
Financial Analysis Summary

24 June 2019

Issuer

Hili Properties p.l.c.

Guarantors

Harbour (APM) Investments Limited

Hili Estates Limited

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

24 June 2019

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 2019 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 2016 to 31 December 2018 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 2016 to 2018 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 2019 and 31 December 2020 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.
- (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, and to hold, manage and sell, 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, and to hold, manage and sell, movable and immovable property or other assets, both locally and overseas.

HIL owns one property which comprises a parcel of land measuring *circa* 92,000m² in Benghajsa, Malta. In virtue of a promise of share purchase agreement entered into by and between APM Holdings Limited, the Company and Hili Ventures Limited on 25 August 2015, the Company agreed to acquire from APM Holdings Limited all of the ordinary shares held by APM Holdings Limited in HIL, in consideration of the total price of €25 million. The said promise of share purchase agreement shall expire on 31 December 2022.

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 FY2018, 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, and to hold, manage and sell, 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* 5,635m² 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

Richard Abdilla Castillo	Non-Executive Chairman
Sandra Murniece	Managing Director
Carmelo <i>sive</i> Melo Hili	Non-Executive Director
Victor Tedesco	Non-Executive Director
Geoffrey Camilleri	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. 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

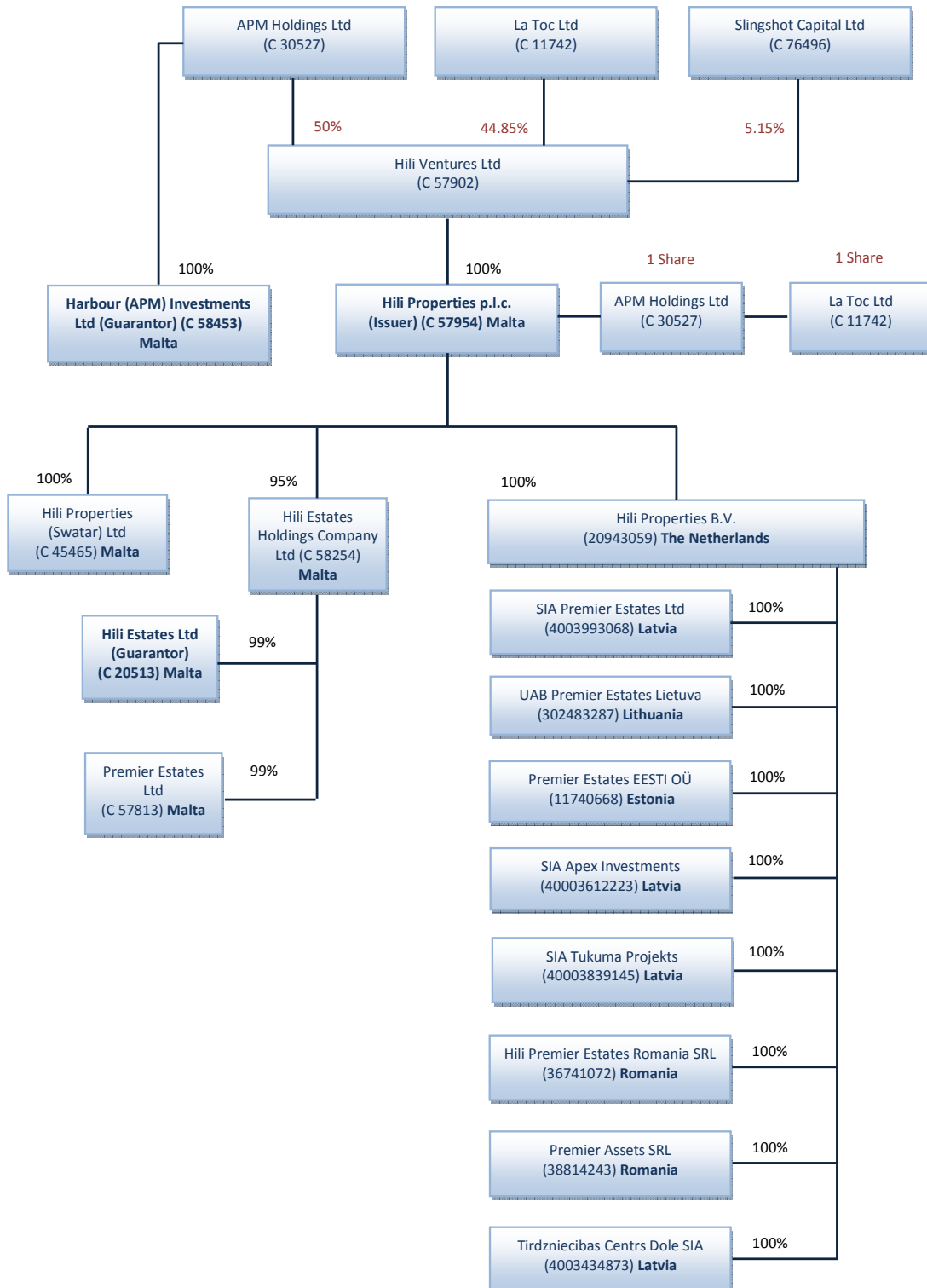
Carmelo <i>sive</i> Melo Hili	Sole Director
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Hili Estates Limited

Sandra Murniece	Director
Geoffrey Camilleri	Director

3. ORGANISATIONAL STRUCTURE

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



On 12 December 2018, the Group acquired 100% interest and control in SIA Tirdzniecibas Centrs Dole, a company registered in Latvia, which owns and operates a retail commercial outlet in Riga and derives rental income therefrom.

4. REAL ESTATE PORTFOLIO

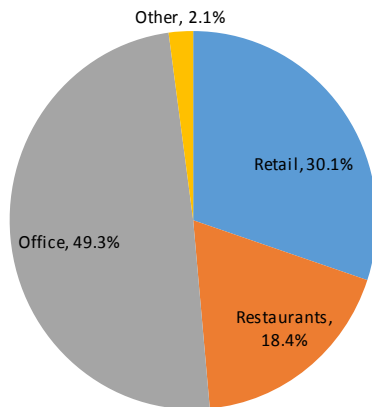
THE GROUP (INCLUDING HILI ESTATES LIMITED)

The table below provides an overview of the 25 properties held by the Group as at 31 December 2018, valued at €119.5 million (FY2017: €104.0 million)). The portfolio comprises aggregate rentable space of 80,462m² (FY2017: 69,361m²) and annualised rental income is estimated at €8.4 million (FY2017: €7.1 million).

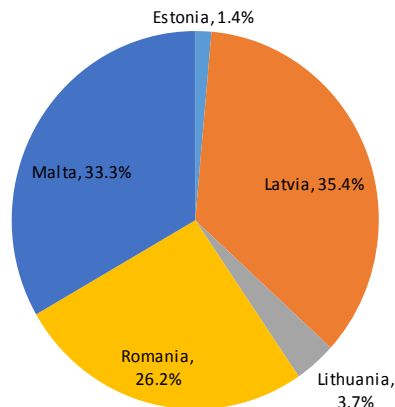
Name of Property	Location	Description	Main Tenant	Rentable Area (m ²)	Valuation as at 31.12.2018 (€'000)	Occupancy rate (%) as at 31.12.18	WALT (in years)	Ownership
Imanta Restaurant	Riga, Latvia	McDonald's restaurant (with drive thru)	McDonald's	2,709	2,200	100	12.8	Freehold
Vienibas Restaurant	Riga, Latvia	McDonald's restaurant (with drive thru)	McDonald's	3,497	2,200	100	13.3	Freehold
Ulmana Restaurant	Riga, Latvia	McDonald's restaurant (with drive thru)	McDonald's	2,000	1,700	100	16.4	Freehold
Apartment 84, Dunties	Riga, Latvia	Apartment		131	162	100	1.1	Freehold
Dainava Restaurant	Kaunas, Lithuania	McDonald's restaurant (with drive thru)	McDonald's	3,021	2,200	100	12.0	Freehold
Svajone Restaurant	Vilnius, Lithuania	McDonald's restaurant (in a building complex)	McDonald's	580	2,200	100	12.3	Land is leased, building is freehold
Parnu Restaurant	Parnu, Estonia	McDonald's restaurant (with drive thru)	McDonald's	1,803	1,700	100	11.5	Freehold
M DIY Retails Centre	Tukums, Latvia	Retail	Kesko Senukai	3,370	1,620	100	3.3	Freehold
Supermarket and Retail Centre	Nicgales Street 2, Riga, Latvia	Retail	Rimi Latvia	2,890	6,250	100	3.3	Freehold
Supermarket and Retail Centre	Augusta Dombrovska Str. 23, Riga, Latvia	Retail	Rimi Latvia	4,365	5,240	100	2.9	Freehold
Supermarket and Retail Centre	Vienibas Ave. 95, Riga, Latvia	Retail	Rimi Latvia	1,343	1,429	99	3.4	Freehold

Name of Property	Location	Description	Main Tenant	Rentable Area (m ²)	Valuation as at 31.12.2018 (€'000)	Occupancy rate (%) as at 31.12.18	WALT (in years)	Ownership
Supermarket and Retail Centre	Kremienu Street 4A, Riga, Latvia	Retail	Rimi Latvia	953	1,132	100	1.5	Land 700m2 is leased, building is freehold
Shopping Centre	Dzelzavas Street 78, Riga, Latvia	Retail	Rimi Latvia	1,231	6,010	n/a	5.5	Freehold
Supermarket and Retail Centre	Smilšu Street, 92B Daugavpils, Latvia	Retail	DLV & Rimi Latvia	1,053	1,317	100	4.5	Freehold
Hypermarket and Retail Centre	Viestura Street, 10 Daugavpils, Latvia	Retail	DLV & Rimi Latvia	2,609	2,600	100	1.5	Land is leased, building is freehold
Vecmilgrāvja 3. līnija	Riga, Latvia	Land		n/a	7	n/a	n/a	Freehold
Dole, Maskavas Street 357	Riga, Latvia	Retail	Rimi Latvia & Eliza K	8,039	10,400	98	3.3	Land - 734m2 is leased, other land and building is freehold
Hili Building	Luqa, Malta	Office space/ Warehousing facilities	Hili Ventures	5,536	15,650	100	9.7	Freehold
Transport House	Floriana, Malta	Office space	Ministry of Energy	900	2,135	100	8.9	Freehold
Villa Marika	Madliena, Malta	Private residence		n/a	2,400	n/a	n/a	Freehold
Tower Business Centre	Swatar B'Kara, Malta	Office space	Grant Thornton - Regus	4,650	12,000	85	5.2	Freehold
McDonald's Sliema	Sliema, Malta	Restaurant and office space	McDonald's	1,518	7,600	100	11.7	Freehold
Art Business Centre 7	Bucharest, Romania	Hospital and Office space	Delta Health Care and Delta Health Trade	24,065	29,134	100	12.4	Freehold
Selgros Restaurant	Bucharest, Romania	McDonald's restaurant (with drive thru)	McDonald's	1,499	818	100	19.8	Freehold
Bragadiru Restaurant	Bucharest, Romania	McDonald's restaurant (with drive thru)	McDonald's	2,700	1,389	100	20.0	Freehold
Total				80,462	119,494	97%	8.5	

Split of fair value by asset type - FY2018



Geographical split of fair value - FY2018



The portfolio is diversified by asset type and geography (as analysed above). Occupancy was 97% as at 31 December 2018, with a weighted average expired lease term (WALT) of 8.5 years and a current gross rental yield of 7.0%. From an annualised rent of €8.4 million, an amount of €2.5 million (29.5%) is receivable from Hili Ventures Group companies and other related parties.

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) Apartment 84, Dunties Street, Riga, Latvia

The property is located in a residential multi-apartment building located at 28, Dunties 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 Pramonės 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 13,284m² 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 16,785m² 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 an 8,368m² 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 6,670m² 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 3,733m² 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 footprint of the property measures 8,062m² 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* 4,000m². 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.

(xiv) Supermarket and Retail Centre, Smilšu Street, Daugavpils, Latvia

The property is constructed on a 2,770m² 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 7,679m² 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) Dole, Retail Centre, Maskavas Street 257, Riga, Latvia

The property is a three-storey building having 8,000m² of gross leasable area and is occupied by more than 60 tenants. The shopping centre's tenants include supermarket chain Rimi, Olympic 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.

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

The property, built on a plot area of 2,585m², 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.

(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* 1,250m². 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 3,400m² and comprises *circa* 24,000m² of gross leasable area (circa 5,000m² 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).

(xxiii) 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.

(xxiv) 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 *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 92,000m². 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 transshipment 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 Benghajsja sites offer significant medium to long term commercial/investment opportunities.

5. INVESTMENTS AND DISPOSALS

- (a) **Re-Development of Shopping Centre, Dzelzavas Street, Riga, Latvia** - During FY2018, the shopping centre was re-developed so as to increase the leasable area from 1,231m² to *circa* 4,000m². The aggregate development cost amounted to €4.3 million and the property was inaugurated in March 2019.
- (b) **Acquisition of Dole, Retail Centre, Maskavas Street 257, Riga, Latvia** - In December 2018, the Group acquired Dole Retail Centre, which comprises 8,000m² of gross leasable area spread over 3 floors and has more than 60 tenants. The said property was acquired for an aggregate consideration of €8.9 million.
- (c) **Acquisition of sites and development of Selgros and Bragadiru Restaurants, Bucharest, Romania** - In Q4 FY2018, the Group acquired 2 properties located in Bucharest for an aggregate consideration of €2.2 million. The said properties are being operated as McDonald's drive-thru restaurants.
- (d) **Acquisition of a plot of land** - In December 2018, one of the subsidiary undertakings in Latvia entered into a purchase agreement and transfer of ownership finalised on 18 January 2019, where the Group concluded the acquisition of a piece of land measuring 10,680 square metres located in Sporta Street in Riga, Latvia for a consideration of €2.3 million.
- (e) **Disposal of two properties in Latvia** - During FY2018, the Group sold an apartment and a supermarket & retail centre situated in Riga, Latvia, for an aggregate consideration of €0.8 million. The said properties are located at Apartment 79, Dunties, Riga, Latvia and Spidolas Street, Aizkraukle, Riga, Latvia.
- (f) **Property held for sale** - The Group is actively seeking to dispose of the properties included hereunder. These properties are presently operated as supermarket and retail centres and the aggregate carrying value thereof as at 31 December 2018 amounted to €6.5 million.
- Vienibas Ave. 95, Riga, Latvia;
 - Kremienu Street 4A, Riga, Latvia;
 - Smilšu Street, 92B Daugavpils, Latvia;
 - Viestura Street, 10 Daugavpils, 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 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 97%, 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 Property¹

A total of €34.1 billion was invested in European commercial property in Q1 2019. While this is down -32% from the €50.0 billion invested in Q1 2018, Europe is not alone. Global commercial investment volumes declined by -24% year-on-year (y-o-y), with the Asia Pacific region's commercial investment volumes falling by approximately -27% over the same period.

Despite headwinds facing multiple markets, including Italy entering a technical recession, there were pockets of strong y-o-y investment volume growth in the Czech Republic (+240%), Sweden (+142%), Finland (+141%), Norway (+36%) and Russia (+11%). Overall, office, retail and industrial investment volumes were all down y-o-y in Q1 2019. However, more investors saw opportunities in alternatives across Europe, with investment volumes increasing by +39% for Senior Housing and Care Homes, and by +8% for Hotels.

There remains a significant weight of capital targeting European assets, with just over 50% from cross-border sources. Evidence of this demand can be inferred through pricing, where European prime office yields came under further downward pressure in the year to Q1 2019. On average, European yields fell by -11 basis points ('bps').

The most significant falls were recorded in Warsaw (-55bps), Budapest (-50bps) and Zurich (-50bps). However, on a quarterly basis, many cities across the continent witnessed no yield movement in Q1 2019. This is expected, as yields in markets such as Berlin, Brussels, Dublin, Munich and Madrid are at multi-year lows.

¹ European Quarterly Commercial Property Outlook Q1 2019 (Knight Frank)

In Q1 2019, the average European prime office rent grew by +3% y-o-y to €531 per square metre per annum. The +19% rental increase in Amsterdam and +13% increase in Berlin could not offset falls in Moscow and Geneva.

Vacancy rates have continued to fall in Q1 2019. On average, the vacancy rate was 6.1% across our survey area, a fall of -0.69% y-o-y. The steepest falls recorded were in Moscow (-2.6% y-o-y), Prague (-1.9%) and Barcelona (-1.8%). The cities with the lowest vacancy rates in Q1 2019 were Berlin (1.5%), Munich (1.7%) and Paris (1.8%), highlighting the tight supply and demand in these markets.

In the coming year, capital value growth is expected in almost half the markets surveyed. Unsurprisingly, these are typically the markets with the lowest vacancy rates, including Paris, Prague and Zurich, where strong demand and limited supply play a substantial role. Furthermore, it is expected that rental prices will grow in multiple markets, including Moscow, Vienna and Milan. Ultimately, prime yields across office, retail and industrial markets are on the whole likely to remain stable over the year ahead, although, it is anticipated that there will be yield compression in office markets including Berlin, Prague and Brussels.

Latvian Real Estate Investment Market²

In 2018, the Latvian office market continued to experience a gradual increase in construction activity, with Riga registering an additional gross leasable area of 34,000m² to office stock. The trend from previous years to develop smaller scale office projects with gross leasable area ('GLA') of less than 5,000m² continued during 2018, with only one larger scale project with GLA over 15,000m² commissioned.

Five new speculative office buildings were commissioned during 2018. Nevertheless, more than half of new office space added to stock in 2018 consists of one building, the Juana Teika 3rd stage Tedors building (Hanner). Some office projects under active planning are not being transferred to construction, according to announced start dates, while the commissioning dates of some projects under construction are being postponed. Construction trends in the segment can be explained by rising construction costs, caution from developers as well as more cautious bank financing conditions and stricter procedures. During 2018, ABLV bank started its liquidation process and one of the largest office projects (New Hanza City) has been frozen.

Although commissioning of new office space is gradually increasing, overall construction of new developments remains insufficient and, due to low construction volumes in the pre-crisis period and during 2014-2016, Riga office stock is out-of-date. Currently, more than 60% of stock is older than 10 years and already requires some major impairment works. With existing construction volumes, the situation will not improve and can only improve if most announced projects are completed.

In 2018, take-up activity experienced a decrease compared to the previous year. This low level of activity might be explained by lack of new companies in the market and limited availability of expansion possibilities for local companies within existing office stock. Additionally, some potential

² Real Estate Market Overview 2019 (Colliers International, Sorainen, EY)

tenants are waiting for the promising pipeline of new office stock with approx. 100,000m² currently under construction.

Demand for office premises slowed compared to previous years. Nevertheless, the largest contribution in office take-up comes from IT and professional service companies. Although demand and take-up activity decreased, an insufficient amount of modern office space remained during 2018. Lack of professional office space allows landlords to play the main role in the leasing market, with less flexible agreement requirements.

Demand for co-working space continued to be active. Co-working office space with flexible working and lease terms remained convenient for smaller companies, especially for the rapidly expanding number of start-ups, individual enterprises and marketing companies. Several new office projects commissioned and under construction are allocating space for co-working.

In 2018, Class A rent rates remained stable with minor changes compared to 2017. New modern Class B office projects entered the market during 2018 and will also be commissioned in 2019 - that being the main reason why the gap between the lower and upper margins of Class B rates continues to widen.

Vacancy rates in Class A office space experienced a slight increase compared to 2017. This was mainly caused by the liquidation of ABLV bank and with Rietumu bank reducing its staff and decreasing its need for space in office buildings. At the same time in Class B office premises vacancy experienced a slight decrease to 4% in Class B1 but remained stable at a 7% level in Class B2.

The pipeline of new office projects under planning will be affected by rapidly growing construction costs and labour shortages in the industry. The promising pipeline of office buildings under construction and planning shows that the share of larger scale projects is likely to increase and companies representing professional services and IT will continue making the highest demand for office spaces. Rising number of new office projects and increasing competition between landlords will strengthen tenants' negotiation position. In 2019, rent rates for both Class A and B projects are expected to remain stable and after completion of office projects currently under construction, Class A office space vacancy might experience a slight upward movement.

Lithuanian Real Estate Investment Market²

In 2018, the office market was characterised by continued growth, although both Vilnius and Kaunas were calmer compared to a particularly buoyant previous year. Demand for modern office space remained robust and new companies continued to come to Lithuania. Rent rates for Class A office space demonstrated growth in both Vilnius and Kaunas, while Class B premises maintained a stable level. The average vacancy level grew slightly in the capital city but decreased in Kaunas and Klaipeda.

In 2018, the Vilnius office market was supplemented by six new properties with a total GLA of 58,500m². Consequently, total stock grew by 9% y-o-y. New supply was largely dominated by Class A business centres, which accounted for 78% of new office space. The development market remained

intense – a pipeline totalling GLA of 175,300m² was under construction at the end of 2018. Although development in the central business district continues to dominate, tenants' choice of modern office premises in other parts of the city is increasing.

Total take-up reached 64,000m² in 2018, of which a third was formed by a new SEB Bank HQ and SEB Global Services. Thus demand was largely driven by financial and IT companies. Expansion of existing market players and new entrants prove Vilnius to be a growing and attractive business destination. Rising requirements for office quality and modernity, coupled with competition over talent, fuelled pre-leases of new properties under construction and some even before the start of construction. Pre-leases accounted in total for 81% of spaces leased in 2018.

Following a historic year of supply growth, the Kaunas office market maintained rapid expansion in 2018. New supply amounted to GLA of 37,200m², resulting in an impressive 38% y-o-y increase in total stock. New properties continued to demonstrate qualitative improvement. This is particularly evident in the construction pipeline, dominated by new Class A office buildings. In total, GLA of 60,800m² was under construction at the end of the year. An active pace of construction energised the lease market and likewise increased the number of transactions. IT companies remained a major demand generator in Kaunas, supported by a strong educational base. The Klaipeda office market remained considerably calmer, although it recorded completion of one small-scale Class B1 project after a year-long break. New development in the port city continued to be limited due to more passive demand and market dynamics.

Demand for high-class office space in Vilnius further increased rent rates in Class A properties by 2% y-o-y on average, while Class B premises maintained stable rent rates. Although vacancy in Class A business centres stood below 1.5% for most of the year, in Q4 2018 new opening and migration from older to newer properties heightened vacancy to 5.2%. At the same time, office space selection remained limited to larger areas in a few office buildings. Vacancy in the Class B segment stood at 5.4% at the end of 2018, recording a gap of 4.3% in Class B1 properties vs 9.6% in Class B2 properties. Thus, modernisation solutions are to be considered in lower class office buildings to maintain a sustainable occupancy level in the long-term.

Similarly to Vilnius, the Kaunas market saw growth in rent rates for Class A office space, up by 2% y-o-y on average, and stability in rent rates for Class B office space. Despite a wave of new supply, vacancy decreased compared to the previous year, falling to 11.7% at the end of 2018. Although the vacancy level remains high, this demonstrates gradual absorption of new office space in the market.

In 2019-2020, the Vilnius office market is expected to expand by GLA of over 200,000m², followed by Kaunas with GLA of *circa* 85,000m², and Klaipeda remaining rather passive. Occupier demand is expected to remain strong, supported by new international companies settling in Vilnius and increasingly in Kaunas due to quality office space and the talent pool. Vacancy and rental levels are not expected to show major changes, while their further dynamics will depend on the balance between supply and demand in each market. Developers are paying more attention to sustainability of office buildings, which increases the attractiveness of a property for both tenants and investors.

Technological advances are expected to further widen the quality gap between old and new business centres, requiring older properties to initiate novel and creative solutions. Developers are expected to increasingly turn to place-making concepts, encompassing office, retail, recreation and community spaces. Flexible workspace and co-working are expected to continue expansion, supported by lack of options for an attractive working environment dedicated to small tenants and individuals. Tenants are expected to increasingly consider office premises through the lenses of talent attraction, retention and productivity as well as multigenerational workforce needs.

Estonian Real Estate Investment Market²

Development activity in the Tallinn office market continued unabated in 2018 and was spread throughout the city, in and around the Central Business District ('CBD') as well as in established suburban areas, including two office buildings in Ulemiste City. By the end of 2018, estimated total stock (speculative plus built-to-suit) of modern office facilities was approaching *circa* 1,000,000m². New total supply delivered to the market reached *circa* 94,500m² in 2018. Supply of office premises has considerably grown in CBD due to completion of several development projects, including a new milestone in CBD – the Maakri 19/21 Office Building, a large-scale high-rise project with over 18,000m² of Class A office space, occupied by lawyers, notaries, auditors and financial sector companies.

IT and high-tech companies are continually among the strongest contributors to take-up volume in 2018, looking for new premises across the whole city, although Ulemiste City continues to remain one of the main tech districts/areas in Tallinn. Take-up activity was largely driven by existing occupiers expanding and/or moving within the market with a moderate share of new demand coming from outside, mostly Scandinavian companies. Office space absorption rose to about 48,000m², compared to more than 35,000m² in the previous year.

Approximately half of total speculative take-up volume in 2018 was taken up in CBD and City Centre. The share take-up generated within CBD amounted to 27% in 2018. This can particularly be attributed to active development of projects in the Maakri Quarter, Zenith Business Centre, and expansion of the Ravala 2 office building in Tallinn CBD. The office market will continue to see relocations by some large space occupiers.

In 2018, rent rates in Tallinn remained steady. Demand for new office premises continued to remain buoyant, which pushed the vacancy rate in new office buildings down, and further caused the upper margin of asking rents to continue to climb. Thus the second half of 2018 saw an increase in the lower and upper margins of asking rents in new Class A and Class B1 office buildings. At the same time, very good offers were made, and are likely to continue, for large tenants occupying areas of around 1,200m² or more. Average vacancy reached 7%, pushed up by the vacancy rate in Class A buildings, which increased due to completion of the Maakri 19/21 high-rise. However, vacancy in Class B1 buildings remained slightly below 6%, indicating a good absorption ratio for new office premises. Some increase in vacancy rates (as well as some downward pressure on rents) observed in several existing Class B1 and older office buildings occurred due to high new supply and existing occupiers moving within the market.

Approximately 137,800m² of new speculative and built-to-suit office space is expected to be delivered to the market in 2019 and 2020, 17% of it on a built-to-suit basis and the remaining 83% on a speculative basis. The high level of supply enables tenants either to leave outdated offices or to renegotiate their leases. Development activity is seen both in CBD and well-developed citywide office subareas (Ulemiste City) and new developing areas (Veerenni, Telliskivi Quarter and Tallinn harbour area). Several large-scale development projects have been announced, although finding a qualified anchor tenant is and will be crucial for initiation of construction work. Take-up activity throughout 2019 is expected to continue to come from the information and communications sector. The office market will continue to see relocations of some large space occupiers in 2019. Office rent rates are expected to remain stable during 2019, although the gap between the lower and upper margins of asking rents may continue to widen. Downward pressure on rent rates will be observed for office buildings older than 10-15 years. 2019 may see a somewhat increased vacancy rate, especially in older office buildings (Class B2) as well as in some existing Class B1 buildings due to active construction of new office buildings.

Romanian Real Estate Investment Market³

Romania's economic growth continued to deliver solid results and despite rising domestic risks, there is still significant room for growth. Romanian assets retain an attractive yield spread compared to neighbouring peers and well-developed markets, despite the fact that the country has been the outlier in the CEE-6 countries (Czech Republic, Hungary, Poland, Slovakia, Romania and Bulgaria) in recent years in terms of economic activity dynamics.

The total transactional value neared €950 million in 2018, a marginal decrease compared to 2017. Expectations for 2018 were very positive and had the potential of possibly setting a new post-crisis high, but several large deals took longer than expected to conclude. That said, some of the largest deals ever were recorded, while at the same time, domestic capital increased more than fivefold versus 2017, accounting for one fifth of total volumes.

For prime office projects, yields settled around 7.25% (which is still some 25bps lower compared to the first half of 2017), a level confirmed by the benchmark trades in Bucharest. Consequently, domestic yields remain well above pre-crisis lows, whereas in other major CEE economies, the levels moved even further below said levels in 2018. For industrial assets, despite the lack of prime assets exchanging hands, it is believed that yields continued to shift lower at around 8.25%. For prime retail assets, the yield is roughly flat at around 7%. Funding options for real estate deals remain fairly varied, with central bank's surveys showing a favourable risk perception of the real estate segment from domestic banks. That said, such surveys came before the government decided in late 2018 to impose a significant tax on banks' assets (with its level tied to money market rates). This will likely lead to the imposition of tighter standards by banks at higher costs as well as less appetite for the granting of loans generally.

Under normal conditions, Romania's dynamic economy in recent years coupled with the attractive yield differential compared to products in neighbouring CEE countries (which, incidentally, saw

³ Romania Research & Forecast Report 2019 (Colliers International)

slower GDP growth rates than Romania) would support a healthy outlook for the real estate investment scene. There is a moderately optimistic outlook as it is believed that the positives still weigh more than the negatives, particularly in the long-term perspective. The current pipeline for real estate transactions looks good, with investors continuing to show healthy interest for products currently on the market.

However, there are some threats on the horizon. Besides the worsening macroeconomic picture and fresh uncertainties (both domestic and external), the imposition of the bank tax may possibly be the biggest threat to the investment market. This has the potential to reduce bank appetite for real estate products, though business volumes at banks at the start of the year were at normal levels.. Prime assets are expected to fare best in this environment, seeing good demand from lenders. Accordingly, this should support yields trending a bit lower in 2019, particularly as growth prospects in Romania are positive and prices remain attractive compared to pre-crisis levels.

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 presently being developed and others earmarked to commence development in the near future.

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 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 2016 to 2018. The financial information for the year ending 31 December 2019 and 31 December 2020 have been provided by Group management.

8. FINANCIAL INFORMATION – THE GROUP

Hili Properties Group Income Statement for the year ended 31 December					
	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000	€'000
Revenue	4,841	6,337	7,286	8,617	8,465
Net operating expenses	(1,709)	(1,859)	(1,857)	(2,382)	(2,069)
EBITDA	3,132	4,479	5,429	6,235	6,396
Depreciation & amortisation	(103)	(104)	(113)	(129)	(119)
Net investment income/(losses)	1,959	1,186	724	1,023	1,067
Net finance costs	(2,237)	(3,551)	(3,496)	(3,762)	(3,431)
Profit before tax	2,751	2,010	2,544	3,367	3,912
Taxation	(843)	1,353	(434)	(574)	(667)
Profit after tax	1,908	3,363	2,110	2,793	3,245
Other comprehensive income					
Exchange diff. on translation of foreign operations	-	(228)	(27)	-	-
Total comprehensive income	1,908	3,135	2,083	2,793	3,245

Hili Properties Group Cash Flow Statement for the year ended 31 December					
	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000	€'000
Net cash from operating activities	645	962	2,119	1,033	2,398
Net cash from investing activities	(458)	(31,028)	(9,529)	14,775	(8,449)
Net cash from financing activities	1,527	27,991	9,469	(9,729)	(1,573)
Net movement in cash and cash equivalents	1,714	(2,075)	2,059	6,079	(7,625)
Foreign exchange on cash and cash equivalents	-	(2)	(27)	-	-
Cash and cash equivalents at beginning of year	1,128	2,842	853	2,885	8,964
Cash and cash equivalents at end of year	2,842	765	2,885	8,964	1,339

Hili Properties Group Balance Sheet					
as at 31 December					
	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000	€'000
ASSETS					
Non-current assets					
Goodwill and intangible assets	3,225	17	17	16	16
Investment properties	67,655	104,030	113,016	106,624	116,021
Property held for sale	-	237	6,478	-	-
Other financial assets	12,500	24,500	26,800	24,900	24,900
Loans and receivables	2,323	2,323	1,226	1,228	1,228
Other non-current assets	792	1,051	1,494	1,508	1,853
	86,495	132,158	149,031	134,276	144,018
Current assets					
Property for resale	215	-	-	-	-
Loans and other receivables	6,069	280	291	289	289
Other assets	1,355	2,589	2,503	2,695	2,589
Cash and cash equivalents	2,907	853	2,917	8,964	1,339
	10,546	3,721	5,711	11,947	4,216
Total assets	97,041	135,879	154,742	146,224	148,234
EQUITY					
Equity and reserves					
Called up share capital	21,600	28,600	40,400	40,400	40,400
Other reserves	748	625	597	597	597
Retained earnings/(accumulated losses)	5,782	8,920	10,937	13,681	16,856
Non-controlling interests	92	213	308	356	426
	28,222	38,358	52,242	55,034	58,279
LIABILITIES					
Non-current liabilities					
Borrowings and bonds	57,749	83,457	83,659	76,977	74,829
Other financial liabilities	1,722	2,500	2,518	2,900	3,673
Deferred tax liabilities	4,950	3,439	3,497	2,311	2,311
	64,421	89,396	89,674	82,188	80,814
Current liabilities					
Bank loans	1,964	3,231	3,487	4,048	3,893
Other financial liabilities	151	1,719	4,205	391	477
Other current liabilities	2,283	3,175	5,134	4,562	4,771
	4,398	8,125	12,826	9,001	9,141
	68,819	97,521	102,500	91,189	89,955
Total equity and liabilities	97,041	135,879	154,742	146,224	148,234

Key Accounting Ratios	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Forecast	FY2020 Projection
Operating profit margin (EBITDA/revenue)	65%	71%	75%	72%	76%
Interest cover (times) (EBITDA/net finance cost)	1.40	1.26	1.55	1.66	1.86
Net debt to EBITDA (years) (Net debt/EBITDA)	18.14	19.16	15.51	11.56	12.10
Net profit margin (Profit after tax/revenue)	39%	53%	29%	32%	38%
Earnings per share (€) (Profit after tax/number of shares)	0.09	0.12	0.05	0.07	0.08
Return on equity (Profit after tax/shareholders' equity)	7%	9%	4%	5%	6%
Return on capital employed (Operating profit/total assets less current liabilities)	3%	4%	4%	5%	5%
Return on assets (Profit after tax/total assets)	2%	2%	1%	2%	2%
Liquidity ratio (times) (Current assets/current liabilities)	2.40	0.46	0.45	1.33	0.46
Value to loan ratio (times) (Investment property/net debt)	1.19	1.21	1.34	1.48	1.50
Gearing ratio (Net debt/net debt and shareholders' equity)	67%	69%	62%	57%	57%

Source: Charts | A Division of MeDirect Bank (Malta) plc

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.

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 is projected to increase by €1.3 million (+18%) to €8.6 million, principally due to rental income receivable from the 3 properties acquired in the latter part of FY2018 (a supermarket & retail centre in Latvia and two restaurants in Romania). Accordingly, EBITDA is expected to increase from €5.4 million in FY2018 to €6.2 million (+15%) and total comprehensive income is projected to increase by €0.7 million (y-o-y) to €2.8 million.

Rental income for **FY2020** is projected to amount to €8.5 million, a marginal decrease of €152,000 when compared to the prior year (FY2019: €8.6 million). The said marginal decrease in revenue is the result of a number of property disposals (described in section 5 above) which are expected to materialise. EBITDA is projected to marginally increase from €6.2 million in FY2019 to €6.4 million, whilst total comprehensive income is expected to improve by €0.5 million (y-o-y) to €3.2 million.

During FY2018, the issued share capital of the Company was increased by €11,800,000 through cash contributions to amount to €40,400,000. Other than equity, the Group is principally financed through bank loans and bonds. The Group's bank borrowings are secured by general hypothecs, pledges and guarantees provided by Group companies, by companies forming part of the Hili Ventures Group and by the Company's ultimate shareholders. The bonds constitute unsecured obligations of the Company, and rank equally without priority or preference with all other present and future unsecured and unsubordinated obligations of the Company.

VARIANCE ANALYSIS

Hili Properties Group Income Statement for the year ended 31 December			
	2018 Actual €'000	2018 Forecast €'000	Variance €'000
Revenue	7,286	7,012	274
Net operating expenses	(1,857)	(2,076)	219
EBITDA	5,429	4,936	493
Depreciation & amortisation	(113)	(118)	5
Net investment income	724	341	383
Net finance costs	(3,496)	(3,457)	(39)
Profit before tax	2,544	1,703	841
Taxation	(434)	(611)	177
Profit after tax	2,110	1,092	1,018

As presented in the above table, the Group's revenue for FY2018 was higher than forecasted by €0.3 million, whilst net operating expenses were lower than projected by €0.2 million. This resulted in a positive variance at EBITDA level of €0.5 million. Furthermore, actual net investment income was higher than expected by €0.4 million and tax charge was lower than forecasted by €0.2 million. Consequently, actual profit after tax was €1.0 million or 93% higher than forecasted and amounted to €2.1 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 2016 to 2018. The financial information for the year ending 31 December 2019 and 31 December 2020 has been provided by Group management.

Harbour (APM) Investments Ltd Income Statement for the year ended 31 December

	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000	€'000
Revenue	-	-	-	-	53
Administrative expenses	(5)	(8)	(7)	(5)	(5)
Investment gain	86	86	89	86	86
Net finance costs	(77)	(67)	(55)	(43)	(31)
Profit/(loss) before tax	4	11	27	38	103
Taxation	(3)	(7)	(12)	(15)	(9)
Profit/(loss) after tax	1	4	15	23	94

Harbour (APM) Investments Ltd Cash Flow Statement for the year ended 31 December

	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000	€'000
Net cash from operating activities	56	8	15	(63)	8
Net cash from investing activities	-	(233)	-	-	-
Net cash from financing activities	(56)	225	(15)	63	45
Net movement in cash and cash equivalents	-	-	-	-	53
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	54

Harbour (APM) Investments Ltd Balance Sheet as at 31 December	2016 Actual €'000	2017 Actual €'000	2018 Actual €'000	2019 Forecast €'000	2020 Projection €'000
ASSETS					
Non-current assets					
Investment property	25,007	25,007	25,007	25,007	25,093
Loans and other receivables	1,722	1,956	1,721	1,722	1,722
	<u>26,729</u>	<u>26,963</u>	<u>26,728</u>	<u>26,729</u>	<u>26,815</u>
Current assets					
Loans and other receivables	294	-	323	409	495
Cash and cash equivalents	1	1	1	1	54
	<u>295</u>	<u>1</u>	<u>324</u>	<u>410</u>	<u>549</u>
Total assets	<u>27,024</u>	<u>26,964</u>	<u>27,052</u>	<u>27,139</u>	<u>27,364</u>
EQUITY					
Equity and reserves	<u>22,985</u>	<u>22,990</u>	<u>23,005</u>	<u>23,028</u>	<u>23,201</u>
LIABILITIES					
Non-current liabilities					
Bank borrowings and other financial liabilities	1,518	1,284	1,039	793	522
Deferred tax liabilities	2,000	2,000	2,000	2,000	2,007
	<u>3,518</u>	<u>3,284</u>	<u>3,039</u>	<u>2,793</u>	<u>2,529</u>
Current liabilities					
Other payables	297	455	762	1,072	1,375
Bank loans	224	235	246	246	259
	<u>521</u>	<u>690</u>	<u>1,008</u>	<u>1,318</u>	<u>1,634</u>
	<u>4,039</u>	<u>3,974</u>	<u>4,047</u>	<u>4,111</u>	<u>4,163</u>
Total equity and liabilities	<u>27,024</u>	<u>26,964</u>	<u>27,052</u>	<u>27,139</u>	<u>27,364</u>

Key Accounting Ratios	FY2016	FY2017	FY2018	FY2019	FY2020
Value to loan ratio (times) (Investment property/net debt)	14.36	16.47	19.48	24.09	34.52
Gearing ratio (Net debt/net debt and shareholders' equity)	0.07	0.06	0.05	0.04	0.03

Source: Charts | A Division of MeDirect Bank (Malta) plc

The company is the owner of land at Bnghajsa, Malta, which as at 31 December 2017 was valued at €25 million. The expectation as at 31 December 2018 was for the agreement where the Company acquires HIL will be executed by the year 2022 (further detail provided in section 1 of this report).

No significant activities occurred during FY2018 and no material movements are forecasted for FY2019. During FY2020, Harbour (APM) Investments Ltd is expected to generate revenue of €53,000 from the lease of two of the plots at Bnghajsa for the purpose of operating a solar farm.

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 2016 to 2018. The financial information for the year ending 31 December 2019 and 31 December 2020 has been provided by Group management.

Hili Estates Ltd Income Statement for the year ended 31 December					
	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000	€'000
Revenue	778	820	940	994	1,032
Net operating expenses	(179)	(208)	(29)	(148)	(160)
EBITDA	599	613	911	846	872
Investment income/(losses)	64	313	215	29	159
Net finance income	-	50	70	71	110
Profit/(loss) before tax	663	975	1,196	946	1,141
Taxation	(163)	(312)	(258)	(256)	(281)
Profit/(loss) after tax	500	663	938	690	860

Hili Estates Ltd Cash Flow Statement for the year ended 31 December					
	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000	€'000
Net cash from operating activities	758	909	(429)	825	1,134
Net cash from investing activities	(532)	(6,766)	4,718	(667)	-
Net cash from financing activities	(270)	5,925	(4,296)	(264)	(966)
Net movement in cash and cash equivalents	(44)	68	(7)	(106)	168
Cash and cash equivalents at beginning of year	91	47	115	108	2
Cash and cash equivalents at end of year	47	115	108	2	170

Hili Estates Ltd Balance Sheet as at 31 December					
	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000	€'000
ASSETS					
Non-current assets					
Investment property	13,685	15,244	15,650	15,946	16,106
Property, plant and equipment	379	284	190	95	1
Deposit on acquisition	-	-	-	400	400
Loans and other receivables	1,439	7,541	2,520	5,520	5,520
	<u>15,503</u>	<u>23,069</u>	<u>18,360</u>	<u>21,961</u>	<u>22,027</u>
Current assets					
Loans and other receivables	383	548	1,163	1,465	1,465
Cash and cash equivalents	47	115	108	2	170
	<u>430</u>	<u>663</u>	<u>1,271</u>	<u>1,467</u>	<u>1,635</u>
Total assets	<u>15,933</u>	<u>23,732</u>	<u>19,631</u>	<u>23,428</u>	<u>23,662</u>
EQUITY					
Equity and reserves	<u>14,353</u>	<u>14,016</u>	<u>14,468</u>	<u>15,158</u>	<u>16,019</u>
LIABILITIES					
Non-current liabilities					
Bank borrowings and loans	-	5,943	1,464	3,950	3,350
Deferred tax liabilities	1,080	1,227	1,252	1,252	1,252
	<u>1,080</u>	<u>7,169</u>	<u>2,716</u>	<u>5,202</u>	<u>4,602</u>
Current liabilities					
Bank overdraft and loans	-	433	195	600	600
Other financial liabilities	326	1,000	1,865	2,012	1,646
Other payables	174	1,113	387	456	795
	<u>500</u>	<u>2,547</u>	<u>2,447</u>	<u>3,068</u>	<u>3,041</u>
	<u>1,580</u>	<u>9,716</u>	<u>5,163</u>	<u>8,270</u>	<u>7,643</u>
Total equity and liabilities	<u>15,933</u>	<u>23,732</u>	<u>19,631</u>	<u>23,428</u>	<u>23,662</u>

Key Accounting Ratios	FY2016	FY2017	FY2018	FY2019	FY2020
Value to loan ratio (times) <i>(Investment property/net debt)</i>	n/a	2.10	4.58	2.43	2.97
Gearing ratio <i>(Net debt/net debt and shareholders' equity)</i>	2%	34%	19%	30%	25%

Source: Charts | A Division of MeDirect Bank (Malta) plc

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 500m² of recreation area at a cost of €1.2 million and this was leased out during FY2018.

Rental income generated in FY2018 amounted to €0.9 million, €0.1 million higher (+15%) than prior year revenue of €0.8 million in FY2017, the increase being derived from the added recreation area stated above leased out during FY2018. Overall, the company registered a profit after tax amounting

to €0.9 million (FY2017: €0.6 million). It is projected that revenue will increase from €0.9 million in FY2018 to €1.0 million in both FY2019 and FY2020, whilst profit after tax is projected to amount to €0.7 million in FY2019 and €0.9 million in FY2020 (FY2018: €0.9 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 2018, the aggregate net asset value of the Guarantors amounted to €37.5 million (FY2017: €37.0 million). It is projected that the net asset value of the Guarantors as at 31 December 2019 and 31 December 2020 will, in aggregate, amount to €38.2 million and €39.2 million, respectively.

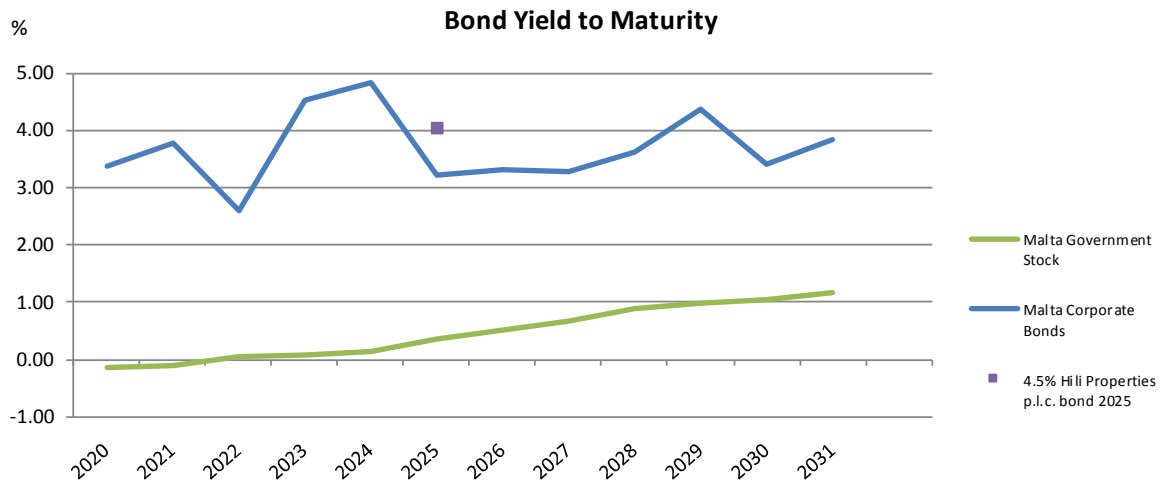
PART 3 – COMPARABLES

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 (%)
5.50% Pendergardens Dev. plc Secured € 2020 Series I	14,711,300	3.36	1.23	80,052	25,712	48.95
6.00% Pendergardens Dev. plc Secured € 2022 Series II	26,921,200	2.60	1.23	80,052	25,712	48.95
4.25% Gap Group plc Secured € 2023	19,931,000	3.48	4.45	55,237	9,869	71.82
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.53	1.19	21,625	6,916	62.72
6.00% AX Investments Plc Unsecured € 2024	40,000,000	1.98	6.97	325,243	214,590	18.66
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	4.84	5.33	83,223	44,177	43.99
5.00% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	3.35	2.29	112,006	43,514	51.65
4.25% Best Deal Properties Holding plc Secured 2024	16,000,000	3.50	4.02	25,986	3,432	82.64
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.41	1.41	120,794	38,318	52.41
4.50% Hili Properties plc Unsecured € 2025	37,000,000	4.02	1.55	154,742	52,242	61.72
5.10% 6PM Holdings plc Unsecured € 2025	13,000,000	4.81	2.09	5,499	19,741	-
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.91	2.59	1,765,072	901,595	40.43
4.00% International Hotel Invest. plc Secured € 2026	55,000,000	3.43	3.27	1,617,853	877,620	36.63
4.00% International Hotel Invest. plc Unsecured € 2026	40,000,000	3.63	3.27	1,617,853	877,620	36.63
4.00% MIDI plc Secured € 2026	50,000,000	3.30	9.80	220,613	97,440	31.83
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.59	12.63	179,451	48,701	54.42
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.86	10.08	28,166	6,135	60.96
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.75	5.93	229,882	63,771	50.15
4.00% Eden Finance plc Unsecured 2027	40,000,000	3.27	5.68	185,717	103,511	31.82
4.00% Stivala Group Finance plc Secured 2027	45,000,000	3.32	3.73	202,425	115,827	35.12
3.85% Hili Finance Company plc Unsecured 2028	40,000,000	3.63	3.44	455,113	86,390	73.98

10 June '19

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts | A division of MeDirect Bank (Malta) plc



Source: Malta Stock Exchange, Central Bank of Malta, Charts | A division of MeDirect Bank (Malta) plc

10 June 2019

To date, there are no corporate bonds which have a redemption date beyond 2031. 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.