Financial Analysis Summary

25 May 2018

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 May 2018

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 2018 Financial Analysis Summary (the "**Analysis**") set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to 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 2015 and 31 December 2016 has been extracted from the audited financial statements of the two principal operating companies – Stivala Operators Limited and Stivala Properties Ltd (their respective business activities were transferred to ST Properties Ltd and ST Hotels Ltd with effect from 1 January 2017).

(b) Historical financial data for the year ended 31 December 2017 has been extracted from the audited financial statements of the two principal operating companies – ST Properties Ltd and ST Hotels Ltd.

(c) Historical financial data for the years ended 31 December 2015 to 2017 has been extracted from the audited financial statements of the Guarantor.

(d) Historical financial data for the period 21 August 2017 (being date of incorporation) to 31 December 2017 has been extracted from the unaudited financial statements of the Company.

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(e) The projections have been extracted from the projected financial information of the Group for the year ending 31 December 2018.

(f) 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.

(g) The ratios quoted in the Analysis have been computed by us applying the definitions set out in Part 4 of the Analysis.

(h) 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.

Yours faithfully,

Evan Mohnani
Head – Corporate Finance

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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 in anticipation of the issuance of Secured Bonds in October 2017. 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.

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

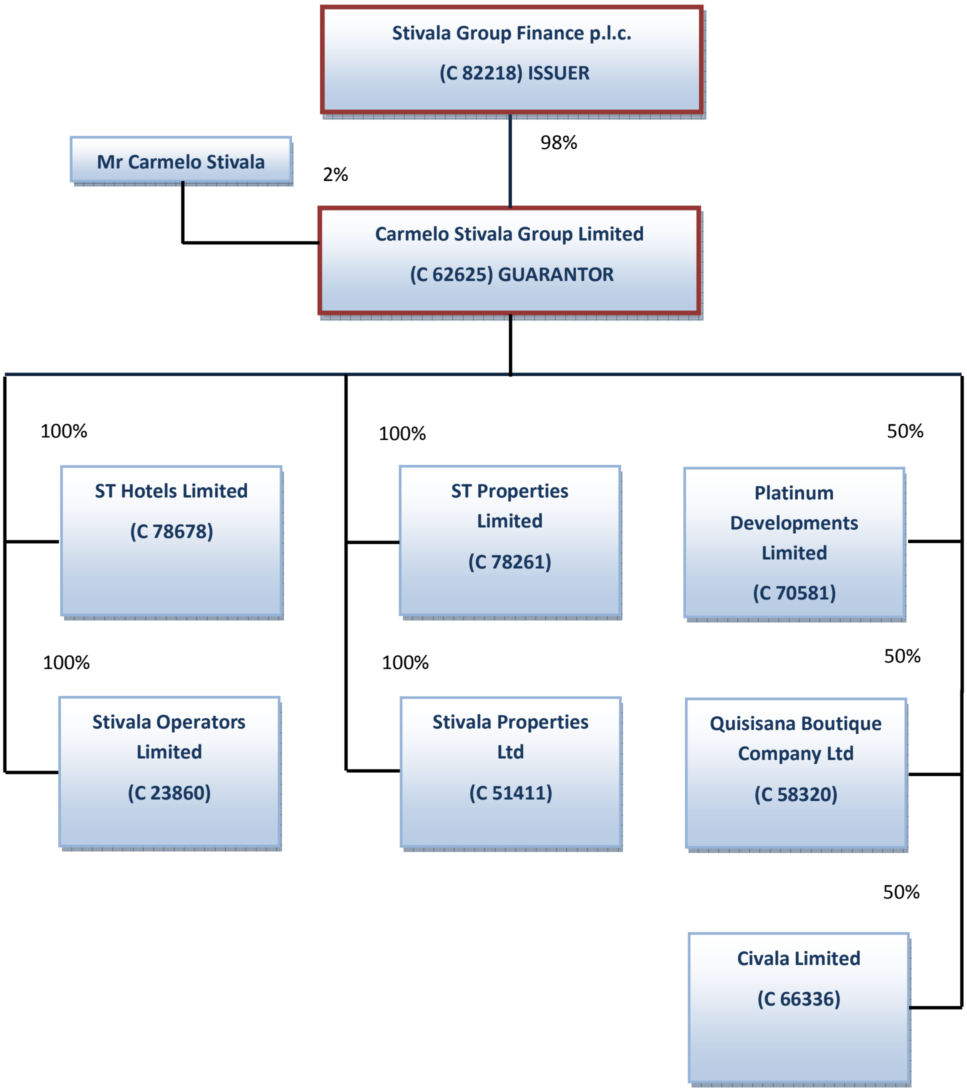
Martin John Stivala	Executive Director
Michael Stivala	Executive Director
Carlo Stivala	Executive Director
Ivan Stivala	Executive Director

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 December 2017, the Group employed 15 staff members in management and administration, and 85 staff members in operational activities.

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 (which was listed in October 2017). 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 their 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 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 three associate companies as follows: (i) Platinum Developments Ltd (C 70581) owns and leases three residential units and one office on the Sliema Seafront; (ii) Quisisana Boutique Company Ltd (C 58320) was, until Q4 2017, involved in leasing a block of 18 apartments, 37 garages and one office situated on the Qui-Si-Sana Seafront in Sliema. This business activity has been transferred to ST Properties Ltd; and (iii) 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** – comprises 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 directly undertakes the development of projects, thus allowing greater control by the Group over 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 accounts for more than 75% of the Group's total revenue. 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 real estate portfolio of the Group is included in the statement of financial position of Carmelo Stivala Group Limited under the headings "Property, plant and equipment" and "Investment property". As at 31 December 2017, the carrying value of real estate amounted to **€162,176,846**.

Further information on the real estate portfolio is included below:

PROPERTIES USED FOR BUSINESS PURPOSES

Address	Current Use	Valuation (€)
Blubay Fleet Hostel, Fleet Street, Gzira	46 room hostel	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)	2,987,000
Blubay Hotel, Ponsonby Street, Gzira	53 studio apartments (in addition, 1 restaurant and 1 shop are rented to third parties)	4,480,000
Bring Apartments, Reid Street, Gzira	14 residential units (in addition, 11 garages and 1 shop are rented to third parties)	3,197,000
Bayview Hotel, The Strand, Gzira	136 room 3-star hotel	19,128,000
Charlie's Guest House, Valley Road, Msida	a guest house, 1 apartment and 3 garages	1,500,000
Sliema Hotel, The Strand, Sliema	70 room 3-star hotel	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)	3,767,000
8, Reid Street, Gzira	3 residential units	540,000
20, Coleridge Street, Gzira	2 residential units	511,000
134/135, The Strand, Gzira	8 residential units (in addition, 4 shops are rented to third parties)	2,720,000
153/154, The Strand, Gzira	11 residential units (in addition, 3 shops and 2 offices are rented to third parties)	3,390,000
Tal-Balal Works Yard, Tal-Balal	plot of land situated outside development zone	250,000
TOTAL		**56,379,000**

Moroni Residence, Moroni Street, Gzira: In May 2018, the Group completed the development of an additional 27 apartments. As such, the property now comprises 70 apartments.

PROPERTIES IN COURSE OF DEVELOPMENT OR HELD FOR FUTURE DEVELOPMENT

Address	Current Use	Valuation (€)
47/48/49/50/51/52/53/54 Belvedere Street, Gzira (proposed "Azur Hotel")	178-room hotel	3,400,000
26/28/30/32/50/52/56/58/60/62 Coleridge Street, Gzira and 116/117/118/119 Ponsomby Street, Gzria (proposed "Montana Hostel")	225-room hostel	5,200,000
Proposed ST Tower, Testaferrata Street, Ta'Xbiex	Commercial office block	8,000,000
196/197/198, Main Street, St Julians	Development of apartment block	9,256,488
TOTAL		**25,856,488**

Properties in course of development or held for future development are described in more detail hereunder:

Site at 47/48/49/50/51/52/53/54 Belvedere Street, Gzira (proposed "Azur Hotel")

The Group is presently developing a 178-room hotel (Planning Authority permit 1467/15) in Belvedere Street, Gzira. Works in progress are estimated at €2,500,000 and the property is expected to be completed by end 2018 at an aggregate cost of *circa* €4,500,000. It was previously reported that completion was expected in May 2018, but due to a number of other Group developments occurring concurrently with this project, the due date has been moved to Q1 2019. The property in caption is freehold and has been valued at a total amount of **€3,400,000**.

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 865m^2 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**.

196/197/198, 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. In 2017, the Group resolved to enlarge the project by acquiring 2 adjacent properties (197 and 198, Main Street, St Julians). The sale contracts for the aforementioned 3 properties were executed in Q4 2017. The consideration amounting to **€9,256,488** was funded from net proceeds of the Bond Issue.

To date, demolition and excavation works are nearing completion and development of eleven luxury residential units (at levels 1 to 4), commercial space (at levels -2 to 0) and garages at level -3 (total built up area of *circa* 4,420m^2) is scheduled to commence in the coming weeks. The proposed development is approved as per Planning Authority permits PA 2617/16 and PA 6442/17. The estimated cost of development is *circa* €3,800,000.

PROPERTIES RENTED TO THIRD PARTIES

Address	Current Use	Valuation (€)
Moroni Residence, Moroni Street, Gzira *	6 garages, 4 parking spaces and 1 store	-
51/55 Moroni Street, Gzira	10 residential units	1,106,000
Blubay Hotel, Ponsonby Street, Gzira *	1 restaurant and 1 shop	-
Bring Apartments, Reid Street, Gzira *	11 garages and 1 shop	-
28/30/32/34/36, Reid Street, Gzira and 121 – 125, Cameron Street, Gzira *	various small residential houses	-
134/135, The Strand, Gzira *	4 shops	-
153/154, The Strand, Gzira *	2 shops and 2 offices	-
Valley Towers, Valley Road, Birkirkara	3 shops, 14 offices and 2 large garages	1,948,000
110/112/114 Carlo Manche Street, Gzira	12 residential units and 1 large garage	2,299,000
Petit Paradis, G. Bencini Street, Gzira	3 residential units and 1 garage	1,650,000
14 – 19, Ponsonby Street, Gzira	7 residential units and 3 shops	1,000,000
Taj Mahal, 122, The Strand, Gzira	1 catering outlet with airspace	606,355
Waterline Residence, 176/177, The Strand, Gzira	2 shops and 6 residential units	1,457,000
26/28/30/32, Coleridge Street, Gzira ^	2 residential units and 1 garage	-
101, Moroni Street, Gzira	8 residential units and 1 large garage	1,604,000
165/166, The Strand, Gzira	1 shop and 6 residential units	2,299,000
108/109, Ponsonby Street, Gzira	3 domestic stores, 3 residential units and 1 shop with basement	562,000
Bishop Caruana Mansions, 15, Bishop Caruana Street, Msida	5 garages, 11 residential units and 2 shops with basement	1,158,000
43, New Street, Msida	a maisonette and a shop	319,000
St Louis Mansions, St Louis Street, Msida	7 residential units and 1 garage	1,966,000
Orchidea Apartments, Tal-Hriereb Street, Msida	10 residential units and 6 parking spaces	2,554,909
Tal-Qroqq Mansions, Tal-Qroqq Street, Msida	4 residential units and 1 public service garage	579,000
Tower Mansions, Tower Gate Street, Msida	12 residential units and 1 large garage with 16 car spaces	1,983,000
Vista Point Residence Hostel, University Street, Msida	31 residential units, 1 shop, 1 garage, and an office	4,967,000
Centre Point, Valley Road, Msida	1 shop and 4 offices	579,000

PROPERTIES RENTED TO THIRD PARTIES (CONT.)

Address	Current Use	Valuation (€)
122/122A, Home Space, Misrah il-Barrieri Street, Sta Venera	1 showroom, 1 large garage and 3 offices	1,439,000
4/5, Pace Street, Sliema	13 residential units, 2 basement stores and 1 garage	1,299,000
Margaret Island, 71, The Strand, Sliema	1 shop including kitchen and storage area	1,106,000
Qui Si Sana Boutique Apartments, Qui Si Sana Seafront, Sliema	37 car spaces, 18 residential units and office space	15,044,754
14, Ta' Xbiex Sea Front, Msida	2 residential units and 1 shop	316,000
Tigne Mansions, 44, Qui Si Sana Sea Front, Sliema	15 residential units and 4 garages	1,580,000
41/42/43, The Strand, Sliema	3 residential units and 3 shops	6,266,000
Waterline Front Place, 67, The Strand, Sliema	1 shop	878,000
81/83/85/87, Carlo Manche Street, Gzira	9 residential units, 1 domestic store	351,000
120, The Strand, Gzira	10 levels of office space	12,286,000
162, The Strand, Gzira	1 shop	509,000
EC Language School, Triq Marguerite Mangion, St Julians	Language School	7,634,340
Other properties	n/a	2,595,000
TOTAL		**79,941,358**

* 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 in course of development or held for future development".

4.3 Hospitality Operations

Hospitality operations in FY2015 and 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 2015 and 31 December 2016. As of 1 January 2017, hospitality operations were transferred to ST Hotels Ltd. The financial information about ST Hotels Ltd is included in the audited financial statements of the said company for the financial year ended 31 December 2017.

Set out below are highlights taken from the audited financial statements of Stivala Operators Limited and ST Hotels Ltd for the financial years indicated hereunder:

Income Statement **for the year ended 31 December**	**2015** **€'000**	**2016** **€'000**	**2017** **€'000**
Revenue	6,000	7,842	9,656
Hotels	*2,107*	*3,155*	*4,135*
Hostels and short let apartments	*3,560*	*4,350*	*4,999*
Commercial and other income	*333*	*337*	*522*
Cost of sales	(4,260)	(3,813)	(4,102)
Gross profit	**1,740**	**4,029**	**5,554**
Other net operating costs	(605)	(1,267)	(1,167)
EBITDA[1]	**1,135**	**2,762**	**4,387**
Depreciation & amortisation	(946)	(948)	(2,004)
Operating profit	**189**	**1,814**	**2,383**
Gain on disposals/write offs of assets	11	1,586	-
Waiver of related company balance	-	(10,190)	10,203
Net finance costs	(13)	(33)	(855)
Profit/(loss) before tax	**187**	**(6,823)**	**11,731**
Taxation	155	(553)	400
Profit/(loss) for the year	**342**	**(7,376)**	**12,131**
Total comprehensive income/(expense)	**342**	**(7,376)**	**12,131**

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

Key Accounting Ratios	**FY2015**	**FY2016**	**FY2017**
Gross profit margin *(Gross profit/revenue)*	29%	51%	58%
EBITDA margin *(EBITDA/revenue)*	19%	35%	45%
Net profit margin *(Profit after tax/revenue)*	6%	n/a	126%

Source: Charts Investment Management Service Limited

Statement of Financial Position **as at 31 December**	**2015** **€'000**	**2016** **€'000**	**2017** **€'000**
ASSETS			
Non-current assets			
Intangible assets	8	-	36
Investment property	-	-	-
Property, plant and equipment	8,399	-	14,401
Deferred taxation	554	-	583
	8,961	-	15,020
Current assets			
Inventories	13	15	16
Trade and other receivables	1,109	855	1,653
Current tax assets	-	-	-
Cash and cash equivalents	4	40	5
	1,126	910	1,674
Total assets	**10,087**	**910**	**16,694**
EQUITY			
Capital and reserves			
Share capital	2	2	500
Reserves	4,825	4,825	-
Retained earnings	-	(7,376)	-
	4,827	**(2,549)**	**500**
LIABILITIES			
Non-current liabilities			
Borrowings	238	85	-
Other non-current liabilities	29	15	-
	267	100	-
Current liabilities			
Bank overdraft	505	303	263
Borrowings	146	152	-
Other current liabilities	4,342	2,904	15,931
	4,993	3,359	16,194
	5,260	**3,459**	**16,194**
Total equity and liabilities	**10,087**	**910**	**16,694**

Cash Flow Statement for the year ended 31 December	2015 €'000	2016 €'000	2017 €'000
Net cash from operating activities	5,301	(8,647)	27,814
Net cash from investing activities	(723)	9,031	(16,441)
Net cash from financing activities	(5,163)	(146)	(11,631)
Net movement in cash and cash equivalents	**(585)**	**238**	**(258)**
Cash and cash equivalents at beginning of year	84	(501)	-
Cash and cash equivalents at end of year	**(501)**	**(263)**	**(258)**

Revenue in **FY2015** amounted to €6.0 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.

The year-on-year growth in revenue registered in FY2015 of €0.5 million (+9.5%) was mainly attributable to higher achieved room rates for the Bayview 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 3 above, in 2016, the business of Stivala Operators Limited was transferred to ST Hotels Ltd 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 Ltd. 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 Ltd recorded a gain of the same amount in FY2017.

ST Hotels Ltd generated revenue of €9.7 million in **FY2017**, an increase of €1.8 million (+23%) over the previous year, primarily due to the inclusion of Sliema Hotel's revenue for a full year as compared to 8 months' performance in FY2016. In fact, revenue from hotels increased by €980,000 y-o-y to €4.1 million. Income derived from hostels and short let apartments also increased by €650,000 or 15% from €4.35 million in FY2016 to €5.00 million in FY2017, whilst the commercial segment generated €522,000 as compared to €337,000 a year earlier.

As a consequence of the higher revenue achieved in FY2017, EBITDA improved by €1.6 million (+59%) to €4.4 million and operating profit increased from €1.8 million in FY2016 to €2.4 million (+31%). Profit before tax in FY2017 amounted to €11.7 million, which included the one-off transaction amounting to €10.2 million, described hereinabove. Normalised profit before tax amounted to €1.5 million, marginally lower when compared to the prior year (FY2016: normalised profit before tax of €1.8 million). Overall, profit for the year amounted to €12.1 million (FY2016: loss of €7.4 million).

HOTEL OPERATIONS (Bayview Hotel & Sliema Hotel)		**FY2015 Actual**	**FY2016 Actual**	**FY2017 Actual**
Turnover (€'000)		2,107	3,155	4,135
Gross operating profit (€'000)		687	1,227	1,613
Gross operating profit margin (%)		33	39	39
Available rooms		137	207	207
Available room nights (available rooms x 365 days)		50,005	75,555	75,555
Occupied room nights (available nights x occupancy)		40,504	61,200	61,200
Occupancy level (%)		81	81	81
Revenue per occupied room (RevPOR) (€)	(a)	52	52	68
Revenue per available room (RevPAR) (€)		42	42	55
Gross operating profit per available room (GOPAR) (€)	(b)	5,015	5,928	7,792
Benchmark performance				
Occupancy level (%)		78	81	82
Revenue per occupied room (RevPOR) (€)	(c)	57	59	58
Revenue per available room (RevPAR) (€)		44	48	48
Gross operating profit per available room (GOPAR) (€)	(d)	5,181	4,498	4,266
Revenue Generating Index (RGI)	(a)/(c)	0.91	0.87	1.16
Gross Operating Profit Generating Index (GOPGI)	(b)/(d)	0.97	1.32	1.83

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

Source: BOV MHRA Survey; Management information.

In FY2015, the Group operated one hotel - the Bayview Hotel - and generated revenue of €2.1 million. In May 2016, the Sliema Hotel was acquired 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 FY2015 to €1.2 million in FY2016, and the GOP margin improved from 33% in FY2015 to 39% FY2016. In the subsequent year (FY2017), revenue from hospitality increased further by €0.98 million (+31%) y-o-y to €4.1 million, mainly due to the Sliema Hotel which operated for a whole year as compared to 8 months in FY2016. Accordingly, gross operating profit increased from €1.2 million in FY2016 to €1.6 million in FY2017, whilst the gross operating margin remained stable at 39%.

Comparing to benchmark performance, the Group's occupancy level was broadly in line with its competitive set (being the 3 star hotel category). With regards to RevPOR and RevPAR, both performance indicators were lower than benchmark results in each of FY2015 and FY2016. In contrast, the Group's RevPOR was higher in FY2017 at €68 as compared to €58 for its competitive set, and RevPAR was also higher in the same year at €55 as compared to the benchmark rate of €48. As such, the Group has recovered from a position of marginally underperforming against the benchmark in FY2015 and FY2016, to outperforming its 3-star sector competitors in FY2017 (as indicated by an RGI of 1.16 and GOPGI of 1.83).

4.4 Property Rentals

Long lets of residential and commercial Group properties to third parties were administered during FY2015 and FY2016 by Stivala Properties Ltd and in FY2017 by ST 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 2015 and 31 December 2016. Financial information about ST Properties Ltd is included in the audited financial statements of the said company for the financial year ended 31 December 2017. Set out below are highlights taken from the above-mentioned audited financial statements for the financial years indicated hereunder:

Income Statement **for the year ended 31 December**	**2015** **€'000**	**2016** **€'000**	**2017** **€'000**
Revenue	1,377	1,748	2,721
Commercial	*656*	*821*	*1,004*
Residential	*721*	*927*	*1,717*
Cost of sales	(567)	(393)	(315)
Gross profit	**810**	**1,355**	**2,406**
Other net operating (costs)/income	(31)	(18)	373
EBITDA[1]	**779**	**1,337**	**2,779**
Depreciation & amortisation	-	-	-
Operating profit	**779**	**1,337**	**2,779**
Net finance costs	-	-	-
Profit before tax	**779**	**1,337**	**2,779**
Taxation	(179)	(300)	(536)
Profit for the year	**600**	**1,037**	**2,243**
Total comprehensive income	**600**	**1,037**	**2,243**

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

Key Accounting Ratios	**FY2015**	**FY2016**	**FY2017**
Gross profit margin *(Gross profit/revenue)*	59%	78%	88%
EBITDA margin *(EBITDA/revenue)*	57%	76%	102%
Net profit margin *(Profit after tax/revenue)*	44%	59%	82%

Source: Charts Investment Management Service Limited

Statement of Financial Position as at 31 December	**2015 €'000**	**2016 €'000**	**2017 €'000**
ASSETS			
Current assets			
Trade and other receivables	1,101	1,609	1,820
Cash and cash equivalents	6	40	24
	1,107	1,649	1,844
Total assets	**1,107**	**1,649**	**1,844**
EQUITY			
Capital and reserves			
Share capital	1	1	1
Retained earnings	-	-	-
	1	**1**	**1**
LIABILITIES			
Current liabilities			
Trade and other payables	955	1,380	1,306
Other current liabilities	151	268	537
	1,106	1,648	1,843
	1,106	**1,648**	**1,843**
Total equity and liabilities	**1,107**	**1,649**	**1,844**

Cash Flow Statement **for the year ended 31 December**	**2015** **€'000**	**2016** **€'000**	**2017** **€'000**
Net cash from operating activities	605	1,071	2,265
Net cash from investing activities	-	-	-
Net cash from financing activities	(600)	(1,037)	(2,241)
Net movement in cash and cash equivalents	**5**	**34**	**24**
Cash and cash equivalents at beginning of year	1	6	-
Cash and cash equivalents at end of year	**6**	**40**	**24**

In **FY2015**, Stivala Properties Ltd increased revenue (rents receivable) 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).

The business activities of Stivala Properties Ltd were conducted by ST Properties Ltd in **FY2017**. During the year, revenue increased by €973,000 (+56%) y-o-y, mainly as a result of an increase in properties under management and improvement in rental rates. In consequence, the company's profit for the year increased from €1.0 million in FY2016 to €2.2 million in FY2017.

5. INVESTMENTS

The principal projects currently being undertaken by the Group are described hereunder:

Proposed Azur Hotel – The Group is presently developing a 178-room hotel. Development is expected to be completed by Q1 2019 at an aggregate cost of *circa* €4,500,000, as further described in section 4.2 above.

196/197/198, Main Street, St Julian's – The Group is developing a property consisting of nine luxury residential units, commercial space and garages for a total built up area of *circa* 4,420m^2, as detailed in section 4.2 of this report. Development should be completed by Q2 2019 at an estimated cost of €3,800,000. In terms of the Prospectus dated 25 September 2017, this project was scheduled for completion in late 2018. The delay of approximately 6 months is due to the enlargement of the proposed building (from *circa* 2,735m^2 to *circa* 4,420m^2), whereby the number of apartments will increase from 9 units to 11 units, and each apartment will be considerably larger in size when compared to the original plans.

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 for the Group at marginally increased costs, through further investment in new projects. In this context, current market conditions remain supportive for the Group 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 an increase in operational efficiency. This is predominantly evident in the procurement of goods at better discounts, and the consolidation and rationalisation of decision making within the Group, which on the one hand avoids the need for overly complex and costly management and governance structures and on the other allows 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 (being hotels, hostels and guest houses). 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]

Real Gross Domestic Product ("GDP") grew strongly in the first three quarters of 2017 and continued to surprise on the upside, reaching 7.2%. The external sector, driven by growing services exports, remained the main driver of growth in 2017. Domestic demand was affected by a strong contraction in investment, linked to a high base effect from an extraordinary investment in transport equipment in 2016. Residential construction, by contrast, continued to increase robustly. Following a rebound in imports in the last quarter of the year, real GDP growth is expected to have reached 6.9% for 2017 as a whole, above the rate recorded in 2016. The dynamics in the external sector are pushing up the current account surplus.

Economic growth is projected to slow in 2018 to 5.6%. Private consumption is expected to become the main driver of growth on the back of strong employment growth, improved consumer confidence and growing disposable income. Investment is forecast to recover, led by the residential construction sector, which is expected to continue growing strongly in 2018. Driven by domestic demand, imports of goods and services are gaining momentum, and exports are forecast to continue rising, in line with growing demand in Malta's main trading partners. Overall, the current account surplus is expected to stabilise.

In 2019, real GDP growth is projected to moderate further to 4.5%. Private consumption is projected to remain the main driver of growth, while investment is expected to increase mainly on the back of the construction sector. Net exports are expected to contribute only modestly to GDP growth, as domestic demand fuels imports.

Headline annual harmonised index of consumer prices ("HICP") inflation averaged 1.3% in 2017, slightly lower than the euro area average. Relatively moderate increases in regulated fuel prices have contained overall HICP inflation. Inflation is projected to strengthen to 1.5% in 2018 and 1.8% in 2019. Higher price growth is expected to come mainly from the services component, which is projected to rise in line with growing disposable incomes.

[1] European Economic Forecast – Winter 2018 (Interim) (European Commission Institutional Paper 073 Feb'18)

7.2 Hospitality[2]

Tourism in Malta has in recent years been performing at a strong level and this trend continued in 2016 as well as in 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. Tourism expenditure was estimated at €1.71 billion in 2016, an increase of 4.3% over 2015.

Inbound tourism from January to December 2017 amounted to 2.3 million, an increase of 15.7% when compared to the prior year. Total nights spent by inbound tourists went up by 10.3%, surpassing 16.5 million nights. In 2017, total guests in collective accommodation establishments surpassed 1.8 million, an increase of 13.0% over the same period in 2016. Within the collective accommodation establishments, the 5 star, 4 star and 3 star hotels gained 26,348 guests (+6.7%), 81,383 guests (+11.5%) and 82,401 (+20.7%) respectively in 2017 when compared to a year earlier. Total tourism expenditure surpassed €1.9 billion, 13.9% higher than that recorded for 2016. Total expenditure per capita stood at €856, a decrease of 1.5% when compared to 2016.

Focus will be maintained on increasing arrivals during the winter months and attracting more visitors from new markets to Malta. This bodes well for the Maltese hospitality industry as the expectation is to continue to grow revenues and increase profitability.

Looking forward, Valletta serving as the European City of Culture in 2018 is expected to further increase demand for hotels and enhance Malta’s image as a tourist destination. Malta International Airport has revealed its traffic forecast and expects to register further growth in the coming year to reach a total of 6.5 million passenger movements (2016: 6.0 million passenger movements). The airport revealed that its summer schedule for 2018 features no less than 16 new routes, bringing the airport’s destination network up to a 100 routes. Meanwhile, the somewhat uncertain future of the national carrier Air Malta poses a concern to further growth 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

[2] National Statistics Office - Malta (www.nso.gov.mt)

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.

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. During the 4-month period to 31 December 2017, the Issuer listed €45 million 4% Secured Bonds 2027 on the Malta Stock Exchange and acquired €45 million worth of preference shares in the Guarantor. An extract from the unaudited financial statements for the period 21 August 2017 to 31 December 2017 is provided hereunder:

Stivala Group Finance p.l.c.
Unaudited Income Statement
for the period 21 August 2017 to 31 December 2017

	€'000
Dividend income	506
Administrative expenses	(493)
Profit for the period	**13**

Stivala Group Finance p.l.c.
Unaudited Statement of Financial position
as at 31 December 2017

	€'000
ASSETS	
Non-current assets	
Investment in subsidiary	45,005
	45,005
Current assets	
Other receivables	506
Cash in hand and bank	1
Shareholders' current balance	48
	555
Total assets	**45,560**
EQUITY AND LIABILITIES	
Capital and reserves	
Share capital	300
Retained earnings	13
	313
Current liabilities	
Other payables	455
Debt securities in issue	44,595
Intercompany balances	197
	45,247
Total equity and liabilities	**45,560**

9. FINANCIAL INFORMATION – THE GROUP

The financial information set out in this section has been extracted from the financial statements described hereunder:

FY2015 & FY2016: Combined Financial Information of the Guarantor for the Years Ended 31 December 2015 and 31 December 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 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 2015 and 31 December 2016 of Carmelo Stivala Group Limited, C. Stivala & Sons Limited, Stivala Operators Limited and Stivala Properties Ltd. The financial information relating ST Hotels Ltd and ST Properties Ltd 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.

FY2017: Audited Consolidated Financial Statements of the Guarantor for the Year Ended 31 December 2017

Pursuant to the re-organisation exercise described in section 3 of the report, the Guarantor became the Group's property holding company and holds almost all of the Group's immovable property. The afore-mentioned property is subsequently leased to and operated by the Guarantor's subsidiaries - ST Hotels Ltd and ST Properties Ltd.

FY2018: Projected Consolidated Financial Information of the Issuer for the Year Ended 31 December 2018

The Issuer was set up as the holding company and finance arm of the Group on 21 August 2017 and in view of the recent incorporation, has not prepared and published audited financial statements. To date, the Issuer was principally involved in two transactions: (i) issuance of €45 million Secured

Bonds 2027 to the general public; and (ii) investment through preference shares of €45 million in the Guarantor (vide section 8 above). As such, the Issuer's first audited consolidated financial statements will relate to FY2018.

The projected consolidated financial statements for FY2018 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.

Consolidated Income Statement for the year ended 31 December	2015 Actual €'000	2016 Actual €'000	2017 Actual €'000	2018 Projection €'000
Revenue	7,377	9,590	12,386	22,376
Cost of sales	(3,330)	(1,518)	(3,238)	(7,277)
Gross profit	**4,047**	**8,072**	**9,148**	**15,099**
Net operating costs	(1,113)	(1,358)	(2,396)	(2,386)
EBITDA[1]	**2,934**	**6,714**	**6,752**	**12,713**
Depreciation & amortisation	(1,105)	(1,669)	(2,905)	(1,745)
Operating profit/(loss)	**1,829**	**5,045**	**3,847**	**10,968**
Profit on disposal of investments	736	556	-	-
Dividends receivable	254	266	253	-
Net gain on merger and other income	-	-	8,644	(7)
Movement in revaluation of property	-	-	56,945	-
Net finance costs	(334)	(379)	(710)	(2,597)
Profit before tax	**2,485**	**5,488**	**68,979**	**8,364**
Taxation	(279)	(1,135)	(9,035)	(1,877)
Profit for the year	**2,206**	**4,353**	**59,944**	**6,487**
Other comprehensive income:				
Movement in revaluation of property, net of tax	-	-	29,085	-
Total comprehensive income	**2,206**	**4,353**	**89,029**	**6,487**

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

Consolidated Statement of Financial Position				
as at 31 December	**2015**	**2016**	**2017**	**2018**
	Actual	**Actual**	**Actual**	**Projection**
	€'000	**€'000**	**€'000**	**€'000**
ASSETS				
Non-current assets				
Intangible assets	8	-	36	512
Investment property	14,956	31,593	106,035	119,616
Property, plant & equipment	8,337	13,990	62,841	83,551
Loans	3,400	3,400	-	-
Other non-current assets	554	1	1	1
	27,255	48,984	168,913	203,680
Current assets				
Trade and other receivables	7,370	3,379	5,281	13,836
Cash and cash equivalents	170	914	5,538	236
	7,540	4,293	10,819	14,072
Total assets	**34,795**	**53,277**	**179,732**	**217,752**
EQUITY				
Capital and reserves				
Share capital	1	1	45,005	300
Incentives and benefits reserve	4,927	4,925	-	4,825
Revaluation reserve	-	-	77,205	77,205
Retained earnings	10,570	14,924	22,912	27,706
	15,498	**19,850**	**145,122**	**110,036**
LIABILITIES				
Non-current liabilities				
Long-term borrowings	11,342	24,940	14,215	65,096
Other non-current liabilities	-	-	13,731	14,329
	11,342	24,940	27,946	79,425
Current liabilities				
Bank overdraft	1,396	323	263	1,685
Borrowings	4,130	4,427	1,932	4,833
Trade and other payables	2,219	3,454	3,691	17,169
Other current liabilities	210	283	778	4,604
	7,955	8,487	6,664	28,291
	19,297	**33,427**	**34,610**	**107,716**
Total equity and liabilities	**34,795**	**53,277**	**179,732**	**217,752**

Consolidated Cash Flow Statement for the year ended 31 December	2015 Actual €'000	2016 Actual €'000	2017 Actual €'000	2018 Projection €'000
Net cash from operating activities	(2,999)	9,592	34,844	21,470
Net cash from investing activities	(2,171)	(21,731)	(34,742)	(34,768)
Net cash from financing activities	3,857	13,956	4,362	6,574
Net movement in cash and cash equivalents	**(1,313)**	**1,817**	**4,464**	**(6,724)**
Cash and cash equivalents at beginning of year	87	(1,226)	811	5,275
Cash and cash equivalents at end of year	**(1,226)**	**591**	**5,275**	**(1,449)**

Key Accounting Ratios	FY2015	FY2016	FY2017	FY2018
Gross profit margin *(Gross profit/revenue)*	55%	84%	74%	67%
Operating profit margin *(EBITDA/revenue)*	40%	70%	55%	57%
Interest cover (times) *(EBITDA/net finance cost)*	8.78	17.72	9.51	4.90
Net profit margin *(Profit after tax/revenue)*	30%	45%	484%	29%
Earnings per share (€) *(Profit after tax/number of shares)*	1,838.33	3,627.50	1.33	21.62
Return on equity *(Profit after tax/shareholders' equity)*	14%	22%	41%	6%
Return on capital employed *(EBITDA/total assets less current liabilities)*	11%	15%	4%	7%
Return on assets *(Profit after tax/total assets)*	6%	8%	33%	3%
Liquidity ratio (times) *(Current assets/current liabilities)*	0.95	0.51	1.62	0.50
Gearing ratio *(Total net debt/net debt and shareholders' equity)*	52%	59%	7%	39%

Source: Charts Investment Management Service Limited

The operating results presented hereinabove primarily reflect the performance of the Group's operating subsidiaries - Stivala Operators Limited and Stivala Properties Ltd for FY2015 and FY2016, and ST Hotels Ltd and ST Properties Ltd thereafter - which are described in further detail in sections 4.3 and 4.4 of this report. Revenue increased during the historical financial years from €7.4 million in FY2015 to €9.6 million and €12.4 million in FY2016 and FY2017 respectively (+68%), principally due to the initiation of operations of the Sliema Hotel in FY2016 and yearly increases in properties available for lease.

Operating profit increased in FY2016 from €1.8 million in FY2015 to €5.0 million, but decreased to €3.8 million in FY2017 due to a higher depreciation charge. In consequence of the Group's restructuring exercise implemented in the last financial year, the Group reported a positive movement in property revaluation of €56.9 million and net gain on merger of businesses amounting to €8.6 million. Accordingly, profit after tax in FY2017 amounted to €59.9 million (FY2016: €4.4 million).

Revenue in **FY2018** is projected to increase substantially by €9.99 million (+81%) from €12.4 million in FY2017 to €22.4 million. The major factors contributing to the increase in property rentals include, rental income from the newly acquired EC Language School and from the renovated commercial property at 120, The Strand, Sliema, and y-o-y increases in lease rates across the Group's property portfolio. In relation to revenue generated by the Group's hospitality properties, it is expected that the Bayview Hotel, Sliema Hotel and the other hostels and apartments (for short-lets) should perform better when compared to the prior year, mainly on account of higher occupancy levels and average room rates.

The above-mentioned growth in revenue is projected to increase EBITDA by 88% in FY2018 from €6.8 million in FY2017 to €12.7 million. Net finance costs are projected to increase from €0.8 million in FY2017 to €2.6 million, primarily due to the increase in Group debt pursuant to the issuance of bonds in FY2017. Profit before tax is expected to increase from €3.4 million in FY2017 (which amount excluded the one-off items being the net gain on merger and movement in revaluation of property) to €8.4 million in FY2018. Overall, total comprehensive income in FY2018 is forecasted to amount to €6.5 million (FY2017: €89.0 million).

In the Consolidated Statement of Financial Position, the Group's total assets as at 31 December 2017 amounted to €179.7 million, predominantly composed of investment property and property, plant & equipment. Total assets are expected to increase to €217.8 million as at 31 December 2018 on account of further property acquisitions and development in FY2018.

Non-current liabilities as at 31 December 2018 are projected to amount to €79.4 million, comprising Secured Bonds of €45 million, bank loans of €20 million and other non-current liabilities (primarily deferred taxation) of €14.3 million. Current liabilities are forecasted at €28.3 million and include trade and other payable, current portion of bank and other borrowings, overdraft facilities and other liabilities.

The Consolidated Cash Flow Statement shows that in FY2018, the Group is expected to generate cash inflows from operating activities of €21.5 million as compared to €34.8 million in FY2018. The material variance from one year to another is mainly attributable to movements in working capital (being inventories, trade and other receivables and payables). The Group is forecasting net cash outflows from investing activities to amount to €34.8 million in FY2018 (FY2017: €34.7 million), largely related to the further expansion of the Group's property portfolio through acquisitions and development. As a result, net financing cash inflows are expected to amount to €6.6 million in FY2018 (FY2017: €4.4 million).

Variance Analysis

Income Statement (€'000)	**FY2017 Actual**	**FY2017 Pro Forma**	**Variance**
Revenue	12,386	9,452	2,934
Direct costs	(3,238)	(3,393)	155
Gross profit	**9,148**	**6,059**	**3,089**
Net operating costs	(2,396)	(1,080)	(1,316)
EBITDA	**6,752**	**4,979**	**1,773**
Depreciation and amortisation	(2,905)	(1,123)	(1,782)
Results from operating activities	**3,847**	**3,856**	**(9)**
Profit on disposal of investments	-		-
Dividends receivable	253		253
Net gain on merger and other income	8,644	250	8,394
Movement in revaluation of property	56,945	-	56,945
Net finance costs	(710)	(801)	91
Profit before tax	**68,979**	**3,305**	**65,674**
Taxation	(9,035)	490	(9,525)
Profit for the year	**59,944**	**3,795**	**56,149**

Note: The Group in its current state has only been in existence since 5 September 2017, following the rationalisation exercise described in section 3 of this document. As such, the projected financial information for FY2017, which was included in the financial analysis report dated 25 September 2017, represents pro forma forecast consolidated financial statements.

As presented in the above table, the Group generated higher revenue in FY2017 than forecasted by €2.9 million, principally due to a higher than expected performance in hospitality operations. This increase positively affected gross profit and EBITDA, which were higher by €3.1 million and €1.8 million respectively. Notwithstanding the afore-mentioned growth in EBITDA, a higher than expected depreciation charge of €1.8 million, completely offset this increase. The actual FY2017 financial results were affected by one-off items which were not projected in the FY2017 pro forma statements, including a net gain on merger and other income of €8.6 million and movement in revaluation of property of €56.9 million. As such, profit for the year, which amounted to €59.9 million, was significantly different to the pro forma FY2017 profit of €3.8 million.

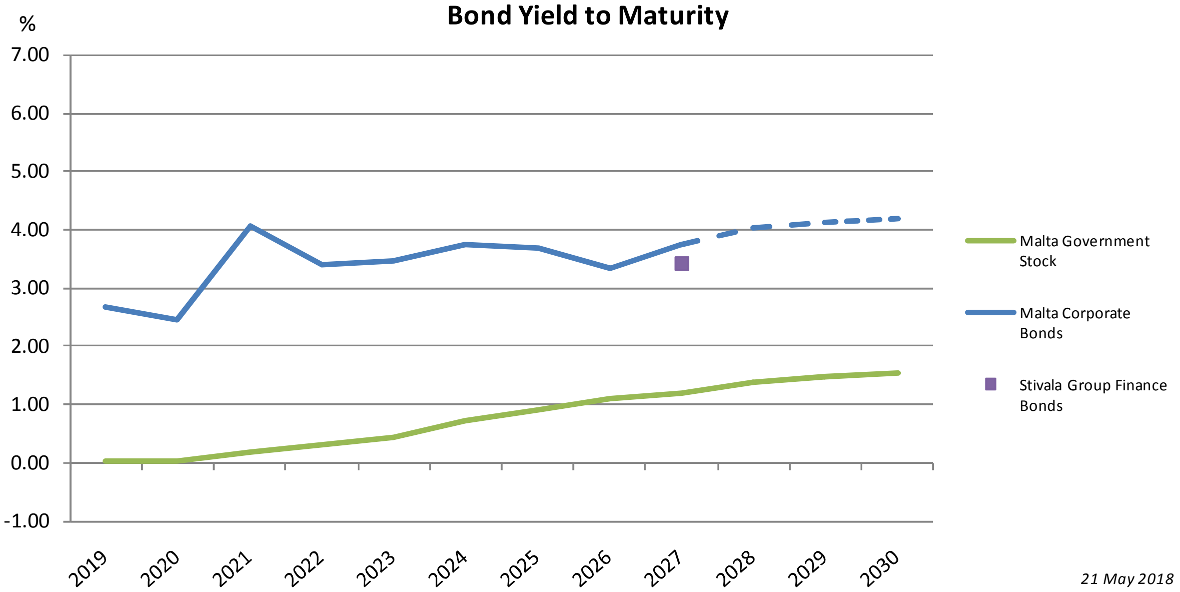
PART 3 – COMPARABLES

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

Comparative Analysis	**Nominal Value (€)**	**Yield to Maturity (%)**	**Interest Cover (times)**	**Total Assets (€'000)**	**Net Asset Value (€'000)**	**Gearing Ratio (%)**
5.5% Pendergardens Dev. plc Secured € 2020 Series	15,000,000	2.45	6.29	68,589	14,418	66.04
6% Pendergardens Dev. plc Secured € 2022 Series I	27,000,000	3.39	6.29	68,589	14,418	66.04
4.25% Gap Group plc Secured € 2023	40,000,000	3.47	2.61	56,906	6,696	85.08
5.3% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.15	2.05	18,153	3,796	73.85
6% AX Investments Plc Unsecured € 2024	40,000,000	3.75	4.44	286,318	173,323	26.09
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	3.46	4.42	77,088	38,701	45.62
5% Hal Mann Vella Group plc Secured Bonds € 202	30,000,000	3.76	3.05	107,801	39,813	54.01
5.1% 1923 Investments plc Unsecured € 2024	36,000,000	4.40	1.79	118,490	33,711	56.83
4.5% Hili Properties plc Unsecured € 2025	37,000,000	3.71	1.26	135,879	38,358	69.11
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.70	2.59	1,765,072	901,595	40.43
4.0% International Hotel Invest. plc Secured € 2026	55,000,000	3.43	3.03	1,602,317	884,632	36.36
4.0% MIDI plc Secured € 2026	50,000,000	3.35	- 0.98	235,302	86,621	39.27
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.20	7.90	161,128	47,607	57.32
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.84	39.11	17,088	5,835	30.63
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.74	5.46	217,599	65,698	47.74
4.0% Eden Finance plc Unsecured 2027	40,000,000	3.50	4.46	169,936	90,162	36.52
4% Stivala Group Finance plc Secured 2027	**45,000,000**	**3.43**	**6.21**	**199,560**	**121,041**	**31.54**

21 May '18

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



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

PART 4 – EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including 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.