Stivala Group Finance p.l.c.

143, The Strand, Gzira. Malta

COMPANY ANNOUNCEMENT

Stivala Group Finance p.l.c. (the “company”)

FINANCIAL ANALYSIS SUMMARY

Date of Announcement	**27th June 2019**
Reference	**STV12/2019**

The following is a company announcement issued by Stivala Group Finance P.L.C. pursuant to Chapter 5 of the Listing Rules:

QUOTE

The Board of Directors of Stivala Group Finance Plc wishes to inform the general public that the updated Financial Analysis Summary of the Company has been approved.

A copy of the signed financial Analysis Summary is available for viewing on the Company`s website: http://stivalagroup.com/wp-content/uploads/2019/06/Stivala-Group-Financial-Analysis-Summary-2019.pdf

UNQUOTE

Rudi Xuereb *f:* Stivala Group Finance PLC
Company Secretary
27th June 2019

Financial Analysis Summary

26 June 2019

Issuer

Stivala Group Finance p.l.c.

WEALTH MANAGEMENT • CORPORATE BROKING
CHARTS
A division of MeDirect Bank (Malta) plc

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

26 June 2019

Dear Sirs

Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the 2019 Financial Analysis Summary (the "**Analysis**") set out on the following pages and which is being forwarded to you together with this letter.

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

(a) Historical financial data for the year ended 31 December 2016 has been extracted from the audited financial statements of Carmelo Stivala Group Limited (the "Guarantor"), C. Stivala & Sons Limited, and 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 consolidated financial statements of the Guarantor.

(c) Historical financial data for the period 21 August 2017 (being date of incorporation) to 31 December 2018 has been extracted from the audited consolidated financial statements of the Company.

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(d) The projections have been extracted from the projected financial information of the Group for the years ending 31 December 2019 and 31 December 2020.

(e) Our commentary on the results of the Group and on its financial position is based on the explanations provided by the Company.

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

(g) 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. 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

CHARTS - a division of MeDirect Bank (Malta) plc
The Centre, Tigné Point, Sliema TPO 0001 - Tel: 2557 4400

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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 (Carmelo Stivala Group Limited) 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
Ivan Stivala	Executive Director
Carlo 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

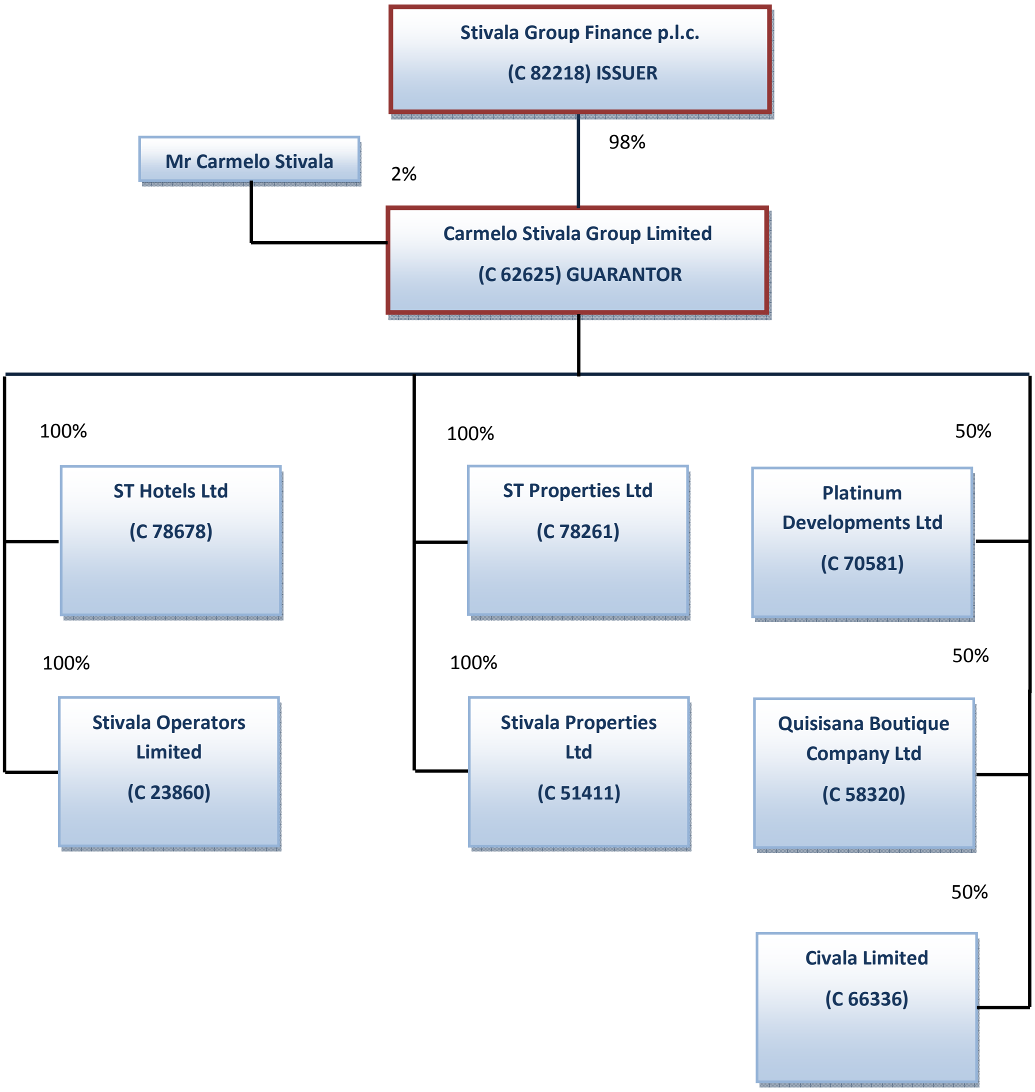
Martin John Stivala	Executive Director
Michael Stivala	Executive Director
Ivan Stivala	Executive Director
Carlo Stivala	Executive Director

2.3 Key Employees of the Group

The key members of the Group's management team, apart from the executive directors, are Kevin Bonnici (Group Financial Controller) and Rebecca Stivala (Group Accounts Manager). The Issuer does not have any employees of its own. As at 31 December 2018, the Group employed 17 staff members in management and administration (2017: 15 employees) and 90 staff members in operational activities (2017: 85 employees).

3. ORGANISATIONAL STRUCTURE

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



*The remaining 50% of Platinum Developments Limited is held by Bastille Malta Trustees Limited as trustee.
*The remaining 50% of Quisisana Boutique Company Limited is held by Edward Calleja (432870M).
*The remaining 50% of Civala Limited is held by John Cilia (262857M).

With effect from 1 January 2017, the business, operations, assets and the benefit of all contracts of Stivala Operators Limited and Stivala Properties Ltd were taken over by ST Hotels Ltd and ST Properties Ltd respectively. Accordingly, as from 1 January 2017, Stivala Operators Limited and Stivala Properties

Ltd ceased all trading and operating activities and it is intended that both companies will be liquidated in the near future.

ST Properties Ltd is principally involved in the business of sub-leasing, on a long-term basis, the commercial and residential properties owned by the Guarantor.

ST Hotels Ltd is primarily engaged in the operation and management of the Guarantor's hotels, hostels and short let apartments.

The Group also has four 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 accordingly the Group has initiated the liquidation process of the subject company; and (iii) Civala Limited (C 66336) owns a 900m^2 plot of land earmarked for the future development of a five-storey car park and overlying office space. In addition, ST Hotels Ltd holds a 33.3% shareholding in Sliema Creek Lido Limited (C 87108) to develop a lido opposite the Bayview Hotel in Gzira. The company has yet to commence operational activities.

4. BUSINESS OVERVIEW OF THE GROUP

4.1 Principal Activities

The Issuer was established on 21 August 2017 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, Msida University Heights, 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. 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 took over 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 was consolidated following the merger of C. Stivala & Sons Limited into the Guarantor, which came into effect in September 2017. Accordingly, the Group 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 under the headings "Property, plant and equipment" and "Investment property". As at 31 December 2018, the carrying value of real estate amounted to **€183.6 million**, analysed as follows:

	€'000
Properties use for business purpose	67,794
Properties rented to third parties or held for sale	87,035
Properties in the course of development or held for future development	28,811
	183,640

Further information on the real estate portfolio is included below:

PROPERTIES USED FOR BUSINESS PURPOSES

Address	Current Use	Valuation (€'000)
Bayview Hotel, The Strand, Gzira	136 room 3-star hotel	18,937
Sliema Hotel, The Strand, Sliema	70 room 3-star hotel	11,385
Azur Hotel, Belvedere Street, Gzira	178 room 3-star hotel	4,839
Blubay Hotel, Ponsonby Street, Gzira	53 studio apartments (in addition, 1 restaurant and 1 shop are rented to third parties)	4,435
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)	3,729
153/154, The Strand, Gzira	11 residential units (in addition, 3 shops and 2 offices are rented to third parties)	3,616
Bring Apartments, Reid Street, Gzira	17 residential units (in addition, 11 garages and 1 shop are rented to third parties)	3,165
Moroni Residence, Moroni Street, Gzira	70 apartments (in addition, 6 garages, 4 parking spaces and 1 store are rented to third parties)	2,957
134/135, The Strand, Gzira	8 residential units (in addition, 4 shops are rented to third parties)	2,693
Blubay Fleet Hostel, Fleet Street, Gzira	46 room hostel	2,385
101, Moroni Street, Gzira	8 residential units and 1 large garage	1,588
Charlie's Guest House, Valley Road, Msida	a guest house, 1 apartment and 3 garages	1,485
Waterline Residence, 176/177, The Strand, Gzira	2 shops and 6 residential units	1,442
51/55 Moroni Street, Gzira	10 residential units	1,095
Other Properties	Residential and commercial units	4,043
TOTAL		**67,794**

<u>Azur Hotel</u>

During FY2018 and the initial quarter of FY2019, the Group developed the Azur Hotel, a 178-room 3-star hotel, which is located in Belvedere Street, Gzira. The hotel commenced operations on 1 April 2019. The carrying amount of the Azur Hotel as at the date of this report is *circa* €9.0 million.

<u>Bring Apartments</u>

The Group is presently developing an extension to this property, which on completion will increase the number of apartments by 5 units to a total of 22 apartments. The estimated cost of development is *circa* €1 million and completion is scheduled for September 2019.

PROPERTIES RENTED TO THIRD PARTIES OR HELD FOR SALE

Address	Current Use	Valuation (€'000)
Qui Si Sana Boutique Apartments, Qui Si Sana Seafront, Sliema	37 car spaces, 18 residential units and office space	22,100
120, The Strand, Gzira	10 levels of office space	14,800
EC Language School, Triq Marguerite Mangion, St Julians	Language School	7,634
41/42/43, The Strand, Sliema	3 residential units and 3 shops	6,266
Vista Point Residence Hostel, University Street, Msida	31 residential units, 1 shop, 1 garage, and an office	4,967
Orchidea Apartments, Tal-Hriereb Street, Msida	10 residential units and 6 parking spaces	2,545
110/112/114 Carlo Manche Street, Gzira	12 residential units and 1 large garage	2,299
165/166, The Strand, Gzira	1 shop and 6 residential units	2,299
Tower Mansions, Tower Gate Street, Msida	12 residential units and 1 large garage with 16 car spaces	1,983
St Louis Mansions, St Louis Street, Msida	7 residential units and 1 garage	1,966
Valley Towers, Valley Road, Birkirkara	3 shops, 14 offices and 2 large garages	1,948
33, Juliani Heights, Triq Zammit Clapp, St Julians	4 residential units and 2 garage (held for re-sale)	1,794
Petit Paradis, G. Bencini Street, Gzira	3 residential units and 1 garage	1,650
Tigne Mansions, 44, Qui Si Sana Sea Front, Sliema	15 residential units and 4 garages	1,580
122/122A, Home Space, Misrah il-Barrieri Street, Sta Venera	1 showroom, 1 large garage and 3 offices	1,439
4/5, Pace Street, Sliema	13 residential units, 2 basement stores and 1 garage	1,299
Bishop Caruana Mansions, 15, Bishop Caruana Street, Msida	5 garages, 11 residential units and 2 shops with basement	1,158
Portside, 71, The Strand, Sliema	1 shop including kitchen and storage area	1,106
14 – 19, Ponsonby Street, Gzira	7 residential units and 3 shops	1,000
Other Properties	Residential and commercial units	7,202
TOTAL		**87,035**

Valley Towers

The Group is currently developing 3 additional commercial units (*circa* 600m^2) at a projected cost amounting to *circa* €600,000. The said project is expected to be completed by end 2019.

PROPERTIES IN COURSE OF DEVELOPMENT OR HELD FOR FUTURE DEVELOPMENT

Address	Current Use	Valuation (€)
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
Proposed ST Tower, Testaferrata Street, Ta'Xbiex	Commercial office block	8,000
196/197/198, Triq Censu Tabone, St Julians (previously Main Street, St Julians)	Development of office and residential units	9,417
Other Properties	Various sites	6,194
TOTAL		**28,811**

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

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 a carrying value as at 31 December 2018 of **€5,200,000**.

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

This property consists of a plot of land measuring 865m^2 and is earmarked for the development of a commercial property having *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 Group expects to initiate development in 2019 and completion is set for 18 to 24 months thereafter. The estimated cost of development is *circa* €14,000,000. The property in caption is freehold and has a carrying value as at 31 December 2018 of **€8,000,000**.

196/197/198, Triq Censu Tabone (formerly Main Street), St Julian's

In Q4 2017, the Group acquired 3 adjacent properties for re-development, located at 196, 197 and 198, Triq Censu Tabone, St Julian's, for the aggregate consideration of **€9,256,488**. The proposed project comprises the development of garages (at level -3), commercial space (at levels -2 to 0) and eleven luxury residential units (at levels 1 to 4) – a total built up area of *circa* 4,420m^2. To date, construction of the initial 5 levels have been completed at an estimated cost of *circa* €1 million and works on the 6th level are in progress. The remaining development costs (including finishes) are expected to amount to *circa* €2.8 million. The project is scheduled for completion by the end of 2019.

Other Properties

The Group owns various properties which are held for future development and as at 31 December 2018 had an aggregate carrying value of €6.2 million. Furthermore, the Group has entered into promise of sale agreements in relation to a number of properties earmarked for future development, for an aggregate consideration of €18.5 million.

4.3 Hospitality Operations

Hospitality operations in 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 year ended 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 years ended 31 December 2017 and 31 December 2018.

Set out below is the income statement extracted 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	**2016**	**2017**	**2018**
	€'000	**€'000**	**€'000**
Revenue	7,842	9,656	10,972
Hotels	*3,155*	*4,135*	*4,693*
Hostels and short let apartments	*4,350*	*4,999*	*6,097*
Commercial and other income	*337*	*522*	*182*
Cost of sales	(3,813)	(4,102)	(4,718)
Gross profit	**4,029**	**5,554**	**6,254**
Other net operating costs	(1,267)	(1,167)	(1,799)
EBITDA	**2,762**	**4,387**	**4,455**
Depreciation & amortisation	(948)	(2,004)	(2,386)
Operating profit	**1,814**	**2,383**	**2,069**
Gain on disposals/write offs of assets	1,586	-	-
Waiver of related company balance	(10,190)	10,203	-
Net finance costs	(33)	(855)	(402)
Profit/(loss) before tax	**(6,823)**	**11,731**	**1,667**
Taxation	(553)	400	(273)
Profit/(loss) for the year	**(7,376)**	**12,131**	**1,394**
Total comprehensive income/(expense)	**(7,376)**	**12,131**	**1,394**

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 FY2015. 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 year-on-year 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).

Revenue in **FY2018** increased by €1.3 million (+14%) from €9.7 million in FY2017 to €11.0 million, mainly on account of an increase in available units in the segment comprising hostels and short let apartments. Notwithstanding the afore-stated increase in revenue, EBITDA increased only marginally from €4.4 million in FY2017 to €4.5 million as operating & other expenses were higher from a year earlier by €1.2 million. During the year, there was an increase in commissions payable to tour operators, and moreover ST Hotels Ltd incurred one-off application fees for future re-development of certain Group properties.

ST Hotels Ltd reported a profit before tax for FY2018 of €1.7 million, an increase of €0.2 million when compared to normalised profit before tax of €1.5 million in FY2017 (that is, excluding the one-off item of €10.2 million. Profit for the year amounted to €1.4 million (FY2017: €12.1 million).

HOTEL OPERATIONS (Bayview Hotel & Sliema Hotel)		FY2016 Actual	FY2017 Actual	FY2018 Actual
Turnover (€'000)		3,155	4,135	4,693
Gross operating profit (€'000)		1,227	1,613	1,992
Gross operating profit margin (%)		39	39	42
Occupancy level (%)		83	88	88
Revenue per occupied room (RevPOR) (€)	(a)	57	62	71
Revenue per available room (RevPAR) (€)		47	55	62
Gross operating profit per available room (GOPAR) (€)	(b)	5,928	7,792	9,623
Benchmark performance				
Occupancy level (%)		81	84	82
Revenue per occupied room (RevPOR) (€)	(c)	59	67	70
Revenue per available room (RevPAR) (€)		48	56	57
Gross operating profit per available room (GOPAR) (€)	(d)	4,498	4,266	4,266
Revenue Generating Index (RGI)	(a)/(c)	0.96	0.93	1.01
Gross Operating Profit Generating Index (GOPGI)	(b)/(d)	1.32	1.83	2.26

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.

Revenue generated from the Bayview Hotel and the Sliema Hotel has increased by 49% over the three financial years under review (FY2016 to FY2018), from €3.2 million in FY2016 to €4.7 million in FY2018 (an increase of €1.5 million). The increase in gross operating profit maintained a similar trend and increased from €1.2 million in FY2016 to €2.0 million in FY2018 (+62%).

Comparing to benchmark performance, the Group managed to register a higher occupancy level than its competitive set (being the 3 star hotel category) in each of the three financial years, while RevPOR and RevPAR were maintained at broadly the same level. With regards to GOPAR, the Group has generated a significantly higher gross operating profit per available room when compared to benchmark results in each of the three years. Furthermore, it is noted that while the Group's GOPAR increased from €7,792 in FY2017 to €9,623 in FY2018, the 3-star hotel category in Malta registered a y-o-y decline from €5,066 in FY2017 to €4,173 in FY2018.

4.4 Property Rentals

Long lets of residential and commercial Group properties to third parties were administered during FY2016 by Stivala Properties Ltd and in FY2017 and FY2018 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 year ended 31 December 2016. Financial information about ST Properties Ltd is included in the audited financial statements of the said company for the financial years ended 31 December 2017 and 31 December 2018. Set out below is the income statement extracted from the above-mentioned audited financial statements for the financial years indicated hereunder:

Income Statement for the year ended 31 December	**2016 €'000**	**2017 €'000**	**2018 €'000**
Revenue	1,748	2,721	5,119
Commercial	*821*	*1,004*	*3,311*
Residential	*927*	*1,717*	*1,808*
Cost of sales	(393)	(315)	(345)
Gross profit	**1,355**	**2,406**	**4,774**
Other net operating (costs)/income	(18)	373	536
Profit before tax	**1,337**	**2,779**	**5,310**
Taxation	(300)	(536)	(841)
Profit for the year	**1,037**	**2,243**	**4,469**
Total comprehensive income	**1,037**	**2,243**	**4,469**

Key Accounting Ratios	**FY2016 Actual**	**FY2017 Actual**	**FY2018 Actual**
Gross profit margin *(Gross profit/revenue)*	78%	88%	93%
Net profit margin *(Profit after tax/revenue)*	59%	82%	87%

Source: Charts - a division of MeDirect Bank (Malta) plc

In **FY2016**, Stivala Properties Ltd reported a year-on-year increase of 27% or €371,000 to €1.7 million (FY2015: €1.4 million). The aforesaid growth 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%) year-on-year, 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.

Revenue generated by ST Properties Ltd in **FY2018** increased by €2.4 million, from €2.7 million in FY2017 to €5.2 million, primarily on account of a full year's rent receivable from the following properties acquired during the prior year: EC language school, St Julian's; The Quisisana Boutique Apartments, Sliema; and the office block at 120, The Strand, Sliema. Overall, the company's profit for the year doubled when compared to FY2017 and amounted to €4.5 million (FY2017: €2.2 million).

5. 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, Msida University Heights 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.

6. MARKET OVERVIEW

6.1 Economic Update[1]

Malta's economic expansion is expected to continue with the support of buoyant domestic demand, but the brisk pace of growth will ease slightly. The external surplus remains at historically high levels, due to the strong performance of the export-oriented services sector. Sustained job creation and low unemployment are creating an increasingly tight labour market. Inflation is set to increase only marginally over the forecast horizon. The fiscal position remains sound although the high surpluses recorded in recent years are set to decline.

Malta's economy performed better than expected in 2018, with real GDP growth reaching the high rate of 6.6%. Economic growth accelerated in the second half of the year, driven by record-high levels of private consumption growth, which increased by 7.3% compared to the previous year. In particular, robust employment growth coupled with modest price pressures in the household consumption basket contributed to boost households' real disposable income. Going forward, private consumption growth is expected to slow down but remain well above its historical average.

[1] European Economic Forecast Spring 2019 – European Commission

Real GDP growth is expected to remain solid but to gradually ease over the forecast horizon, to an annual rate of 5.5% in 2019 and 4.8% in 2020. Risks to the macroeconomic outlook appear broadly balanced. In particular, global trade tensions and rising uncertainties in some of Malta's trading partners could negatively affect the short-term growth profile. Important upside risks include the possibility of stronger-than-expected private consumption, driven by employment creation and accumulated savings, and a further decline in the import of services.

6.2 Hospitality[2]

Inbound tourist trips from January to December 2018 reached nearly 2.6 million, an increase of 14.3% over the same period in 2017. Total nights spent by inbound tourists went up by 12.5%, reaching nearly 18.6 million nights. Total tourism expenditure was estimated at €2.1 billion, 8.0% higher than that recorded for 2017. Total expenditure per capita stood at €809, a decrease of 5.5% when compared to 2017. In 2018, total guests reached almost 2.0 million, an increase of 8.4% over the same period in 2017. Within the collective accommodation establishments, the 5-star lost 4,542 guests (-1.1%), whilst the 4-star and 3-star hotels gained 80,814 guests (+10.2%), and 47,716 (+9.3%) respectively for the year 2018 when compared to a year earlier.

The latest inbound tourism numbers, published by the national statistics office (NSO), show that tourism has continued to increase during the first three months of this year. Tourist arrivals are reported to have increased by 2.8% and guest nights by 4.2%. Whilst remaining positive, the increases are less pronounced than those registered in previous years. Tourist expenditure increased at a slower pace and was marginally up by 0.3%.

During this first quarter of the year, the number of tourists staying in hotels remained at par with the previous year, although the number of guest nights spent in hotels decreased by 5.5%. The overall increase in guest nights during Q1 was effectively taken up by the private accommodation sector. This shift in accommodation preference has had a negative impact on the hotel sector's bottom line profitability, with both the 5-star and 4-star categories reporting a decline in gross operating profits.

Compared to the same period last year, the overall average length of stay in Q1 increased by 1.4%. Tourists opting to stay in private accommodation spent 9.31 days in Malta, up by 8.8% over last year and almost 4 days more than those staying in hotel accommodation. With total guest nights in hotel accommodation down by 5.5%, occupancy levels in the 5-star sector as reported by the Deloitte survey, declined from 56.9% in the first three months of 2018 to 53.6% during the same period this year. Average room rates were down marginally by 1% while non-accommodation income slightly increased by 0.4%, resulting in an overall drop of 6.3% in total revenue per available room. On average, 5-star hotels registered a GOPPAR (gross operating profit per available room) of €918, which is €528 lower than what was reported in the same quarter last year and €986 less than 2017.

The evident shift from hotel to private accommodation would appear to be having the greatest knock on effect on 4-star hotels, with occupancy levels in the first quarter of the year declining by 9.2% and room rates decreasing by 2.7%. The quarterly GOPPAR of 4-star hotels decreased by €339 to €36 per

[2] National Statistics Office - Malta (www.nso.gov.mt); MHRA Q1 2019 Hotel Survey by Deloitte

available room (Q1 2018: €375). As for the 3-star sector, participating hotels reported a loss of €67 per available room during this quarter, reflecting an improvement on what was reported in the corresponding period last year (Q1 2018: loss of €276).

As highlighted above, bed overcapacity may be a threat to profitability in view of the significant growth in non-collective accommodation (such as AirBnB) experienced in recent years and, to a lesser extent, hotel properties. Competition is expected to increase further in the short to medium term from ongoing development projects earmarked for the hospitality sector and others which are still at planning stage. An increase in competition is also anticipated from other countries, particularly in the southern Mediterranean region, which are reviving their respective hospitality industry as security and safety concerns abate.

6.3 Leases of Commercial and Residential Units

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

7. FINANCIAL INFORMATION – THE GROUP

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

FY2016: Combined Financial Information of the Guarantor for the year ended 31 December 2016

Prior to 2017, 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 year ended 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 year ended 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 a re-organisation exercise carried out in Q3 2017, 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: Audited Consolidated Financial Information of the Issuer for the period ended 31 December 2018

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.

The financial information relating to FY2018 is extracted from the audited consolidated financial statements of the Issuer for the period 21 August 2017 to 31 December 2018.

The projected consolidated financial information for FY2019 and FY2020 relates 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	2016 Actual (12 mths) €'000	2017 Actual (12 mths) €'000	2018 Actual (16 mths) €'000	2019 Projection (12 mths) €'000	2020 Projection (12 mths) €'000
Revenue	9,590	12,386	19,655	20,436	23,930
Cost of sales	(1,518)	(3,238)	(6,205)	(6,595)	(7,220)
Gross profit	**8,072**	**9,148**	**13,450**	**13,841**	**16,710**
Net operating costs	(1,358)	(2,396)	(2,645)	(3,310)	(3,450)
EBITDA	**6,714**	**6,752**	**10,805**	**10,531**	**13,260**
Depreciation & amortisation	(1,669)	(2,905)	(3,036)	(2,897)	(3,004)
Operating profit/(loss)	**5,045**	**3,847**	**7,769**	**7,634**	**10,256**
Gain from bargain purchase and other net gains	-	8,644	112,886	-	-
Movement in revaluation of property	-	56,945	2,334	-	-
Other	822	253	(1)	-	-
Net finance costs	(379)	(710)	(2,894)	(2,885)	(3,159)
Profit before tax	**5,488**	**68,979**	**120,094**	**4,749**	**7,097**
Taxation	(1,135)	(9,035)	(4,532)	(627)	(987)
Profit for the year	**4,353**	**59,944**	**115,562**	**4,122**	**6,110**
Other comprehensive income:					
Movement in revaluation of property, net of tax	-	29,085	-	-	-
Deferred taxation	-	-	(35)	-	-
Total comprehensive income	**4,353**	**89,029**	**115,527**	**4,122**	**6,110**

Consolidated Cash Flow Statement for the year ended 31 December	2016 Actual (12 mths) €'000	2017 Actual (12 mths) €'000	2018 Actual (16 mths) €'000	2019 Projection (12 mths) €'000	2020 Projection (12 mths) €'000
Net cash from operating activities	9,592	34,844	9,659	8,386	7,664
Net cash from investing activities	(21,731)	(34,742)	(50,274)	(19,644)	(9,619)
Net cash from financing activities	13,956	4,362	39,653	20,356	(1,175)
Net movement in cash and cash equivalents	**1,817**	**4,464**	**(962)**	**9,098**	**(3,130)**
Cash and cash equivalents at beginning of year	(1,226)	811	(1,410)	(2,372)	6,726
Cash and cash equivalents at end of year	**591**	**5,275**	**(2,372)**	**6,726**	**3,596**

Consolidated Statement of Financial Position as at 31 December	2016 Actual €'000	2017 Actual €'000	2018 Actual €'000	2019 Projection €'000	2020 Projection €'000
ASSETS					
Non-current assets					
Intangible assets	-	36	70	-	-
Investment property	31,593	106,035	115,846	130,535	136,712
Property, plant & equipment	13,990	62,841	74,947	74,910	72,918
Loans and receivables	3,400	-	7,621	10,075	12,575
Other non-current assets	1	1	1	1	1
	48,984	168,913	198,485	215,521	222,206
Current assets					
Trade and other receivables	3,379	5,281	3,705	4,354	5,635
Cash and cash equivalents	914	5,538	235	7,474	4,344
	4,293	10,819	3,940	11,828	9,979
Total assets	**53,277**	**179,732**	**202,425**	**227,349**	**232,185**
EQUITY					
Capital and reserves					
Share capital	1	45,005	300	300	300
Revaluation and other reserves	4,925	77,205	89,169	88,274	88,274
Retained earnings	14,924	22,912	26,357	29,503	35,315
	19,850	**145,122**	**115,826**	**118,077**	**123,889**
LIABILITIES					
Non-current liabilities					
Long-term borrowings	24,940	14,215	59,246	83,302	81,995
Other non-current liabilities	-	13,731	15,394	15,394	15,394
	24,940	27,946	74,640	98,696	97,389
Current liabilities					
Bank overdraft	323	263	2,607	748	748
Borrowings	4,427	1,932	1,077	426	628
Trade and other payables	3,454	3,691	7,072	8,568	8,246
Other current liabilities	283	778	1,203	834	1,285
	8,487	6,664	11,959	10,576	10,907
	33,427	**34,610**	**86,599**	**109,272**	**108,296**
Total equity and liabilities	**53,277**	**179,732**	**202,425**	**227,349**	**232,185**

Key Accounting Ratios	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Projection	FY2020 Projection
Gross profit margin *(Gross profit/revenue)*	84%	74%	68%	68%	70%
Operating profit margin *(EBITDA/revenue)*	70%	55%	55%	52%	55%
Interest cover (times) *(EBITDA/net finance cost)*	17.72	9.51	3.73	3.65	4.20
Net profit margin *(Profit after tax/revenue)*	45%	484%	588%	20%	26%
Earnings per share (€) *(Profit after tax/number of shares)*	3,627.50	1.33	385.21	13.74	20.37
Return on equity *(Profit after tax/shareholders' equity)*	22%	41%	100%	3%	5%
Return on capital employed *(EBITDA/total assets less current liabilities)*	15%	4%	6%	5%	6%
Return on assets *(Profit after tax/total assets)*	8%	33%	57%	2%	3%
Liquidity ratio (times) *(Current assets/current liabilities)*	0.51	1.62	0.33	1.12	0.91
Gearing ratio *(Total net debt/net debt and shareholders' equity)*	59%	7%	35%	39%	39%

Source: Charts - a division of MeDirect Bank (Malta) plc

The operating results presented hereinabove primarily reflect the performance of the Group's operating subsidiaries - Stivala Operators Limited and Stivala Properties Ltd for 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 €9.6 million in FY2016 to €12.4 million and €19.7 million in FY2017 and FY2018 respectively (+105%), principally due to a full year's operation of the Sliema Hotel as from FY2017 and substantial increase in commercial and short-let leases due to growth in the Group's property portfolio. Furthermore, financial information for FY2018 reflects a 16-month period.

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 FY2017, 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 increased substantially by €7.3 million (+59%) from €12.4 million in FY2017 to €19.6 million. On a normalised basis (that is, a 12-month period), revenue generated in FY2018 amounted to €15.7 million as compared to €12.4 million a year earlier (+€3.3 million, +27%). In FY2018, profit before tax was positively impacted by a gain from bargain purchase amounting to €112.9 million. This one-off item represented the acquisition by the Issuer of the Guarantor and its subsidiaries. Overall, total comprehensive income in FY2018 amounted to €115.5 million (FY2017: €89.0 million).

In FY2019, the Group is projected to generate revenue amounting to €20.4 million, an increase of €4.7 million (+30%) when compared to FY2018 normalised revenue of €15.7 million. This increase in revenue is a reflection of a full year's operating income derived from a larger property portfolio, the expansion occurring in all operational sectors of the Group (hospitality, commercial leasing and residential rental sectors). As a consequence, the Group is forecasting EBITDA to amount to €7.6 million (FY2018: €7.8 million) and expects to report a profit after tax of €4.1 million (FY2018: €115.6 million).

During FY2020, revenue is projected to increase by €3.5 million (+17%) over the prior year to amount to €23.9 million. The hospitality segment is expected to contribute €1.4 million of the above increase, whilst the remaining €2.1 million should be generated from commercial property leases. The EBITDA ratio is projected to increase from 52% in FY2019 to 55%, and is therefore expected to amount to €13.3 million in FY2020 (FY2019: €10.5 million). Projected total comprehensive income for FY2020 is expected to increase y-o-y by €2.0 million (+49%), from €4.1 million in FY2019 to €6.1 million.

In the Consolidated Statement of Financial Position, the Group's total assets as at 31 December 2018 amounted to €202.4 million, predominantly composed of investment property and property, plant & equipment. Total assets are expected to increase by a further €13.2 million to €215.6 million as at 31 December 2019 on account of further property acquisitions and development in FY2019.

Non-current liabilities as at 31 December 2018 amounted to €74.6 million, comprising 4% secured bonds 2027 of €44.6 million, bank loans of €14.6 million and other non-current liabilities (primarily deferred taxation) of €15.4 million. Current liabilities amounted to €12.0 million and include trade and other payable, current portion of bank and other borrowings, overdraft facilities and other liabilities.

The Consolidated Statement of Financial Position for the projected financial years depict a further expansion in the investment property portfolio of the Group by €14.7 million in FY2019 and a further €6.2 million in FY2020 to amount to €136.7 million. Such capital expenditure is expected to be financed through a bond issue, bank loans and own funds.

The Consolidated Cash Flow Statement shows that in FY2018, the Group generated cash inflows from operating activities of €9.7 million as compared to €34.8 million in FY2017. The material variance from one year to another is mainly attributable to movements in working capital (being inventories, trade and other receivables and payables). Net cash outflows from investing activities amounted to €50.3 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 amounted to €39.7 million in FY2018 (FY2017: €4.4 million).

Variance Analysis

Income Statement (€'000)	FY2018 Actual	FY2018 Projection	Variance
Revenue	19,655	22,376	(2,721)
Direct costs	(6,205)	(7,277)	1,072
Gross profit	**13,450**	**15,099**	**(1,649)**
Net operating costs	(2,645)	(2,386)	(259)
EBITDA	**10,805**	**12,713**	**(1,908)**
Depreciation and amortisation	(3,036)	(1,745)	(1,291)
Results from operating activities	**7,769**	**10,968**	**(3,199)**
Gain from bargain purchase and other net gains	112,886	-	112,886
Movement in revaluation of property	2,334	-	2,334
Other	(1)	(7)	6
Net finance costs	(2,894)	(2,597)	(297)
Profit before tax	**120,094**	**8,364**	**111,730**
Taxation	(4,532)	(1,877)	(2,655)
Profit for the year	**115,562**	**6,487**	**109,075**

As presented in the above table, the Group generated lower revenue in FY2018 than forecasted by €2.7 million, principally due to a lower than expected performance in hospitality operations. In consequence, actual EBITDA was also lower than projected by €1.9 million. The adverse variance increased further to €3.2 million as actual depreciation & amortisation was €1.3 million higher than expected. During the financial year, the Group accounted for a gain from bargain purchase and movement in revaluation of property amounting to €115.2 million (in aggregate), which amount was not reflected in the projections. Due to the significance of the afore-mentioned gain, actual profit for the year (€115.6 million) was materially higher when compared to the forecast profit for the year (€6.5 million).

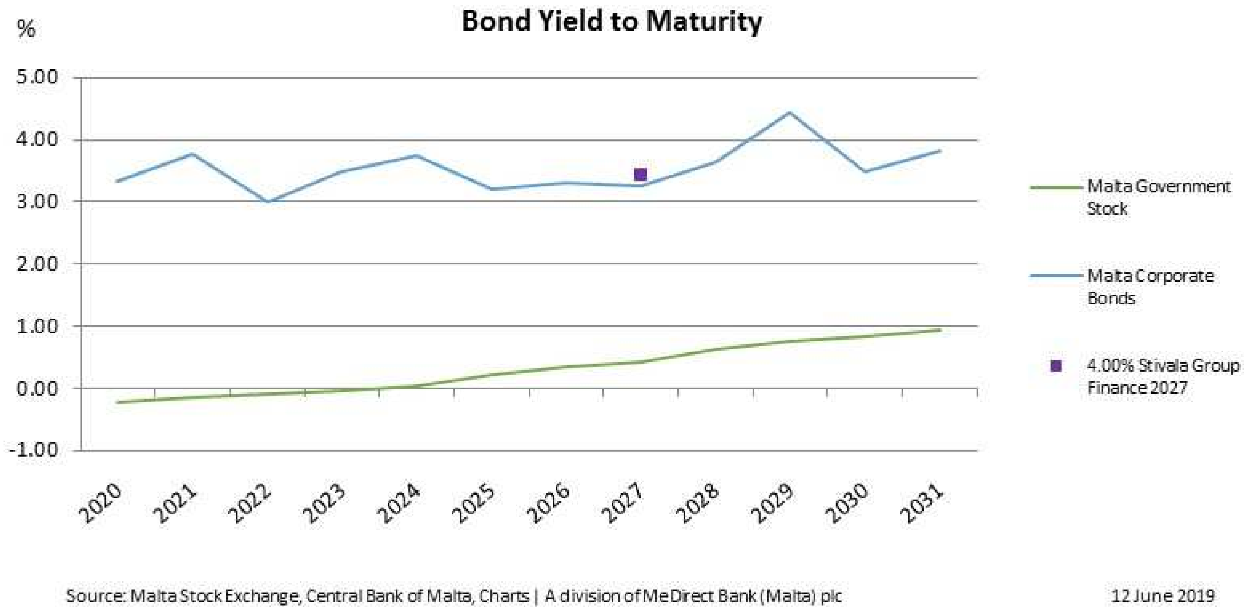
PART 3 – COMPARABLES

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

12 June '19

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



To date, there are no corporate bonds which have a redemption date beyond 2031. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

PART 4 – EXPLANATORY DEFINITIONS

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