

Victoria House Group

Directors' Report 2018



2018

7 June 2019

I. Group Overview

Basic information

Victoria House (VH) is part of Victoria Dom Holding (VDH) Group which is a family owned business operating on the residential property development market in Poland for over 20 years. The entity was established in August 2017 with a purpose to expanding and financing emerging international activities of the VDH Group.

The VH Group consists of the holding company in Luxemburg and 6 subsidiaries which develop residential projects to be offered to the market in Berlin. The current structure of the VH Group is presented below.



Group performance

The year 2018 was pivotal for building the growth potential of the VH Group. After completion of the structured sales of a project, which was acquired in 2017, and reporting respective earnings in the first half of the year, VH has provided its subsidiaries with funding needed to finalise the purchase of consecutive land properties and to start projects' development. The sold project was offered to a financial investor and reported revenue amounted to 29 million Euro. This transaction has enabled a significant strengthening of the own equity at VH Group in its first full year of operations. The VH Group also started the first development project that is offered to the individual buyers. The pre sales started in mid-2018 and was almost sold out by the end of 2018. The construction of the project is progressing according to the initial schedule and is to be completed by mid-2020.

At the end of 2018 VH Group companies owned four land properties, out of which one project has already been marketed and the other three were under engineering and construction permit approval. We estimate to start marketing and construction by mid-2019. In total, the current pipeline of our projects of 150 apartments is to be completed by mid of 2022. Our projects are designed to individual customers looking for good quality living space in quite locations and good access to the city centre. The projects are distinguished by affordable prices, well-designed layouts and easily reachable locations. The below map visualises projects and their locations being currently executed in Berlin.



A sister company of VH belonging to the same VDH Group - Victoria Dom (VD) - has completed 3,600 apartments with total of 250,000 living space since its inception. VD is continuing construction of further 1,600 units and has become the leading residential developer in Warsaw and Poland market. The business is focused on the construction of multi-family houses and their sales to end customers. Its success accomplished by VD results from meticulously designed apartments, their broad selection, competitive prices and outstanding project management.

Board of Directors

The Board of VH consists of 4 directors, whereof two are independent from VDH Group:

- Michal Jasinski, the main Shareholder, President of VDH and VD,
- Waldemar Wasiluk, Group CFO, Managing Director in all subsidiaries in Germany
- Pascal Pech, Hauck & Aufhäuser Alternative Investment Services S.A.
- Richard Brekelmans, independent Director

Bonds Financing

VH issued corporate bonds of 18,500,000 euro in October/November 2017 to finance acquisition of real estates in Berlin. The VH Group companies used the proceeds from the bonds in a form of loans to purchase land and develop residential projects. All profits from sale of real estates are being reinvested within the VH Group for further acquisitions. Potential new issues of bonds and/or loans received from banks by VH or its subsidiaries will be used to intensify the growth of international activities of the Group.

II. Group Consolidated Financial Statements

Balance Sheet

		<u>31.12.2018</u>	<u>31.12.2017</u>
	notes	EUR	EUR
Fixed Assets	(1)	444 825	179 165
Inventory	(2)	22 602 062	23 101 370
Receivables	(3)	353 332	553
Cash at bank		2 692 663	229 816
Total Assets		26 092 882	23 510 904
Share capital	(4)	150 000	150 000
Reserve capital	(4)	100 000	0
Retained/consolidated earnings	(5)	-146 635	82 186
Net profit / (loss)		2 530 818	(238 820)
Own Equity		2 634 183	(6 634)
Minority interest	(5)	0	2 875
Reserves / accrued tax	(6)	1 208 693	22 500
Bonds	(7)	18 500 000	18 500 000
Loans from related company	(8)	3 321 956	4 640 532
Interest to bondholders	(7)	148 000	145 945
Accounts payable	(9)	280 050	205 686
Liabilities		23 458 699	23 514 663
Equity & Liabilities		26 092 882	23 510 904

Income Statement

		<u>31.12.2018</u>	<u>31.12.2017</u>
	notes	EUR	EUR
Net Sales		28 975 112	0
Cost of Sales		-23 143 456	0
Profit on Sales	(10)	5 831 656	0
Operating cost		-1 133 287	118 453
Operating Profit / (Loss)		4 698 369	(118 453)
Financial income		10 066	22
Financial costs	(11)	-1 061 109	-127 514
Gross Profit / (Loss)		3 647 326	(245 945)
Income Tax	(12)	-1 116 508	0
Net Profit / Loss		2 530 818	(245 945)
<i>whereof minorities:</i>		<i>(0)</i>	<i>(7 125)</i>
Net P&L attributed to Own Equity		2 530 818	(238 820)

Notes

(1) Fixed assets as of 31.12.18 comprise of capitalised holding company formation cost of € 76,105; goodwill from purchase of shares in subsidiaries above their book value in the amount of € 296,411; and tangible fixed assets of €71,789.

(2) Inventory represents the value of land at their purchase cost plus capitalized development cost of residential projects in Berlin (work in progress) as follows:

At 31.12.2018	Entity *	Plot purchase value	Development cost
Schieritzstraße	VWB I	2 844 000	1 769 657
Mayerbeerstraße	VWB III	3 728 795	179 698
Berkenbrücker Stieg	VWB IV	4 082 925	84 012
Charlottenburgerstraße	VWB V	9 912 172	804
TOTAL		20 567 892	2 034 170

At 31.12.2017	Entity *	Plot purchase value	Development cost
Gustav-Adolf/Gäblerstraße	VWB II	23 101 370	0

* VWB I = Victoria Wohnungsbau GmbH;
 VWB III = Victoria Wohnungsbau III GmbH;
 VWB V = Victoria Wohnungsbau V GmbH;

VWB II = Victoria Wohnungsbau II GmbH;
 VWB IV = Victoria Wohnungsbau IV GmbH;

(3) Receivables consist of amounts due from customers or suppliers (deposits). As of 31.12.18 the amount referred mainly to a deferred portion of the land sales price of € 230,000 and deposits of € 54,490 .

(4) Share capital represents the nominal value of shares of VH SA, classes A to J, fully paid in by VDH (formerly called JKM or Polastar), the sole shareholder. The reserve capital was created as premium / contribution capital account ("115") decided by the shareholder on 22.3.2018.

(5) Profits and losses of subsidiaries made before their acquisition in prior years are excluded from consolidated retained earnings. These are attributed to minorities and impact the goodwill value.

The value of minority interest earned since the year of acquisition are reported in a separate line of the consolidated statements and were calculated as presented below. Since the total value of minorities was negative, all impact was consumed by VH Group and presented as zero in the own equity.

31.12.2018	Share capital	Prior years	Net profit/loss	TOTAL
VWB I	10% 10 000	n/a	(12 647)	(2 647)

31.12.2017	Share capital	Prior years	Net profit/loss	TOTAL
VWB II	10% 10 000	n/a	(7 125)	2 875

- (6) Reserves consist of accrued amounts of future liabilities that relate to the current year and are expected to be due within 12 months.

Accrual / cost type	Entity *	31.12.2018	31.12.2017
Accounts and Audit	Multiple	40 000	20 000
Legal / tax advisory	VH	0	2 500
Accrued Income Tax	VWB II	1 111 693	0
Other reserves	VWB II	57 000	0
TOTAL		1 208 693	22 500

- (7) Bonds refer to series 1 EUR 18,500,000 bonds with maturity on 19.10.2022 issued by VH SA and traded on the Euro MTF market of the LuxSE. The respective interest of 4% per annum was accrued for € 148,000 and is due within 12 months.

- (8) Loan from related company relate to loans from minority shareholder and consist the principle amount and accrued interest as follows:

Borrower* (Lender)	Year Due	31.12.2018	31.12.2017
VWB I (VD)	2022	3 321 956	0
VWB II (VD)	2022 (repaid in 2018)	0	4 640 532

- (9) Accounts payable refer to amounts due to various supplies within 12 months. The largest one as of 31.12.2018 relates to general construction of Schieritzstraße project (VWB I) for € 195,000 which was paid as of the report date.

- (10) The profit on sales refers mainly to the sale of land of Gäblerstraße project by VWB II in June 2018. Revenue from other projects developed by the VH Group companies in Germany will be recognized when apartments are ready and hand-over to clients.

- (11) The financial cost refer to interest paid on / accrued for bonds issued by VH SA (€ 370,000 paid semi-annually) and loans from shareholders. Interest on external loans used to finance real estate acquisition or construction / development cost are being capitalized as part of Inventory.

- (12) The tax represents mainly the amount accrued for income from the sale of land by VWB II (€ 1,111,693). The effective tax rate for the VH Group's projects in Germany equals to around 23%.