# Financial Analysis Summary
# 25 September 2017

**Issuer** Stivala Group Finance p.l.c.

**Guarantor** Carmelo Stivala Group Limited

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The Directors
Stivala Group Finance p.l.c.
143, The Strand
Gzira GZR 1026

25 September 2017

Dear Sirs

**Stivala Group Finance p.l.c. Financial Analysis Summary**

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

The purpose of the financial analysis is that of summarising key financial data appertaining to Stivala Group Finance p.l.c. (the "**Group"** or the "**Company**"), and Carmelo Stivala Group Limited (the "**Guarantor**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the years ended 31 December 2014 to 31 December 2016 has been extracted from the audited financial statements of the two principal operating companies – Stivala Operators Limited and Stivala Properties Ltd.
(b) Historical financial data for the years ended 31 December 2014 to 2016 has been extracted from the audited financial statements of Carmelo Stivala Group Limited.
(c) The projections has been extracted from the pro forma forecast consolidated financial information of the Group for the year ending 31 December 2017 and the projected financial information of the Group for the year ending 31 December 2018.
(d) Our commentary on the results of the Company and the Guarantor, 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 Group and the Guarantor. 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.

**Wilfred Mallia**
Director

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# PART 1 – INFORMATION ABOUT THE GROUP

## 1. KEY ACTIVITIES

### 1.1 The Company

The Issuer was set up as the holding company and finance arm of the Group on 21 August 2017 and is the principal vehicle for further expansion of the Group's hospitality business and mixed use developments. The ultimate beneficial owners of the Issuer are the four Stivala brothers Martin John, Ivan, Michael and Carlo together with their direct descendants and families.

The Issuer holds 98% of the shares in the Guarantor that in turn holds the shares in the underlying operating Subsidiaries. The remaining 2% of the shares in the Guarantor are held by the Group's founder, Mr Carmelo Stivala.

### 1.2 The Guarantor

The Guarantor was established in November 2013 as the holding company of the Group and retained such status until the establishment of the Issuer as part of the rationalisation exercise of the Group over the past months in preparation of the Bond Issue. The majority of the shares in the Guarantor are owned by the Issuer.

The Guarantor now acts as the Group's property holding company and owns almost all of the Group's immovable property, which property is subsequently leased to and operated by the Subsidiaries.

### 1.3 Historical Development of the Group

The Group's business has evolved over a number of years, dating back to its origins in 1979 when Carmelo Stivala founded C. Stivala & Sons Limited (C 4510) with the object of providing construction and development of real estate to personal and corporate customers. Over the years the Group shifted its focus from an exclusively construction company to a developer of real estate, through the acquisition of real estate, development of those sites and their operation through leases of commercial and residential properties and hotel accommodation. Since 1979, the Group continued to grow and acquired a significant portfolio of real estate. Initially, the strategy was to acquire real estate and apply the Group's experience and expertise in the construction industry, from where it started, to develop and finish those properties with a view to generating revenues from long-term leases of commercial and residential properties whilst retaining the real estate on balance sheet and benefiting from the residual values of the real estate. The Group's strategy was further diversified in 1998 when Stivala Operators Limited was set up with its principal activity to move into the operation of hotels, hostels and short-let accommodation.

Currently, the Group owns and operates two hotels in the 3 star segment (namely, Sliema Hotel and Bayview Hotel), 10 properties comprising hostels and residential apartments for short-let accommodation, and *circa* 54 properties consisting of residential units, commercial space and retail outlets for long-term letting.

## 2. DIRECTORS AND KEY EMPLOYEES

### 2.1 The Company

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

**Board of Directors**

| | |
|---|---|
| Michael Stivala | Executive Chairman |
| Martin John Stivala | Executive Director |
| Carlo Stivala | Executive Director |
| Ivan Stivala | Executive Director |
| Francis Gouder | Independent Non-executive Director |
| Ann Marie Agius | Independent Non-executive Director |
| Joseph Brincat | Independent non-executive Director |

The executive directors are entrusted with the Company's day-to-day management and are also directors or officers of other companies within the Group.

### 2.2 The Guarantor

The Guarantor is managed by a Board of Directors entrusted with its overall direction and management, and is composed as follows:

**Board of Directors**

| | |
|---|---|
| Martin John Stivala | Executive Director |
| Michael Stivala | Executive Director |
| Carlo Stivala | Executive Director |
| Ivan Stivala | Executive Director |

### 2.3 Key Employees of the Group

The key members of the Group's management team, apart from the executive directors, are Rudi Xuereb (Group Financial Controller) and Rebecca Stivala (Group Accounts Manager). The Issuer does not have any employees of its own. As at 31 August 2017, the Group employed 95 full-time members of staff, and 10 part-time employees.

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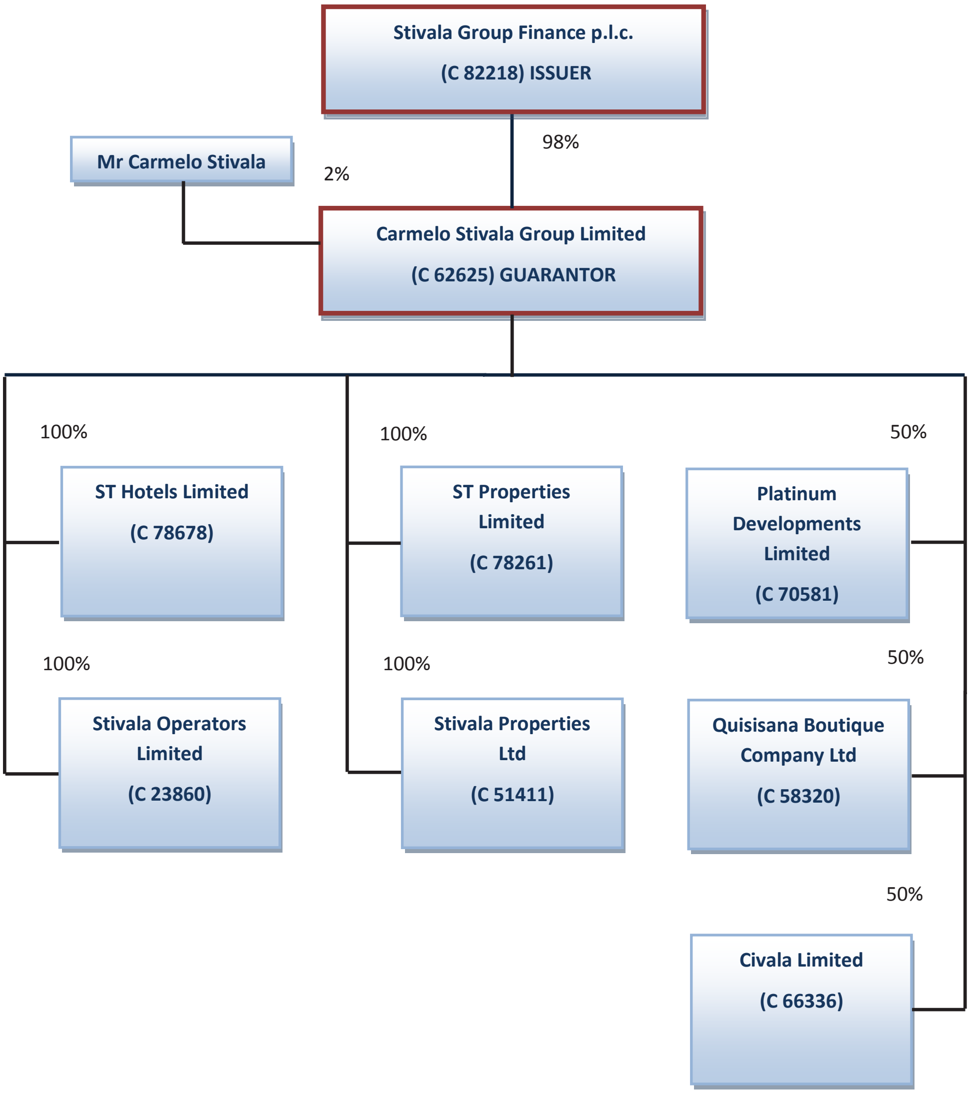
## 3. ORGANISATIONAL STRUCTURE

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




The Group conducted a re-organisation over the course of 2016 and 2017 in preparation of the Bond Issue. ST Hotels Ltd (C 78678) and ST Properties Ltd (C 78261) were established as private limited liability companies on 16 December 2016 and 23 November 2016 respectively as subsidiaries within the Group and which have the majority of this shares indirectly owned by the Issuer.

The initial step in the restructuring process entailed the transfer of operations from Stivala Operators Limited (C 23860) and Stivala Properties Ltd (C 51411), these being subsidiary companies of C. Stivala & Sons Limited (C 4510) (a company which is not reflected in the above chart), to the Group. As such, ST Hotels Ltd acquired from Stivala Operators Limited the business, operations, assets and the benefit of all contracts previously pertaining to Stivala Operators Limited, with effect from 1 January 2017. Furthermore, ST Properties Ltd acquired from Stivala Properties Ltd the latter's business, operations and assets with effect from 1 January 2017. Accordingly, as from 1 January 2017, Stivala Operators Limited and Stivala Properties Limited ceased all trading and operating activities and it is intended that both companies will be liquidated in the near future.

Pursuant to the above, C. Stivala & Sons Limited (which is the parent company of two non-operating subsidiary companies – Stivala Operators Limited and Stivala Properties Ltd - as explained hereinabove), was amalgamated into the Guarantor in terms of a merger process that was finalised during the third quarter of 2017. C. Stivala and Sons Limited previously served as one of the main property holding companies of the Group and therefore following the said merger, the Guarantor now acts as the principal property-holding company of the Group. The operation of the properties is subsequently undertaken by other Group companies, namely:

- **ST Properties Ltd** in connection with the commercial and residential properties, which ST Properties Ltd then sub-leases and operates by entering into agreements with third parties; and

- **ST Hotels Ltd** in connection with hotels and hostels or guesthouses, which ST Hotels Ltd then operates in its own name and for its own risk and benefit.

The Group also has two operating associate companies, both of which are involved in the Group's main activities of leasing commercial and residential properties. Platinum Developments Ltd (C 70581) owns and operates leases of three residential units and one office on the Sliema Seafront, whilst Quisisana Boutique Company Ltd (C 58320) is engaged in leasing residential and commercial properties to third parties. It operates a block of 18 apartments, 37 garages and one office situated on the Qui-Si-Sana Seafront in Sliema. A third associate company of the Group, Civala Limited (C 66336), has yet to commence operational activities.

## 4. BUSINESS OVERVIEW OF THE GROUP

### 4.1 Principal Activities

The Issuer does not have any trading record, and was established as the holding company and finance arm of the Group.

The Group's main business is the acquisition of real estate for long term investment purposes, principally in the Gzira, Sliema and St Julian's areas. Once acquired, the Group is engaged in the development or re-development of those properties and their conversion into residential and commercial properties. All real estate is retained by the Group to generate rental revenues, both from short letting and tourist accommodation as well as from long-term residential, office and retail lets.

The Group has the following main areas of activity:

- **Ownership of real estate** – this consists of the identification of sites or real estate that can be developed for subsequent operation either as part of its hospitality operations or for residential or commercial letting;

- **Construction and development** – the Group undertakes the development and finishing of the real estate identified and acquired, thus allowing greater control by the Group over the costs and timelines of the developments undertaken;

- **Hospitality operations** – the Group operates properties intended for hospitality purposes consisting of hotels, hostels or apartments for short term accommodation;

- **Long-term letting operations** – comprises the letting over the longer term of commercial properties and residential properties owned by the Group.

Group revenue and earnings are derived primarily from the operation of owned hotels, hostels and short let apartments, which business was operated up to 31 December 2016 by Stivala Operators Limited. This business activity accounted for *circa* 80% of the Group's total revenue in 2016. Rentals generated from commercial and long let residential properties were, prior to 1 January 2017, operated by Stivala Properties Ltd.

With effect from 1 January 2017, as part of a Group re-organisation, each of ST Hotels Ltd and ST Properties Ltd acquired the business, operations and assets and liabilities of Stivala Operators Limited and Stivala Properties Ltd, which had undertaken the business of hospitality and property rental since their inception in 1998 and 2010 respectively.

### 4.2 Ownership of Real Estate

Until 31 December 2013, C. Stivala & Sons Limited served as one of the main property holding companies of the Group. Following the incorporation of the Guarantor on 14 November 2013, ownership of the Group's immovable property was split between C. Stivala & Sons Limited and the Guarantor. The Guarantor's ownership of the entire Group's real estate portfolio has now been consolidated following the merger of C. Stivala & Sons Limited into the Guarantor, which came into effect in September 2017. The Group now owns its real estate and properties primarily through the Guarantor, which is engaged principally in acquiring and developing the real estate of the Group.

All real estate owned by the Group is operated by the two principal operating subsidiaries – ST Hotels Ltd and ST Properties Ltd - that are responsible for the development and operation of the said real estate.

The Group has a total value of real estate, based on the latest valuation undertaken by Arch. Michael Falzon (dated 28 August 2017), in the region of **€141,022,000**. Further details on the real estate portfolio and the list of properties are included hereunder:

**PROPERTIES IN COURSE OF DEVELOPMENT**

**Site at 47/48/49/50/51/52/53/54 Belvedere Street, Gzira (proposed "Azur Hotel")**
This property currently has a permit for a 101 room hotel that is under construction (PA 1467/15). An application for an additional two floors comprising another 80 rooms has been submitted to the Planning Authority (TRK 190134). Development commenced in April 2017 and is expected to be completed by May 2018 at an estimated cost of €4,500,000. The property in caption is freehold and has been valued at a total amount of **€3,400,000**.

**120, The Strand, Gzira**
The property currently comprises a commercial block having *circa* 3,305m$^2$ of office space. In terms of Planning Authority permit PA 2591/16, alterations to the facade are currently underway, including the re-construction of the seventh floor and the development of the eighth and ninth floors into office space. Construction works commenced in May 2017 and should be concluded by October 2017 at an estimated cost of €2,500,000. The property in caption is freehold and has been valued at a total amount of **€12,286,000**.

## PROPERTIES HELD FOR FUTURE DEVELOPMENT

**Site at 26/28/30/32 and 50/52/56/58/60/62 Coleridge Street, Gzira and 116/117/118/119 Ponsonby Street, Gzira ("Proposed Montana Hostel")**

This property currently has a permit for a 225 room hostel on part of the site (PA 0398/14). An application for its extension to include the whole site has been submitted to the Planning Authority (PA 5370/17). The development is expected to commence in 2020 and should be completed within a 12 to 15 month period, at an estimated cost of €3,500,000. The property in caption is freehold and has been valued at a total amount of **€5,200,000.**

**Site for proposed 'ST Tower', Testaferrata Street, Ta' Xbiex**

This property consists of a dilapidated block of flats on a site of 865m2 and is to be redeveloped as a commercial property with *circa* 7,300m$^2$ of office space. The Group has submitted an application to the Planning Authority, which is currently at review stage (reference number PA 2765/16). Subject to issuance of necessary Planning Authority permits, the Stivala Group expects to initiate development in 2019 and completion is set for 18 to 24 months thereafter. The estimated cost of development is circa €6,500,000. The property in caption is freehold and has been valued at a total amount of **€8,000,000**.

## PROPERTIES USED FOR BUSINESS PURPOSES

| Address | Current Use | Approx. Age of Property (years) | Tenure | Valuation (€) |
|---|---|---|---|---|
| Blubay Fleet Hostel, Fleet Street, Gzira | 46 room hostel | 10 | Freehold | 2,409,000 |
| Moroni Residence, Moroni Street, Gzira | 43 apartments (in addition, 6 garages, 4 parking spaces and 1 store are rented to third parties) | 14 | Freehold | 2,987,000 |
| Blubay Hotel, Ponsonby Street, Gzira | 53 studio apartments (in addition, 1 restaurant and 1 shop are rented to third parties) | 3 | Freehold | 4,480,000 |
| Bring Apartments, Reid Street, Gzira | 14 residential units (in addition, 11 garages and 1 shop are rented to third parties) | 4 | Freehold | 3,197,000 |
| Bayview Hotel, The Strand, Gzira | 136 room 3-star hotel | 12 | Freehold | 19,128,000 |
| Charlie's Guest House, Valley Road, Msida | a guest house, 1 apartment and 3 garages | 30 | Freehold | 1,500,000 |
| Sliema Hotel, The Strand, Sliema | 70 room 3-star hotel | 40 | Freehold | 11,500,000 |
| 28/30/32/34/36, Reid Street, Gzira and 121 – 125, Cameron Street, Gzira | 11 residential units (in addition, various small residential houses are rented to third parties) | 18 | Freehold | 3,767,000 |
| 8, Reid Street, Gzira | 3 residential units | 6 | Freehold | 540,000 |
| 20, Coleridge Street, Gzira | 2 residential units | 15 | Freehold | 511,000 |
| 134/135, The Strand, Gzira | 8 residential units (in addition, 4 shops are rented to third parties) | 9 | Freehold | 2,720,000 |
| 153/154, The Strand, Gzira | 11 residential units (in addition, 3 shops and 2 offices are rented to third parties) | 9 | Freehold | 3,390,000 |
| Tal-Balal Works Yard, Tal-Balal | plot of land situated outside development zone | 2 | Freehold | 250,000 |
| | | | | **56,379,000** |

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## PROPERTIES RENTED TO THIRD PARTIES

| Address | Current Use | Approx. Age of Property (years) | Tenure | Valuation (€) |
|---|---|---|---|---|
| Moroni Residence, Moroni Street, Gzira * | 6 garages, 4 parking spaces and 1 store | 14 | Freehold | - |
| 51/55 Moroni Street, Gzira | 10 residential units | 10 | Freehold | 1,106,000 |
| Blubay Hotel, Ponsonby Street, Gzira * | 1 restaurant and 1 shop | 10 | Freehold | - |
| Bring Apartments, Reid Street, Gzira * | 11 garages and 1 shop | 4 | Freehold | - |
| 123, Ponsonby Street, Gzira | 1 ground floor maisonette and garage | 40 | Freehold | 158,000 |
| 28/30/32/34/36, Reid Street, Gzira and 121 – 125, Cameron Street, Gzira * | various small residential houses | 40 | Freehold | - |
| 134/135, The Strand, Gzira * | 4 shops | 9 | Freehold | - |
| 153/154, The Strand, Gzira * | 2 shops and 2 offices | 9 | Freehold | - |
| Valley Towers, Valley Road, Birkirkara | 3 shops, 14 offices and 2 large garages | 13 | Freehold | 1,948,000 |
| 91, Cameron Street, Gzira | 1 maisonette | 40 | Freehold | 19,000 |
| 110/112/114 Carlo Manche Street, Gzira | 12 residential units and 1 large garage | 2 | Freehold | 2,299,000 |
| 120 Carlo Manche Street, Gzira | 1 maisonette | 30 | Freehold | 105,000 |
| 14, Coleridge Street, Gzira | 1 maisonette | 30 | Freehold | 126,000 |
| Petit Paradis, G. Bencini Street, Gzira | 3 residential units and 1 garage | 10 | Freehold | 1,650,000 |
| 14 – 19, Ponsonby Street, Gzira | 7 residential units and 3 shops | 5 | Freehold | 1,000,000 |
| 41 Ponsonby Street, Gzira | 1 shop | 7 | Freehold | 149,000 |
| 112, Ponsonby Street, Gzira | 1 shop and basement | 5 | Freehold | 174,000 |
| 306, Rue D'Argens, Gzira | 1 shop | 30 | Freehold | 134,000 |
| Taj Mahal, 122, The Strand, Gzira | 1 catering outlet with airspace | 30 | Freehold | 597,000 |
| 136A, The Strand, Gzira | 1 shop with kitchen and outdoor seating | 10 | Freehold | 263,000 |
| Waterline Residence, 176/177, The Strand, Gzira | 2 shops and 6 residential units | 12 | Freehold | 1,457,000 |
| 26/28/30/32, Coleridge Street, Gzira ^ | 2 residential units and 1 garage | 30 | Freehold | - |
| 14, Reid Street, Gzira | 1 shop | 10 | Freehold | 193,000 |
| 44, Coleridge Street, Gzira | 1 maisonette | 40 | Freehold | 132,000 |
| 7, Reid Street, Gzira | 1 shop | 20 | Freehold | 193,000 |
| 101, Moroni Street, Gzira | 8 residential units and 1 large garage | 8 | Freehold | 1,604,000 |
| 165/166, The Strand, Gzira | 1 shop and 6 residential units | 7 | Freehold | 2,299,000 |
| 108/109, Ponsonby Street, Gzira | 3 domestic stores, 3 residential units and 1 shop with basement | 3 | Freehold | 562,000 |
| 2, Sir Patrick Stuart Street, Gzira | 1 shop with basement | 5 | Freehold | 140,000 |

## PROPERTIES RENTED TO THIRD PARTIES (CONTINUED)

| Address | Current Use | Approx. Age of Property (years) | Tenure | Valuation (€) |
|---|---|---|---|---|
| Bishop Caruana Mansions, 15, Bishop Caruana Street, Msida | 5 garages, 11 residential units and 2 shops with basement | 10 | Freehold | 1,158,000 |
| Alavits Showroom, Bishop Caruana Street, Msida | showroom | 10 | Freehold | 221,000 |
| 199, Conception Street, Msida | 1 garage with trading licence | 20 | Freehold | 61,000 |
| 43, New Street, Msida | a maisonette and a shop | 2 | Freehold | 319,000 |
| St Louis Mansions, St Louis Street, Msida | 7 residential units and 1 garage | 5 | Freehold | 1,966,000 |
| Orchidea Apartments, Tal-Hriereb Street, Msida | 10 residential units and 6 parking spaces | 12 | Freehold | 2,545,000 |
| Tal-Qroqq Mansions, Tal-Qroqq Street, Msida | 4 residential units and 1 public service garage | 14 | Freehold | 579,000 |
| Tower Mansions, Tower Gate Street, Msida | 12 residential units and 1 large garage with 16 car spaces | 11 | Freehold | 1,983,000 |
| Vista Point Residence Hostel, University Street, Msida | 31 residential units, 1 shop, 1 garage, and an office | 3 | Freehold | 4,967,000 |
| Centre Point, Valley Road, Msida | 1 shop and 4 offices | 9 | Freehold | 579,000 |
| 122/122A, Home Space, Misrah il-Barrieri Street, Sta Venera | 1 showroom, 1 large garage and 3 offices | 13 | Freehold | 1,439,000 |
| 4/5, Pace Street, Sliema | 13 residential units, 2 basement stores and 1 garage | 1 | Freehold | 1,299,000 |
| Margaret Island, 71, The Strand, Sliema | 1 shop including kitchen and storage area | 10 | Freehold | 1,106,000 |
| Qui Si Sana Boutique Apartments, Qui Si Sana Seafront, Sliema | 18 car spaces, 9 residential units and one half undivided share of office space | 3 | Freehold | 10,800,000 |
| 14, Ta' Xbiex Sea Front, Msida | 2 residential units and 1 shop | 1 | Freehold | 316,000 |
| Tigne Mansions, 44, Qui Si Sana Sea Front, Sliema | 15 residential units and 4 garages | 3 | Freehold | 1,580,000 |
| 41/42/43, The Strand, Sliema | 3 residential units and 3 shops | 3 | Freehold | 6,266,000 |
| Waterline Front Place, 67, The Strand, Sliema | 1 shop | 15 | Freehold | 878,000 |
| 125, Fleet Street, Gzira | 1 maisonette | 40 | Freehold | 88,000 |
| 5, Ponsonby Street, Gzira | 1 shop | 30 | Freehold | 263,000 |
| 81/83/85/87, Carlo Manche Street, Gzira | 9 residential units, 1 domestic store | 3 | Freehold | 351,000 |
| 120, The Strand, Gzira # | 10 levels of office space | 15 | Freehold | - |
| 5, Coleridge Street, Gzira | 1 terraced house | 30 | Freehold | 53,000 |
| 169, The Strand, Gzira | 1 maisonette | 30 | Freehold | 123,000 |
| 162, The Strand, Gzira | 1 shop | 20 | Freehold | 509,000 |
| | | | | **55,757,000** |

* *The property is partly used for business purposes and partly rented to third parties. As such, the full value of the said property is included under the heading "Properties used for business purposes".*
^ *The property forms part of the proposed Montana Hostel described in further detail under the heading "Properties held for future development".*
\# *The property valuation is included under the heading "Properties in course of development".*

## 4.3 Hospitality Operations

Hospitality operations during FY2014 to FY2016 were performed by Stivala Operators Limited. The financial information about Stivala Operators Limited is included in the audited financial statements of Stivala Operators Limited for the financial years ended 31 December 2014, 31 December 2015 and 31 December 2016. Set out below are highlights taken from the audited financial statements of Stivala Operators Limited for the financial years indicated hereunder:

**STIVALA OPERATORS LIMITED**
**Income Statement**

| **for the year ended 31 December** | **2014 €'000** | **2015 €'000** | **2016 €'000** |
|---|---|---|---|
| Revenue | 5,479 | 6,000 | 7,842 |
| Hotels | 2,031 | 2,107 | 3,155 |
| Hostels and short let apartments | 3,295 | 3,560 | 4,350 |
| Commercial | 153 | 333 | 337 |
| Cost of sales | (2,959) | (4,260) | (3,813) |
| **Gross profit** | **2,520** | **1,740** | **4,029** |
| Other net operating costs | (481) | (605) | (1,267) |
| **EBITDA[1]** | **2,039** | **1,135** | **2,762** |
| Depreciation & amortisation | (1,113) | (946) | (948) |
| **Operating profit** | **926** | **189** | **1,814** |
| Gain on disposals/write offs of assets | 4 | 11 | 1,586 |
| Waiver of related company balance | - | - | (10,190) |
| Net finance costs | (29) | (13) | (33) |
| **Profit/(loss) before tax** | **901** | **187** | **(6,823)** |
| Taxation | 127 | 155 | (553) |
| **Profit/(loss) for the year** | **1,028** | **342** | **(7,376)** |
| **Total comprehensive income/(expense)** | **1,028** | **342** | **(7,376)** |

*[1]EBITDA - Earnings before Interest, Tax, Depreciation and Amortisation.*

| **Key Accounting Ratios** | **FY2014** | **FY2015** | **FY2016** |
|---|---|---|---|
| Gross profit margin *(Gross profit/revenue)* | 46% | 29% | 51% |
| EBITDA margin *(EBITDA/revenue)* | 37% | 19% | 35% |
| Net profit margin *(Profit after tax/revenue)* | 19% | 6% | n/a |

*Source: Charts Investment Management Service Limited*

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**STIVALA OPERATORS LIMITED**
**Cash Flow Statement**
**for the year ended 31 December**

| | 2014 €'000 | 2015 €'000 | 2016 €'000 |
|---|---|---|---|
| Net cash from operating activities | 1,538 | 5,301 | (8,647) |
| Net cash from investing activities | 3,057 | (723) | 9,031 |
| Net cash from financing activities | (3,958) | (5,163) | (146) |
| **Net movement in cash and cash equivalents** | **637** | **(585)** | **238** |
| Cash and cash equivalents at beginning of year | (553) | 84 | (501) |
| **Cash and cash equivalents at end of year** | **84** | **(501)** | **(263)** |

**STIVALA OPERATORS LIMITED**
**Statement of Financial Position**
**as at 31 December**

| | 2014 €'000 | 2015 €'000 | 2016 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | - | 8 | - |
| Investment property | 20 | - | - |
| Property, plant and equipment | 8,620 | 8,399 | - |
| Deferred taxation | 387 | 554 | - |
| | 9,027 | 8,961 | - |
| **Current assets** | | | |
| Inventories | 10 | 13 | 15 |
| Trade and other receivables | 6,046 | 1,109 | 855 |
| Current tax assets | 252 | - | - |
| Cash and cash equivalents | 257 | 4 | 40 |
| | 6,565 | 1,126 | 910 |
| **Total assets** | **15,592** | **10,087** | **910** |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 2 | 2 | 2 |
| Reserves | 4,825 | 4,825 | 4,825 |
| Retained earnings | 4,683 | - | (7,376) |
| | 9,510 | 4,827 | (2,549) |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 384 | 238 | 85 |
| Other non-current liabilities | 44 | 29 | 15 |
| | 428 | 267 | 100 |
| **Current liabilities** | | | |
| Bank overdraft | 173 | 505 | 303 |
| Borrowings | 138 | 146 | 152 |
| Other current liabilities | 5,343 | 4,342 | 2,904 |
| | 5,654 | 4,993 | 3,359 |
| | **6,082** | **5,260** | **3,459** |
| **Total equity and liabilities** | **15,592** | **10,087** | **910** |

Revenue in **FY2014** amounted to €5.5 million, primarily generated from the operation of the Bayview Hotel, Blubay Hotel and Blubay Fleet Hostel.

The Bayview Hotel is a 3 star 136-room hotel situated on the seafront promenade at The Strand, Gzira. The rooms are equipped with en-suite bathrooms, wi-fi, and other amenities. The property includes a wellness centre, indoor and outdoor pools, a gym and catering outlets.

The Blubay Hotel comprises 54 self catering apartments and is located in Ponsonby Street, Gzira, whilst the Blubay Fleet Hostel consists of 53 self catering apartments situated in Fleet Street, Gzira. Both properties are in close proximity to the Bayview Hotel and as such, guests can make use of the hotel's facilities.

In FY2014, Stivala Operators Limited registered an EBITDA of €2.0 million. After taking into account depreciation & amortisation, net finance costs and taxation, the company reported a profit after tax amounting to €1.0 million.

Revenue in **FY2015** amounted to €6.0 million, an increase of €0.5 million (+9.5%) from a year earlier. The year-on-year growth in revenue was mainly attributable to higher achieved room rates for the hotel; an increase in income from short let apartments and the inclusion of the Waterline Residence situated at The Strand, Gzira, and which comprises five residential units.

EBITDA for the aforesaid financial year amounted to €1.1 million, a decrease of €0.9 million when compared to FY2014. EBITDA for FY2015 was adversely affected by a one off expense amounting to €1.0 million, being arrears relating to water & electricity. Profit for the year amounted to €0.3 million (FY2014: €1.0 million).

Revenue in **FY2016** increased by €1.8 million (+30.7%), from €6.0 million in FY2015 to €7.8 million. In May of the reviewed financial year, Stivala Operators Limited commenced operating the Sliema Hotel, a 70-room 3 star seafront hotel located at The Strand, Sliema. All rooms at the Sliema Hotel are spacious and comprise various amenities such as free wi-fi, satellite TV and en-suite bathroom. Revenue generated from hotels amounted to €3.2 million from €2.1 million in FY2016. The increase of €1.1 million was primarily due to the inclusion of the Sliema Hotel in FY2016. Performance from hostels and short let apartments continued to improve and in FY2016, this sector registered a year-on-year increase of €0.8 million to €4.4 million.

Although FY2016 EBITDA increased from €1.1 million in FY2015 to €2.8 million, Stivala Operators Limited was adversely impacted by a one off item (consisting of a waiver of related company balance of €10.2 million) which resulted in a loss for the year of €7.4 million (FY2015: profit of €0.3 million). As described in section 4.3 above, in 2016, the business of Stivala Operators Limited was transferred to ST Hotels Limited as part of an intra-group exercise. The transaction comprised the transfer of net assets amounting to €10.2 million from Stivala Operators Limited to ST Hotels Limited. The resultant intra-group balances were written-off, wherein Stivala Operators Limited registered a charge in its income statement of €10.2 million, whilst ST Hotels Limited recorded a gain of the same amount.

| HOTEL OPERATIONS (Bayview Hotel & Sliema Hotel) | | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|
| Turnover (€'000) | | 2,031 | 2,107 | 3,155 |
| Gross operating profit (€'000) | | 654 | 687 | 1,227 |
| Gross operating profit margin (%) | | 32 | 33 | 39 |
| Available rooms | | 137 | 137 | 207 |
| Available room nights (avalable rooms x 365 days) | | 50,005 | 50,005 | 75,555 |
| Occupied room nights (available nights x occupancy) | | 43,004 | 43,504 | 61,200 |
| Occupancy level (%) | | 86 | 81 | 81 |
| Revenue per occupied room (RevPOR) (€) | (a) | 47 | 52 | 52 |
| Revenue per available room (RevPAR) (€) | | 41 | 42 | 42 |
| Gross operating profit per available room (GOPAR) (€) | (b) | 4,774 | 5,015 | 5,928 |
| ***Benchmark performance*** | | | | |
| Occupancy level (%) | | 68 | 78 | 78 |
| Revenue per occupied room (RevPOR) (€) | (c) | 56 | 56 | 59 |
| Revenue per available room (RevPAR) (€) | | 38 | 44 | 46 |
| Gross operating profit per available room (GOPAR) (€) | (d) | 4,199 | 5,181 | 3,023 |
| ***Revenue Generating Index (RGI)*** | (a)/(c) | 0.84 | 0.93 | 0.88 |
| ***Gross Operating Profit Generating Index (GOPGI)*** | (b)/(d) | 1.14 | 0.97 | 1.96 |

Note 1: RevPOR is calculated by dividing turnover by occupied room nights.
Note 2: RevPAR is calculated by dividing turnover by avaiable room nights.
Note 3: GOPAR is calculated by dividing gross operating profit by available rooms.

*Source: BOV MHRA Survey; Management information.*

In FY2014 and FY2015, the Group operated the Bayview Hotel and generated revenue of €2.0 million and €2.1 million in each of the respective financial years. In May 2016, the Group acquired the Sliema Hotel and as a consequence revenue improved by 50% to €3.2 million. Gross operating profit increased on a yearly basis, from €0.7 million in FY2014 to €1.2 million in FY2016, and the GOP margin improved from 32% in FY2014 to 33% and 39% in FY2015 and FY2016 respectively.

In comparison to benchmark performance, the Group's occupancy level was higher than its competitive set (being the 3 star hotel category) in each of the three financial years, but RevPOR and RevPAR were lower than the benchmark results. Overall, the Group has generated lower revenue than its competitive set in the reviewed period, as indicated by the RGI being less than par. In contrast, the Group has generated a higher gross operating profit per available room when compared to the average 3-star sector, particularly in FY2016. In the said year, the Group registered GOPAR of €5,928 as compared to €3,023 generated by its competitive set (GOPGI of 1.96).

### 4.4 Property Rentals

Long lets of residential and commercial Group properties to third parties were administered during FY2014 to FY2016 by Stivala Properties Ltd. Such leases typically involve rental periods exceeding six months up to a maximum of eight years. Commercial properties principally comprise restaurants, retail outlets and office space.

The financial information about Stivala Properties Ltd is included in the audited financial statements of Stivala Properties Ltd for the financial years ended 31 December 2014, 31 December 2015 and 31 December 2016. Set out below are highlights taken from the audited financial statements of Stivala Properties Ltd for the financial years indicated overleaf:

CHARTS
WEALTH MANAGEMENT ▪ CORPORATE BROKING

**STIVALA PROPERTIES LTD**
**Income Statement**

| **for the year ended 31 December** | **2014** | **2015** | **2016** |
|---|---|---|---|
| | **€'000** | **€'000** | **€'000** |
| **Re**venue | 1,078 | 1,377 | 1,748 |
| Commercial | 595 | 656 | 821 |
| Residential | 483 | 721 | 927 |
| Cost of sales | (580) | (567) | (393) |
| **Gross profit** | **498** | **810** | **1,355** |
| Other net operating costs | (10) | (31) | (18) |
| **EBITDA**[1] | **488** | **779** | **1,337** |
| Depreciation & amortisation | - | - | - |
| **Operating profit** | **488** | **779** | **1,337** |
| Net finance costs | - | - | - |
| **Profit before tax** | **488** | **779** | **1,337** |
| Taxation | (106) | (179) | (300) |
| **Profit for the year** | **382** | **600** | **1,037** |
| **Total comprehensive income** | **382** | **600** | **1,037** |

[1]*EBITDA - Earnings before Interest, Tax, Depreciation and Amortisation.*

| **KEY ACCOUNTING RATIOS** | **FY2014** | **FY2015** | **FY2016** |
|---|---|---|---|
| Gross profit margin<br>*(Gross profit/revenue)* | 46% | 59% | 78% |
| EBITDA margin<br>*(EBITDA/revenue)* | 45% | 57% | 76% |
| Net profit margin<br>*(Profit after tax/revenue)* | 35% | 44% | 59% |

*Source: Charts Investment Management Service Limited*

**STIVALA PROPERTIES LTD**
**Cah Flow Statement**
**for the year ended 31 December**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| Net cash from operating activities | 287 | 605 | 1,071 |
| Net cash from investing activities | 95 | - | - |
| Net cash from financing activities | (382) | (600) | (1,037) |
| **Net movement in cash and cash equivalents** | **-** | **5** | **34** |
| Cash and cash equivalents at beginning of year | 1 | 1 | 6 |
| **Cash and cash equivalents at end of year** | **1** | **6** | **40** |

**STIVALA PROPERTIES LTD**
**Statement of Financial Position**
**as at 31 December**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| **ASSETS** | | | |
| **Current assets** | | | |
| Trade and other receivables | 401 | 1,101 | 1,609 |
| Cash and cash equivalents | 1 | 6 | 40 |
| | 402 | 1,107 | 1,649 |
| **Total assets** | **402** | **1,107** | **1,649** |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 1 | 1 | 1 |
| Retained earnings | - | - | - |
| | **1** | **1** | **1** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 351 | 955 | 1,380 |
| Other current liabilities | 50 | 151 | 268 |
| | 401 | 1,106 | 1,648 |
| | **401** | **1,106** | **1,648** |
| **Total equity and liabilities** | **402** | **1,107** | **1,649** |

Rents receivable in **FY2014** amounted to €1.1 million, 55% thereof generated from commercial leases whilst the remaining 45% was derived from residential long lets. Cost of sales amounted to €580,000 and represented rents payable to related parties. EBITDA for the reviewed year amounted to €488,000 and profit for the year totalled €382,000.

In **FY2015,** Stivala Properties Ltd increased revenue by 28% from €1.1 million in FY2014 to €1.4 million, principally due to an increase in the number of properties under management. As a result, EBITDA improved from €488,000 in FY2014 to €779,000 in FY2015. Profit for FY2015 amounted to €600,000 (FY2014: €382,000).

Further growth in revenue was registered in **FY2016** as Stivala Properties Ltd reported a year-on-year increase of 27% or €371,000 to €1.7 million. The aforesaid increase was due to an increase in the number of properties subject to long term lease agreements. Such improvement was also reflected in EBITDA, which increased from €779,000 in FY2015 to €1.3 million in FY2016. Stivala Properties Ltd registered a profit for the year of €1.0 million (FY2015: €600,000).

## 5. INVESTMENTS

The principal investments of the Group since 31 December 2016, being the date of the latest audited financial statements, are described below:

### PROPOSED AZUR HOTEL

One of the Group Companies, ST Hotels Limited is currently developing a 101 room hotel in Belvedere Street, Gzira, as per Planning Authority Permit PA 01467/15. Development commenced in April 2017 and as at the date of this Report, the original buildings have been demolished and excavation works are near completion. An application has been submitted to the Planning Authority (TRK 190134) for the development of the additional two floors comprising a further 80 rooms, hence bringing the total to 181 rooms. Completion is targeted for May 2018. The proposed property is expected to cost *circa* €4.5 million and will be financed from the net proceeds of the Bond Issue.

### 120, THE STRAND, GZIRA

In 2016, the Group acquired a commercial property situated in 120, The Strand, Gzira, comprising circa 3,305m2 of net leasable area. In May 2017, the Group initiated works on the property, including alterations to the façade, re-construction of the seventh floor and development of the eighth and ninth floors (Planning Authority Permit PA 2591/16). Development is expected to be concluded by October 2017 at an estimated cost of €2.5 million, and will be funded from the Group's cash resources.

### 196, MAIN STREET, ST JULIAN'S

In December 2015, the Group entered into a promise of sale agreement for the acquisition of a residential property, having a footprint measuring 430m$^2$ and located at 196, Main Street, St Julian's. The Group plans to demolish the existing property and develop on same site a block consisting of nine luxury residential units, commercial space and garages for a total built up area of *circa* 2,735m$^2$. The proposed development is approved as per Planning Authority permits PA 2617/16 and PA 6442/17 6442/17.

The acquisition of the property and development thereafter is estimated to amount to €9.0 million in aggregate, which will be financed from net proceeds of the Bond Issue. Development is expected to start in late 2017 and be completed in late 2018.

**OTHER INVESTMENTS**

The Group intends on making the following investments and will therefore apply part of the Bond proceeds to acquire such investments in the manner outlined below:

- **Acquisition of remaining portion of Qui Si Sana Boutique Apartments:** The Group already owns one half of the residential units and garages and office situated at Qui Si Sana Boutique Apartments, Sliema. The Group has agreed terms to acquire from a third party the remaining nine residential units, 19 garages and the one half undivided share of the office space at the said Qui Si Sana Boutique Apartments for an amount of €11,448,000, which acquisition will be funded by the Bond proceeds. It is anticipated that the promise of sale agreement will be executed shortly after the issuance of the Secured Bonds.

  Although it is strongly anticipated that a promise of sale will be concluded as stated above, in the event that such promise of sale is not signed, the Security Trustee undertakes to utilise the funds earmarked for the acquisition of the aforementioned remaining half of Qui Si Sana Boutique Apartments, Sliema, for the purpose of refinancing an existing loan with APS Bank Limited, which as at 31 August 2017 amounted to €9,569,000. In such case and with respect to the immovable property given as Security Property for the purpose of the Bond Issue, the Security Trustee shall, at its discretion, substitute the un-acquired portion of Qui Si Sana Boutique Apartments with another immovable property owned by the Group, subject to an independent architect's property valuation report confirming that the value of the property being substituted and added to the immovable properties constituting the Security Property is at least equal to the value of the intended purchase of the remaining residential apartments and garages at Qui Si Sana Boutique Apartments.

- **Property at Marguerite Mangion Street, St. Julian's:** On 8 September 2017, the Group entered into a promise of sale agreement to acquire a property situated at Marguerite Mangion Street, St Julian's, which currently houses the EC Language School for an aggregate consideration of €7,706,200.

- **General capital expenditure:** The remaining balance of *circa* €2,596,800 of net Bond Issue proceeds shall be utilised to acquire other properties in accordance with the Group's business development strategy and/or to fund part of the Group's ongoing capital expenditure on own properties.

## 6. BUSINESS DEVELOPMENT STRATEGY

The Group's business strategy focuses on achieving positive and sustainable financial and operational results together with long-term appreciation in the value of the Group's real estate portfolio.

In implementing the Group's development strategy, the directors aim to identify and acquire real estate in Malta, particularly in the Sliema, Gzira and St Julian's area, which they believe has the potential to be re-developed and subsequently operated at sustainable operational yields in the hospitality sector or longer term commercial or residential leases.

The Group has been successful in leveraging its experience and expertise in identifying appropriate sites for development and particularly in applying its knowhow of the construction industry to develop those sites. The directors believe that the deployment of the Group's own experience and resources, through its construction and project management arm that undertakes all necessary construction and finishing works of the Group's own developments allow it significant advantages to complete the development and re-development of projects within controlled budgets and tight delivery dates. This reduces the risk of counter-party default, cost overruns and time delays and enables the Group to retain the development phase of its projects within its own control and strategic priorities.

The Group's operations focus principally on the hospitality segment and the letting of commercial and residential units of the Group's own properties. In the hospitality sector, the Group aims to continue to provide services at the Group's hotels in line with the expectations of customers typically seeking accommodation in 3 star hotels as well as in hostels and similar accommodation. The Group aims at adopting and implementing strategies that allow it the flexibility to adapt to changing market conditions particularly in the hospitality sector by rendering its operations in the 3 star hotel segment and its operations in the short-term letting of tourist accommodation as inter-changeable as possible to be able to meet the demands of customers seeking tourist accommodation in this market segment, thus aiming to enhance overall occupancy levels and average room rates.

The directors believe that the commercial and residential letting segment of the Group's business can deliver further growth and generate additional bottom-line results to the Group at marginally increased costs, through further investment in new projects. In this context, the Group believes that current market conditions should support further investment in this segment by continuing to target investments in under-performing properties for re-development in real-estate projects aimed for leases or retail outlets or longer-term accommodation.

From a cost perspective, improved results are being achieved through the implementation of cost-control and energy-efficient measures in Group properties, particularly with increased operational efficiency. These are predominantly evident in the procurement of goods through the increased purchasing power of the Group in Malta and the consolidation and rationalisation of decision making within the Group that on the one hand obviates the need for overly complex and costly management and governance structures and on the other allow greater operational efficiency within the Group.

The Group's strategic plans involve owning and holding real estate for investment purposes; the primary objective being the generation of income from the rental of properties or to generate income from their operations, in particular, in the case of property used for short-letting and tourist accommodation, more specifically, the hotels, hostels and guest houses owned by the Group. Other property is rented out on a long-term basis either for residential purposes, as offices or for retail activities. The Group is continuously seeking to acquire more properties including hotels or guest houses.

## 7. MARKET OVERVIEW

### 7.1 Economic Update [1]

Economic activity in Malta is expected to remain relatively strong in the near term, supported by both demand and supply factors. In particular, the energy reforms that have taken place in recent years, new investment projects, increased labour market participation and robust services exports are the primary drivers supporting the economic expansion. Real GDP growth in 2016 was at 5.0%, and thereafter is projected to decelerate to 4.1% in 2017, 3.7% in 2018 and 3.3% in 2019.

During 2016, Gross Value Added (GVA) increased by €536.8 million when compared to the prior year (2015), to €8,693.0 million. GVA is the net result of output, valued at basic prices less intermediate consumption valued at purchasers' prices. The increase in GVA was mainly generated by professional, scientific & technical activities and administrative & support services activities which increased by €116.6 million or 11.9%; arts, entertainment & recreation, repair of household goods & other services which increased by €100.8 million or 9.3%; and public administration & defence, education, human health & social work activities which increased by €90.2 million or 6.2%. A decrease of €21.0 million or -6.0% was registered in construction.

Economic growth was primarily driven by net exports of goods and services, which increased (in real terms) by €359.3 million or 63.7% from €563.8 million in 2015 to €923.1 million in 2016. Household consumption expenditure also increased on a y-o-y basis by €164.3 million or 3.9% to €4,397.1 million. On the other hand, declines in investment and government consumption were registered in 2016 when compared to a year earlier.

[1] Central Bank of Malta – Supplement to the Quarterly Review 2017:1 (www.centralbankmalta.org); National Statistics Office - Malta (www.nso.gov.mt)

Inflation rose to 1.06% in December 2016, up from 0.68% in November 2016. The main upward impacts on annual inflation were recorded in the food index, the beverages and tobacco index, and the household equipment and house maintenance costs. This increase was mitigated by a reduction in the prices of fuel, clothing and transport.

### 7.2 Hospitality[1]

Tourism in Malta has in recent years been performing at a strong level and this trend continued in 2016 and in the initial half of 2017. Inbound tourist trips from January to December 2016 amounted to 1.99 million, an increase of 10.2% when compared a year earlier. Total nights spent by inbound tourists went up by 5.7%, reaching almost 15.0 million nights. During 2016, total guests in collective accommodation establishments surpassed 1.6 million, an increase of 2.1% over the same period in 2015. Within the collective accommodation establishments, the 5 star and 4 star hotels gained 10,878 guests (+2.8%) and 30,779 guests (+4.5%) respectively in 2016 when compared to a year earlier, while there was a decrease of 24,042 guests (-5.7%) in the 3 star category. Other establishments (comprising guesthouses, hostels and tourist villages) registered a year-on-year increase of 20.0% from 57,028 guests in 2015 to 68,461 guests in 2016. Tourism expenditure was estimated at €1.71 billion in 2016, an increase of 4.3% over 2015.

Notwithstanding the decline in tourists seeking accommodation in the 3 star category, the Group's performance for 2016 was positive and above the reported industry averages. The industry average of occupancy in 3 star accommodation reached 78% for the year 2016 – sustaining the same level achieved in the previous year, with Group occupancy registering 81% in each of 2015 and 2016. In addition, whilst the industry average of gross operating profit margin in the 3 star category declined to 34% in 2016 from 43% in 2015, the Group managed to increase its gross operating profit margin to 39% in 2016 from 33% in 2015.

Inbound tourist trips from January to June 2017 reached 990,182, an increase of 19.3% over the same period in 2016. Total nights spent by inbound tourists went up by 11.6%, surpassing 6.5 million nights. Total guests residing in collective accommodation establishments, in the first six months of 2017, amounted to 848,806, an increase of 14.4% over the prior comparable period. Guests in 3 star hotels between January to June 2017 increased by 27.0%, when compared to the same period in 2016, to 223,176 guests. Other establishments (comprising guesthouses, hostels and tourist villages) registered an increase of 21.5% to 36,121 guests in the first six months of 2017 (January to June 2016: 29,733 guests).

Focus will continue to be maintained on increasing arrivals during the winter months and attracting more visitors from new markets to Malta. Moreover, the promotion of Valletta as the European City of Culture in 2018, should further stimulate growth in the local hospitality industry. Meanwhile, the somewhat uncertain future of the national carrier Air Malta poses a concern to further growth in tourist arrivals whilst competition from other Mediterranean countries will likely remain strong.

### 7.3 Leases of Commercial and Residential Units

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

[1]Malta Tourism Authority Report 2016; National Statistics Office - Malta (www.nso.gov.mt)

The recent growth in a number of sectors in Malta - particularly in the financial, gaming and hospitality sectors - has resulted in an influx of foreign workers to the country, which in turn has increased the demand for residential accommodation. As a consequence, rents for residential units in Malta have gradually increased in the past few years and this trend is expected to continue at least in the near to medium term.

The above-mentioned positive trend in the rental market for residential units was also experienced by the Group and is well positioned to continue to benefit from such demand given that most of its residential properties are situated in the Gzira/Sliema area, which is a highly desirable location in Malta. Income from leases of retail units has also increased on an annual basis and is set to maintain a trend of moderate but consistent year-on-year growth. The Group intends to further expand its portfolio of residential units for rental purposes through acquisition and/or further development of own properties.

## PART 2 – PERFORMANCE REVIEW

### 8. FINANCIAL INFORMATION – THE ISSUER

The Issuer was registered and incorporated on 21 August 2017 as a special purpose vehicle to act as the parent company and financing arm of the Group. The Issuer has, to date, not conducted any business, and has no trading record.

### 9. FINANCIAL INFORMATION – THE GUARANTOR

The following financial information is extracted from the audited financial statements of the Guarantor for the financial years ended 31 December 2014 to 2016.

**CARMELO STIVALA GROUP LIMITED**
**Income Statement**

| **for the year ended 31 December** | **2014** | **2015** | **2016** |
|---|---|---|---|
| | **(14 mths)** | **(12 mths)** | **(12 mths)** |
| | **€'000** | **€'000** | **€'000** |
| Revenue | 200 | 185 | 185 |
| Net operating costs | (20) | (18) | (63) |
| **EBITDA[1]** | **180** | **167** | **122** |
| Depreciation & amortisation | - | (42) | (605) |
| **Operating profit/(loss)** | **180** | **125** | **(483)** |
| Profit on disposal of investments | 2 | 736 | 556 |
| Dividends receivable | 147 | 254 | 266 |
| Net finance costs | (8) | (1) | - |
| **Profit before tax** | **321** | **1,114** | **339** |
| Taxation | (56) | (120) | (155) |
| **Profit for the year** | **265** | **994** | **184** |
| **Total comprehensive income** | **265** | **994** | **184** |

[1]*EBITDA - Earnings before Interest, Tax, Depreciation and Amortisation.*

CHARTS
WEALTH MANAGEMENT ▪ CORPORATE BROKING

**CARMELO STIVALA GROUP LIMITED**
**Statement of Financial Position**
**as at 31 December**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment property | 1,929 | 4,180 | 20,983 |
| Property, plant & equipment | - | - | 3,800 |
| Investments in subsidiaries | - | - | 2 |
| Investments in associates | 1 | 1 | 1 |
| | 1,930 | 4,181 | 24,786 |
| **Current assets** | | | |
| Trade and other receivables | 3,674 | 7,563 | 2,365 |
| Cash and cash equivalents | - | 83 | 808 |
| | 3,674 | 7,646 | 3,173 |
| **Total assets** | **5,604** | **11,827** | **27,959** |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 1 | 1 | 1 |
| Retained earnings | 265 | 1,259 | 1,444 |
| | **266** | **1,260** | **1,445** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 3,495 | 6,895 | 11,763 |
| **Current liabilities** | | | |
| Bank overdraft | - | 891 | - |
| Borrowings | - | 26 | 3,421 |
| Trade and other payables | 1,802 | 2,704 | 11,316 |
| Other current liabilities | 41 | 51 | 14 |
| | 1,843 | 3,672 | 14,751 |
| | **5,338** | **10,567** | **26,514** |
| **Total equity and liabilities** | **5,604** | **11,827** | **27,959** |

**CARMELO STIVALA GROUP LIMITED**
**Cash Flow Statement**
**for the year ended 31 December**

| | 2014 (14 mths) €'000 | 2015 (12 mths) €'000 | 2016 (12 mths) €'000 |
|---|---|---|---|
| Net cash from operating activities | (1,568) | (2,671) | 13,982 |
| Net cash from investing activities | (1,928) | (1,537) | (20,654) |
| Net cash from financing activities | 3,496 | 3,400 | 8,288 |
| **Net movement in cash and cash equivalents** | **-** | **(808)** | **1,616** |
| Cash and cash equivalents at beginning of year | - | - | (808) |
| **Cash and cash equivalents at end of year** | **-** | **(808)** | **808** |

Carmelo Stivala Group Limited was incorporated in November 2013 to acquire and dispose of property (mainly, commercial and residential units and hotels). Prior to November 2013, all Group properties were acquired by C. Stivala & Sons Limited (C 4510). During the reviewed years, the operation of owned properties was managed by Stivala Operators Limited and Stivala Properties Ltd. In the third quarter of 2017, C. Stivala & Sons Limited was merged into Carmelo Stivala Group Limited, such that all properties of the Stivala Group are now owned by the Guarantor.

In FY2015, the Guarantor generated revenue of €0.2 million (FY2014: €0.2 million) and registered an operating profit of €0.1 million (FY2014: €0.2 million). In the same financial year, profit on disposal of investments amounted to €0.7 million (FY2014: €2,000), while dividends receivable amounted to €0.3 million (FY2014: €0.1 million). Profit for FY2015 amounted to €1.0 million (FY2014: €0.3 million).

In FY2016, revenue generated by the Guarantor amounted to €0.2 million (FY2015: €0.2 million). Due to the impact of depreciation and amortisation of €0.6 million, the Guarantor reported an operating loss of €0.5 million (FY2015: operating profit of €0.1 million). Profit on disposal of investments in FY2016 amounted to €0.6 million (FY2015: €0.7 million) and dividends receivable in the same year amounted to €0.3 million (FY2015: €0.3 million). The Guarantor reported a profit for FY2016 of €0.2 million (FY2015: €1.0 million).

As at 31 December 2016, non-current assets of the Guarantor amounted to €24.8 million, consisting primarily of the Sliema Hotel situated at The Strand, Sliema, which was acquired in May 2016. Equity as at 31 December 2016 amounted to €1.4 million, whilst bank borrowings and related party balances totalled €25.6 million.

## 10. FINANCIAL INFORMATION – THE GROUP

**Combined Financial Information of the Guarantor for the Years Ended 31 December 2014 to 2016**

Until recently, the operating Subsidiaries, Stivala Operators Limited and Stivala Properties Ltd, were wholly owned by C. Stivala & Sons Limited, a holding property company in which the Group's ultimate beneficial owners held an equity shareholding of 96.4%. The latter company was subsequently merged with the Guarantor on 22 September 2017.

The historical financial information set out below for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 represents combined (rather than consolidated) financial statements of the Guarantor, as not all companies within the Group were subsidiaries of a unitary holding company. Combined financial statements serve a similar purpose to consolidated financial statements, to present financial data appertaining to a group of companies as if the companies concerned constitute a single enterprise.

The combined financial information hereunder has been extracted from the audited financial statements for the years ended 31 December 2014 to 2016 of Carmelo Stivala Group Limited, C. Stivala & Sons Limited, Stivala Operators Limited and Stivala Properties Ltd. The financial information relating ST Hotels Limited and ST Properties Limited has been extracted from management accounts for the period 16 December 2016 to 31 December 2016 and 23 November 2016 to 31 December 2016 respectively.

No adjustments to the statement of comprehensive income, financial position and cash flow of the Group were necessary for the purposes of arriving at the combined financial information except solely to reflect the entries necessary in any process of accounting consolidation.

**CARMELO STIVALA GROUP LIMITED**
**Combined Income Statement**
**for the year ended 31 December**

| | 2014 €'000 | 2015 €'000 | 2016 €'000 |
|---|---|---|---|
| Revenue | 6,557 | 7,377 | 9,590 |
| Cost of sales | (1,943) | (3,330) | (1,518) |
| **Gross profit** | **4,614** | **4,047** | **8,072** |
| Net operating costs | (1,046) | (1,113) | (1,358) |
| **EBITDA[1]** | **3,568** | **2,934** | **6,714** |
| Depreciation & amortisation | (1,231) | (1,105) | (1,669) |
| **Operating profit/(loss)** | **2,337** | **1,829** | **5,045** |
| Profit on disposal of investments | 2 | 736 | 556 |
| Dividends receivable | 147 | 254 | 266 |
| Net finance costs | (177) | (334) | (379) |
| **Profit before tax** | **2,309** | **2,485** | **5,488** |
| Taxation | (226) | (279) | (1,135) |
| **Profit for the year** | **2,083** | **2,206** | **4,353** |
| **Total comprehensive income** | **2,083** | **2,206** | **4,353** |

*[1]EBITDA - Earnings before Interest, Tax, Depreciation and Amortisation.*

**CARMELO STIVALA GROUP LIMITED**
**Combined Statement of Financial Position**
**as at 31 December**

| | 2014 €'000 | 2015 €'000 | 2016 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | - | 8 | - |
| Investment property | 12,905 | 14,956 | 31,593 |
| Property, plant & equipment | 8,558 | 8,337 | 13,990 |
| Loans | - | 3,400 | 3,400 |
| Other non-current assets | 388 | 554 | 1 |
| | 21,851 | 27,255 | 48,984 |
| **Current assets** | | | |
| Trade and other receivables | 4,020 | 7,370 | 3,379 |
| Cash and cash equivalents | 260 | 170 | 914 |
| | 4,280 | 7,540 | 4,293 |
| **Total assets** | **26,131** | **34,795** | **53,277** |
| **EQUITY** | | | |
| Capital and reserves | | | |
| Share capital | 1 | 1 | 1 |
| Incentives and benefits reserve | 4,927 | 4,927 | 4,925 |
| Retained earnings | 8,364 | 10,570 | 14,924 |
| | **13,292** | **15,498** | **19,850** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings and other financial liabilities | 7,612 | 11,342 | 24,940 |
| Current liabilities | | | |
| Bank overdraft | 173 | 1,396 | 323 |
| Borrowings | 591 | 4,130 | 4,427 |
| Trade and other payables | 4,372 | 2,219 | 3,454 |
| Other current liabilities | 91 | 210 | 283 |
| | 5,227 | 7,955 | 8,487 |
| | **12,839** | **19,297** | **33,427** |
| **Total equity and liabilities** | **26,131** | **34,795** | **53,277** |

**CARMELO STIVALA GROUP LIMITED**
**Combined Cash Flow Statement**
**for the year ended 31 December**

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| Net cash from operating activities | 3,689 | (2,999) | 9,592 |
| Net cash from investing activities | (5,177) | (2,171) | (21,731) |
| Net cash from financing activities | 2,884 | 3,857 | 13,956 |
| **Net movement in cash and cash equivalents** | **1,396** | **(1,313)** | **1,817** |
| Cash and cash equivalents at beginning of year | (1,309) | 87 | (1,226) |
| **Cash and cash equivalents at end of year** | **87** | **(1,226)** | **591** |

| **KEY ACCOUNTING RATIOS** | **2014** | **2015** | **2016** |
|---|---|---|---|
| Gross profit margin | 70% | 55% | 84% |
| *(Gross profit/revenue)* | | | |
| Operating profit margin | 54% | 40% | 70% |
| *(EBITDA/revenue)* | | | |
| Interest cover (times) | 20.16 | 8.78 | 17.72 |
| *(EBITDA/net finance cost)* | | | |
| Net profit margin | 32% | 30% | 45% |
| *(Profit after tax/revenue)* | | | |
| Earnings per share (€) | 1,735.83 | 1,838.33 | 3,627.50 |
| *(Profit after tax/number of shares)* | | | |
| Return on equity | 16% | 14% | 22% |
| *(Profit after tax/shareholders' equity)* | | | |
| Return on capital employed | 17% | 11% | 15% |
| *(EBITDA/total assets less current liabilities)* | | | |
| Return on assets | 8% | 6% | 8% |
| *(Profit after tax/total assets)* | | | |

*Source: Charts Investment Management Service Limited*

The revenue and profitability as reported in the combined income statement primarily reflects the performance of the operating Subsidiaries, Stivala Operators Limited and Stivala Properties Ltd, which are described in further detail in sections 4. 3 and 4. 4 of this report. Revenue has increased over the reviewed period from €6.6 million in FY2014 to €9.6 million in FY2016, principally due to the initiation of operations of the Sliema Hotel in FY2016. Profit for the year improved from €2.1 million in FY2014 to €2.2 million in FY2015 and €4.4 million in FY2016.

The combined statement of financial position as at 31 December 2016 comprises total assets of €53.3 million, primarily made up of immovable property and improvements amounting to €45.6 million. Such assets were recorded on a historical cost basis. As at 31 December 2016, total borrowings amounted to €29.7 million and capital & reserves amounted to €19.9 million.

**Forecast Consolidated Financial Information of the Issuer for the Year Ending 31 December 2017**

The Group in its current state has only been in existence since 5 September 2017, following the rationalisation exercise described in the initial part of this document. The financial information for FY2017 represents pro forma forecast consolidated financial statements. This pro forma information presents what the consolidated financial statements of Stivala Group Finance p.l.c. would have looked like had the Group existed in its current form, comprising all its current constituent components, for the forecast period 1 January 2017 to 31 December 2017.

No adjustments to the results, financial position and cash flow statements of the constituent sub-groups were necessary for the purposes of arriving at the pro forma forecast consolidated financial statements except solely to reflect the entries necessary in any process of accounting consolidation.

The projected consolidated financial statements for FY2018 detailed below relate to events in the future and are based on assumptions which the Issuer 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.**

**STIVALA GROUP FINANCE P.L.C.**
**Projected Consolidated Income Statement**
**for the year ending 31 December**

| | 2017 Pro Forma €'000 | 2018 Projection €'000 |
|---|---|---|
| Revenue | 9,452 | 11,660 |
| ST Hotels Limited | 6,978 | 7,177 |
| ST Properties Limited | 2,474 | 4,483 |
| Cost of sales | (3,393) | (3,489) |
| **Gross profit** | **6,059** | **8,171** |
| Other net operating costs | (1,080) | (1,107) |
| **EBITDA[1]** | **4,979** | **7,064** |
| Depreciation & amortisation | (1,123) | (1,181) |
| **Operating profit** | **3,856** | **5,883** |
| Share of results of associated undertakings | 250 | - |
| Net finance costs | (801) | (2,382) |
| **Profit before tax** | **3,305** | **3,501** |
| Taxation | 490 | (506) |
| **Profit for the year** | **3,795** | **2,995** |
| **Other comprehensive income** | | |
| Gains on property revaluation, net of tax | 97,365 | 3,145 |
| **Total comprehensive income** | **101,160** | **6,140** |

*[1]EBITDA - Earnings before Interest, Tax, Depreciation and Amortisation.*

**STIVALA GROUP FINANCE P.L.C.**
**Projected Consolidated Cash Flow Statement**
**for the year ending 31 December**

| | 2017 Pro Forma €'000 | 2018 Projection €'000 |
|---|---|---|
| Net cash from operating activities | 6,379 | 5,194 |
| Net cash from investing activities | (36,464) | (8,837) |
| Net cash from financing activities | 35,188 | (439) |
| **Net movement in cash and cash equivalents** | **5,103** | **(4,082)** |
| Cash and cash equivalents at beginning of year | (712) | 4,391 |
| **Cash and cash equivalents at end of year** | **4,391** | **309** |

**STIVALA GROUP FINANCE P.L.C.**
**Projected Consolidated Statement of Financial Position**
**as at 31 December**

| | 2017 Pro Forma €'000 | 2018 Projection €'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Intangible assets | 558 | 496 |
| Investment property | 174,741 | 186,623 |
| Property, plant and equipment | 15,048 | 14,379 |
| Investments in associates | 26 | 26 |
| | 190,373 | 201,524 |
| **Current assets** | | |
| Trade and other receivables | 3,935 | 4,088 |
| Current tax assets | 861 | 168 |
| Cash and cash equivalents | 4,391 | 309 |
| | 9,187 | 4,565 |
| **Total assets** | **199,560** | **206,089** |
| **EQUITY** | | |
| **Capital and reserves** | | |
| Share capital | 300 | 300 |
| Retained earnings | 18,482 | 20,617 |
| Incentives and benefits | 4,893 | 4,893 |
| Revaluation reserve | 97,365 | 100,511 |
| | **121,040** | **126,321** |
| Equity attributable to equity holders of the parent | 117,730 | 122,905 |
| Non-controlling interest | 3,310 | 3,416 |
| | 121,040 | 126,321 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Borrowings | 60,145 | 59,706 |
| Other non-current liabilities | 10,818 | 11,168 |
| | 70,963 | 70,874 |
| **Current liabilities** | | |
| Trade and other payables | 6,917 | 7,952 |
| Other current liabilities | 640 | 942 |
| | 7,557 | 8,894 |
| | **78,520** | **79,768** |
| **Total equity and liabilities** | **199,560** | **206,089** |

| KEY ACCOUNTING RATIOS | FY2017 | FY2018 |
|---|---|---|
| Gross profit margin<br>*(Gross profit/revenue)* | 64% | 70% |
| EBITDA margin<br>*(EBITDA/revenue)* | 53% | 61% |
| Interest cover (times)<br>*(EBITDA/net finance cost)* | 6.22 | 2.97 |
| Net profit margin<br>*(Profit after tax/revenue)* | 40% | 26% |
| Earnings per share (€)[1]<br>*(Profit after tax/number of shares)* | 12.65 | 9.98 |
| Return on equity<br>*(Profit after tax/shareholders' equity)* | 3% | 2% |
| Return on capital employed<br>*(EBITDA/total assets less current liabilities)* | 3% | 4% |
| Return on assets<br>*(Profit after tax/total assets)* | 2% | 1% |

*Source: Charts Investment Management Service Limited*

Revenue for the financial year ending 31 December **2017** is expected to amount to €9.5 million, €7.0 million of which is forecasted to be generated by ST Hotels Limited (being the company that took over the operations of Stivala Operators Limited), and the remaining €2.5 million is projected from ST Properties Limited (being the recipient company of the business activities previously conducted by Stivala Properties Ltd).

ST Hotels Limited is projected to derive *circa* half of revenue from its two hotels – Bayview Hotel and Sliema Hotel – whilst the balance is expected to be generated from hostels, short let apartments and commercial activities. ST Properties Limited is forecasting to generate 58% of aggregate revenue from long lets of residential units and the balance from long term commercial leases.

EBITDA for FY2017 is projected to amount to €5.0 million. After taking into account depreciation & amortisation of €1.1 million, operating profit is anticipated to amount to €3.9 million.

During FY2017, the Group changed its policy on accounting for properties from book value to fair market value. As a consequence, a net property revaluation gain of €97.4 million is being recognised in other comprehensive income. The Group's pro forma total comprehensive income for the year ending 31 December 2017 is forecasted at €101.1 million.

The Group's statement of financial position as at 31 December 2017 is projected to comprise total assets of €199.6 million, primarily made up of immovable property as to €189.8 million, other assets of €4.8 million and cash balances amounting to €4.4 million.

Equity is expected to amount to €121.0 million, of which €97.4 million consists of the revaluation reserve. Total liabilities are set to amount to €78.5 million and should mainly comprise the issuance of Bonds of €45 million, other loans amounting to €15.1 million, deferred tax liabilities totalling €10.8 million and trade & other payables of €6.9 million.

Revenue for **FY2018** is projected to increase by €2.2 million (+23%) as compared to the prior year from €9.5 million to €11.7 million, primarily due to a projected increase in revenue generated from ST Properties Limited as a result of additional properties acquired in the latter quarter of FY2017.

EBITDA for FY2018 is projected at €7.1 million, an increase of €2.1 million (+42%) when compared to €5.0 million in FY2017. Net finance costs are projected to increase from €0.8 million in FY2017 to €2.4 million primarily due to the increased Group debt following the issuance of bonds in FY2017. Profit before tax is projected to marginally improve from €3.3 million in FY2017 to €3.5 million in FY2018. After accounting for taxation, the Group expects to register a profit of €3.0 million in FY2018 as compared to €3.8 million in FY2017.

The Group's total assets are expected to amount to €206.1 million (FY2017: €199.6 million). Principal movements include a y-o-y increase in investment property of €11.2 million, including the completion of the Azur Hotel, net revaluation of €3.1 million and various acquisitions, and a reduction in cash and cash equivalents from €4.4 million to €0.3 million.

An analysis of borrowings is provided hereunder:

**STIVALA GROUP FINANCE P.L.C.**
**Consolidated Borrowings**
**as at 31 December**

| | 2017 Pro Forma €'000 | 2018 Projection €'000 |
|---|---|---|
| **Borrowings** | | |
| Bank overdrafts | - | - |
| Bank loans | 9,454 | 9,015 |
| | **9,454** | **9,015** |
| **Bonds** | | |
| 4% Secured Bonds 2027 | 45,000 | 45,000 |
| | **45,000** | **45,000** |
| **Other loans (unsecured)** | | |
| Amounts owed to ultimate shareholders | 3,691 | 3,691 |
| Amounts owed to third party | 2,000 | 2,000 |
| | **5,691** | **5,691** |
| **Total borrowings and bonds** | **60,145** | **59,706** |

| **KEY ACCOUNTING RATIOS** | **FY2017** | **FY2018** |
|---|---|---|
| Net assets per share (€)<br>*(Net asset value/number of shares)* | 484.16 | 505.28 |
| Liquidity ratio (times)<br>*(Current assets/current liabilities)* | 1.22 | 0.51 |
| Gearing ratio<br>*(Total net debt/net debt and shareholders' equity)* | 32% | 32% |

*Source: Charts Investment Management Service Limited*

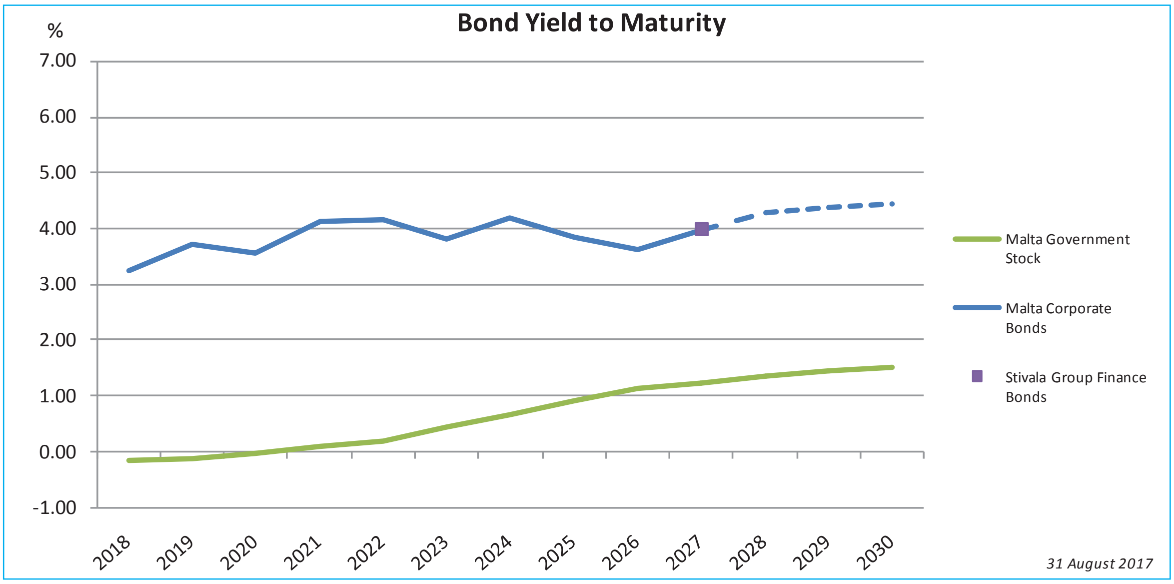
## PART 3 - COMPARABLES

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

| Comparative Analysis | Nominal Value (€) | Yield to Maturity (%) | Interest Cover (times) | Total Assets (€'000) | Net Asset Value (€'000) | Gearing Ratio (%) |
|---|---|---|---|---|---|---|
| 5.5% Pendergardens Dev. plc Secured € 2020 Series I | 15,000,000 | 3.55 | 1.49 | 63,273 | 11,488 | 63.23 |
| 6% Pendergardens Dev. plc Secured € 2022 Series II | 27,000,000 | 4.16 | 1.49 | 63,273 | 11,488 | 63.23 |
| 4.25% Gap Group plc Secured € 2023 | 40,000,000 | 3.70 | 2.48 | 57,086 | 6,004 | 86.39 |
| 5.3% United Finance Plc Unsecured € Bonds 2023 | 8,500,000 | 3.82 | 2.05 | 18,153 | 3,796 | 73.85 |
| 6% AX Investments Plc Unsecured € 2024 | 40,000,000 | 4.00 | 3.62 | 270,425 | 163,719 | 27.97 |
| 6% Island Hotels Group Holdings plc € 2024 | 35,000,000 | 4.28 | 0.91 | 144,003 | 52,994 | 53.41 |
| 5.3% Mariner Finance plc Unsecured € 2024 | 35,000,000 | 4.19 | 4.25 | 72,117 | 30,380 | 52.06 |
| 5% Hal Mann Vella Group plc Secured Bonds € 2024 | 30,000,000 | 4.47 | - 0.02 | 82,096 | 32,298 | 54.54 |
| 5.1% PTL Holdings plc Unsecured € 2024 | 36,000,000 | 4.76 | 1.59 | 71,711 | 4,751 | 89.91 |
| 4.5% Hili Properties plc Unsecured € 2025 | 37,000,000 | 3.84 | 1.40 | 97,042 | 28,223 | 66.81 |
| 4.25% Corinthia Finance plc Unsecured € 2026 | 40,000,000 | 3.76 | 1.86 | 1,389,627 | 665,357 | 42.18 |
| 4.0% International Hotel Invest. plc Secured € 2026 | 55,000,000 | 3.60 | 2.46 | 1,220,254 | 646,822 | 36.39 |
| 4.0% MIDI plc Secured € 2026 | 50,000,000 | 3.40 | 0.59 | 203,780 | 67,359 | 40.62 |
| 3.75% Premier Capital plc € Unsecured Bonds 2026 | 65,000,000 | 3.38 | 7.60 | 193,351 | 41,630 | 58.76 |
| 4.35% SD Finance plc € Unsecured Bonds 2027 | 65,000,000 | 3.97 | 4.82 | 156,433 | 56,697 | 53.20 |
| 4.0% Eden Finance plc Unsecured 2027 | 40,000,000 | 3.56 | 3.98 | 165,496 | 92,620 | 34.60 |
| **4% Stivala Group Finance plc Secured 2027** | **45,000,000** | **4.00** | **6.21** | **199,560** | **121,041** | **31.54** |

*31 August '17*

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




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

## PART 5 - EXPLANATORY DEFINITIONS

| INCOME STATEMENT | |
|---|---|
| Revenue | Total revenue generated by the Group from its business activities during the financial year, including room reservations, food & beverage, rental income and other revenue streams. |
| Cost of sales | Direct costs include cost of food, beverages, consumables, labour expenses and all other direct expenses. |
| Gross profit | Gross profit is the difference between revenue and direct costs. It refers to the profit made by the Group before deducting administrative costs, depreciation & amortisation, finance costs, impairment provisions, share of results from associate and affiliate companies and other operating costs. |
| Administrative costs | Administrative costs include all operating expenses other than direct costs and include general & administration expenses. |
| 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. |
| Share of results of associates | The Guarantor owns minority stakes in a number of companies (less than 50% plus one share of a company's share capital). The results of such companies are not consolidated with the subsidiaries of the db Group, but the Guarantor's share of profit is shown in the profit and loss account under the heading 'share of results of associates'. |
| 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. |

| KEY PERFORMANCE INDICATORS | |
|---|---|
| Occupancy level | Occupancy level is the percentage of available rooms that were sold during a given period of time. It is calculated by dividing the number of rooms sold by total number of rooms available. |
| Revenue per occupied room (RevPOR) | RevPOR is calculated by adding all income generated (room accommodation, food & beverage and other income) and dividing it by the number of occupied rooms. A hotel uses this indicator as a performance measure with other hotels in the same category or market to determine how well the hotel property is yielding. |
| Revenue per available room (RevPAR) | RevPAR is calculated by adding all income generated (room accommodation, food & beverage and other income) and dividing it by the number of available rooms. A hotel uses this indicator as a performance measure with other hotels in the same category or market to determine how well the hotel property is yielding. |

| | |
|---|---|
| Gross operating profit per available room (GOPAR) | GOPAR is the total revenue of the hotel less expenses incurred earning that revenue, divided by the available rooms. This indicator is another performance measure used in the hotel industry. |
| Revenue generating index (RGI) | A revenue generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) revenue per occupied room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1. |
| Gross operating profit generating index (GOPGI) | A gross operating profit generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) gross operating profit per available room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1. |
| **PROFITABILITY RATIOS** | |
| Gross profit margin | Gross profit margin is the difference between revenue and direct costs expressed as a percentage of total revenue. |
| EBITDA margin | EBITDA 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. |
| **EQUITY RATIOS** | |
| Earnings per share | Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date. |

## CASH FLOW STATEMENT

| | |
|---|---|
| Cash flow from operating activities | Cash generated from the principal revenue-producing activities (room revenue, food & beverage, hotel services, rental income etc) of the Group. |
| Cash flow from investing activities | Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group. |
| Cash flow from financing activities | Cash generated from the activities that result in change in share capital and borrowings of the Group. |

## 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. Non-current assets are capitalised rather than expensed, meaning that the Group amortises the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was acquired. Such assets include intangible assets (including goodwill on acquisition), investments in associates, investment property, and property, plant & equipment. |
| 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, inventory (food, beverages, consumables, etc), 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, including current portion of bank loans. |
| 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 long-term borrowings and bonds. |
| Total equity | Total equity includes share capital, reserves & other equity components, retained earnings and non-controlling interest. |

## 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 operating profit 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. |