Actual €'000**	**2019 Actual €'000**	**2020 Forecast €'000**
ASSETS				
Non-current assets				
Investment property	15,244	15,650	15,731	16,900
Property, plant and equipment	284	190	95	1
Right-of-use asset	-	-	30	-
Loans and other receivables	7,541	2,520	3,070	5,524
	23,069	18,360	18,926	22,425
Current assets				
Loans and other receivables	548	1,163	3,713	1,560
Cash and cash equivalents	115	108	240	378
	663	1,271	3,953	1,938
Total assets	**23,732**	**19,631**	**22,879**	**24,363**
EQUITY				
Equity and reserves	14,016	14,468	15,075	16,704
LIABILITIES				
Non-current liabilities				
Bank borrowings and loans	5,943	1,464	3,834	3,480
Deferred tax and other non-current liabilities	1,227	1,252	1,260	1,258
	7,169	2,716	5,094	4,738
Current liabilities				
Bank overdraft and loans	433	195	452	460
Other financial liabilities	1,000	1,865	1,716	1,844
Other payables	1,113	387	542	617
	2,547	2,447	2,710	2,921
	9,716	**5,163**	**7,804**	**7,659**
Total equity and liabilities	**23,732**	**19,631**	**22,879**	**24,363**

Key Accounting Ratios	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Value to loan ratio (times) *(Investment property/net debt)*	2.10	4.58	2.73	2.93
Gearing ratio *(Net debt/net debt and shareholders' equity)*	34%	19%	28%	26%

Source: MZ Investment Services Ltd

During the period under review, HEL was principally engaged in the management of one property – the Hili Building in Luqa, Malta.

Rental income generated in FY2019 amounted to €994,000, an increase of 6% when compared to the prior year (FY2018: €940,000). Profit for the year decreased from €938,000 in FY2018 to €607,000, primarily on account of an increase in net operating expenses of €124,000, as well as a decrease in fair value of property amounting to €13,000 compared to a fair value uplift in FY2018 of €215,000 (an adverse variance of €228,000).

In FY2019, the bank loan facility was increased from €1.7 million in FY2018 to €4.3 million. This facility is secured by a special hypothec over the investment property of the company, amongst other collateral. As such, the value to loan ratio declined from 4.58 times in FY2018 to 2.73 times, while the gearing ratio changed from 19% in FY2018 to 28% in FY2019.

The above-mentioned bank funds were on-lent to the company's immediate parent. As at 31 December 2019, net loans and receivables from related entities amounted to €6.1 million, an increase of €3.3 million from €2.8 million in FY2018.

The forecast profit after tax for FY2020 is estimated at €1.6 million (FY2019: €607,000). The increase will be driven mainly by higher rental income from €994,000 in FY2019 to €1.1 million and an uplift in fair value of property amounting to €1.1 million (FY2019: nil).

No material movements are expected in the statement of financial position for FY2020 compared to FY2019.

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 2019, the aggregate net asset value of the Guarantors amounted to €38.6 million (FY2018: €37.5 million). It is projected that the net asset value of the Guarantors as at 31 December 2020 will, in aggregate, amount to €40.2 million.

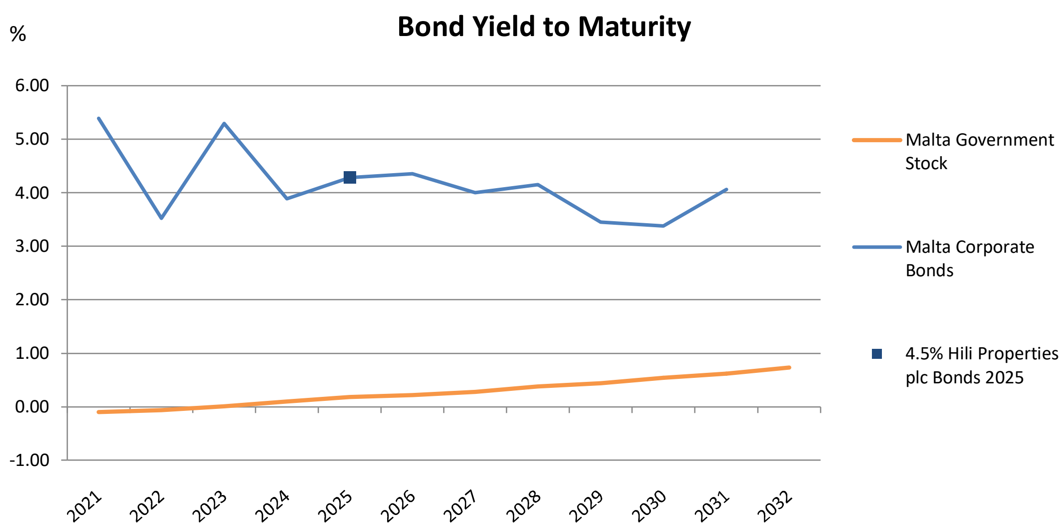
PART 3 – COMPARABLES

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** (%)
5.80% International Hotel Investments plc 2021	20,000,000	5.39	3.01	1,687,198	897,147	37.31
3.65% GAP Group plc Secured € 2022	36,736,700	3.52	2.22	87,886	11,155	77.98
6.00% Pendergardens Developments plc Secured € 2022 Series	26,781,200	3.36	3.75	81,524	28,343	37.45
4.25% GAP Group plc Secured € 2023	19,394,000	3.87	2.22	87,886	11,155	77.98
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	5.29	1.44	36,921	8,038	70.88
5.80% International Hotel Investments plc 2023	10,000,000	5.11	3.01	1,687,198	897,147	37.31
6.00% AX Investments Plc € 2024	40,000,000	4.45	5.55	342,395	226,115	19.63
6.00% International Hotel Investments plc € 2024	35,000,000	5.36	3.01	1,687,198	897,147	37.31
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	3.89	4.81	95,310	47,100	48.85
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	3.46	2.67	117,625	45,146	53.77
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	5.11	3.30	137,275	45,063	30.57
4.25% Best Deal Properties Holding plc Secured € 2024	16,000,000	3.49	-	27,455	3,366	85.88
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	5.50	3.01	1,687,198	897,147	37.31
5.10% 6PM Holdings plc Unsecured € 2025	13,000,000	5.10	4.03	4,066	- 18,883	-
4.50% Hili Properties plc Unsecured € 2025	**37,000,000**	**4.28**	**1.65**	**150,478**	**57,635**	**56.47**
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	4.35	6.47	48,019	6,405	81.08
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	4.43	2.53	1,859	960,153	37.33
4.00% International Hotel Investments plc Secured € 2026	55,000,000	3.88	3.01	1,687,198	897,147	37.31
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.47	8.99	273,233	57,082	60.43
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	3.73	3.01	1,687,198	897,147	37.31
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	3.25	5.55	341,785	227,069	19.11
4.35% SD Finance plc Unsecured € 2027	65,000,000	4.35	8.48	316,563	132,582	31.98
4.00% Eden Finance plc Unsecured € 2027	40,000,000	4.00	6.42	199,265	113,124	28.12
4.00% Stivala Group Finance plc Secured € 2027	45,000,000	3.76	4.92	225,284	123,107	38.32
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	4.15	3.87	628,916	110,128	77.11
3.65% Stivala Group Finance plc Secured € 2029	15,000,000	3.45	4.92	225,284	123,107	38.32
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	4.07	3.87	628,916	110,128	77.11
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.68	5.55	341,785	227,069	19.11

03-Aug-20

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, MZ Investment Services Ltd



Source: Malta Stock Exchange, Central Bank of Malta, MZ Investment Services Ltd 3 August 2020

To date, there are no corporate bonds which have a redemption date beyond 2032.

The bonds are trading at a yield of 4.28%, which is in line with other corporate bonds maturing in the same year. The premium over FY2025 Malta Government Stock is 410 basis points.

Due to the global economic fallout from the coronavirus outbreak, the difference between corporate bond yields and benchmark Malta Government Stock yields has widened across the entire yield curve. This unprecedented event has brought about an economic slowdown, which will likely adversely affect operational results of a number of companies.

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.
Net debt to EBITDA	The net debt to EBITDA is a measurement of leverage, calculated as a company's interest bearing liabilities minus cash or cash equivalents, divided by its EBITDA. This ratio shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
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.