Financial Analysis Summary

30 July 2020

Issuer

Stivala Group Finance p.l.c.

MZ INVESTMENT SERVICES

MZ INVESTMENT SERVICES

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

30 July 2020

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 2020 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 years ended 31 December 2017, 31 December 2018 and 31 December 2019 has been extracted from the audited financial statements of the two principal operating companies – ST Properties Ltd and ST Hotels Ltd.

(b) Historical financial data for the financial year ended 31 December 2017 has been extracted from the audited consolidated financial statements of Carmelo Stivala Group Limited (the "**Guarantor**").

(c) Historical financial data for the period 21 August 2017 (being date of incorporation) to 31 December 2018 and for the financial year ended 31 December 2019 has been extracted from the audited financial statements of the Company.

(d) The 2020 forecast have been extracted from the projected financial information of the Group for the year ending 31 December 2020.

MZ INVESTMENT SERVICES

(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
Senior Financial Advisor

MZ Investment Services Ltd
63, St Rita Street,
Rabat RBT 1523,
Malta
Tel: 2145 3739

TABLE OF CONTENTS

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 indirectly by the four Stivala brothers in equal proportions.

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 the late Mr 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 six directors entrusted with its overall direction and management.

Board of Directors

Michael Stivala	Executive Chairman
Martin John 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

Mr Carlo Stivala resigned from the Board on 27 January 2020.

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

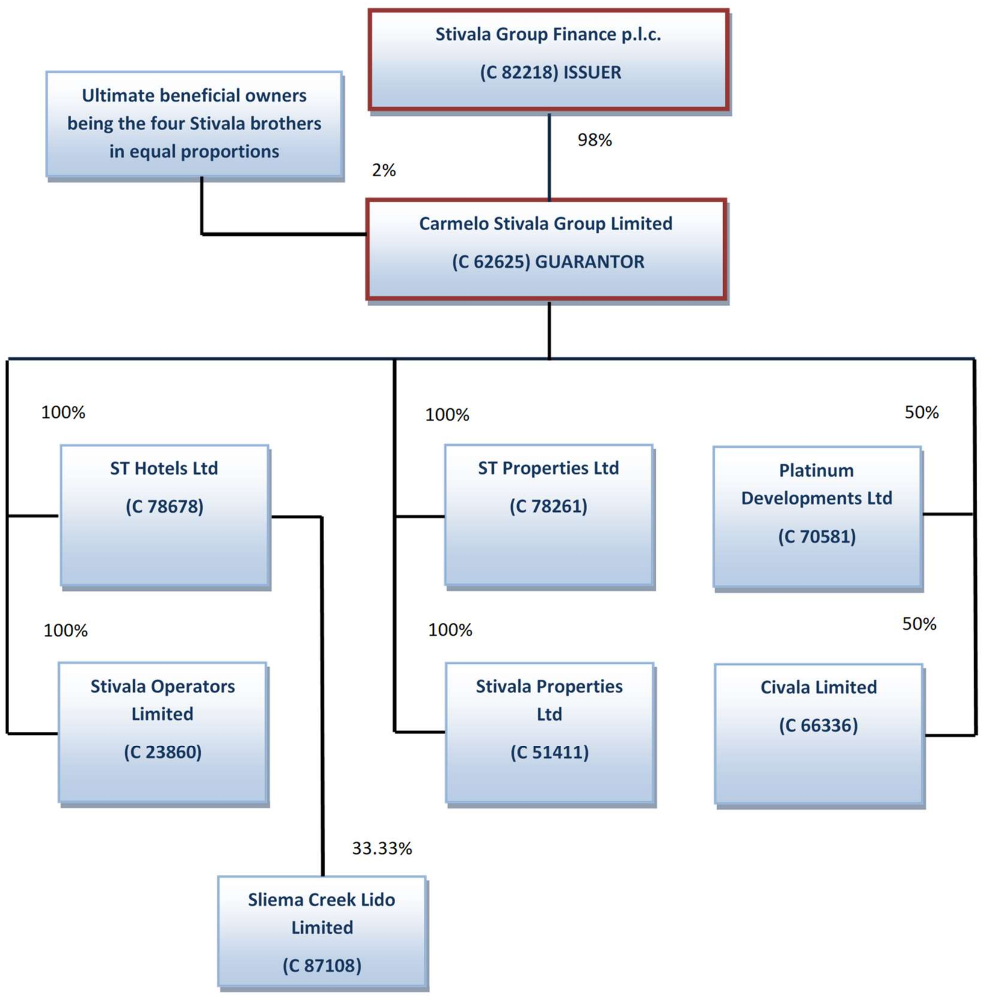
Martin John Stivala	Executive Director
Michael Stivala	Executive Director
Ivan Stivala	Executive Director
Carlo Stivala	Executive Director

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 2019, the Group employed 19 staff members in management and administration (2018: 17 employees) and 115 staff members in operational activities (2018: 90 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 Civala Limited is held by John Cilia (262857M).
*The remaining 66.67% of Sliema Creek Lido Limited is held by The Waterfront Hotel Limited (C 22209), Marketing and Consultancy Limited (C 8171) and Kennedy Nova Ltd (C57729).

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.

Stivala Operators Limited and Stivala Properties Ltd are non-operating entities and will be liquidated in the near future.

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) 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; and

(iii) 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.

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 its property developments;
- **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 through ST Hotels Ltd. The balance of revenue is generated by ST Properties Ltd and comprises rental income from commercial and long let residential properties.

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 2019, the carrying value of real estate amounted to €193.6 million (FY2018: €183.6 million), analysed as follows:

	€’000
Properties in the course of development or held for future development	25,085
Properties used for business purpose	77,128
Properties rented to third parties	91,384

	193,597
	=======

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	10,920
9/16/17/18/19, Parisio Street, Sliema and 75/241 sqm Bouverie Street, Gzira (proposed "Parisio Hotel")	Hotel property	3,819
Other properties	Various sites	5,146
TOTAL		**25,085**

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 was expected to commence in 2020 but will be delayed due to the COVID-19 pandemic. The project should be completed within a 12 to 15-month period from commencement of development works at an estimated cost of €3,500,000. The property in caption is freehold and has a carrying value as at 31 December 2019 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. A full development permit was issued by the Planning Authority in April 2020. The Group expects to initiate development works once the current uncertain situation subsides 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 2019 of **€10,920,000**.

9/16/17/18/19, Parisio Street, Sliema and 75/241 sqm Bouverie Street, Gzira ("Proposed Parisio Hotel")

This property is situated within the residential area of Sliema where a building height of 4 floors without semi-basement with a maximum height of 20.8 mt. is permitted according to the North Harbours Local Plan and Development Control Design Policy, Guidance and Standards 2015 (DC15). Presently, the site has been cleared with all buildings demolished, except for a house at 19, Parisio Street, Sliema that is still occupied. The property is earmarked for the development of a hotel. No formal Planning Authority application has been submitted. The property in caption has a carrying value as at 31 December 2019 of **€3,819,000**.

Other Properties

The Group owns various properties which are held for future development and as at 31 December 2019 had an aggregate carrying value of €5.1 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 €10.8 million.

PROPERTIES USED FOR BUSINESS PURPOSES

Address	Current Use	Valuation (€'000)
Bayview Hotel, The Strand, Gzira	136 room 3-star hotel	17,691
Sliema Hotel, The Strand, Sliema	70 room 3-star hotel	11,502
Azur Hotel, Belvedere Street, Gzira	178 room 3-star hotel	8,199
Blubay Hotel, Ponsonby Street, Gzira	53 studio apartments (in addition, 1 restaurant and 1 shop are rented to third parties)	4,483
137/138, The Strand, Gzira	The property 137 occupies an area of *circa* 50 sqm. on ground floor while the property at 138 occupies an area of *circa* 35 sqm. at ground floor and 549 sqm. at first floor - overlying 137 and 138 is already owned by the Stivala Group. It is adjacent to the existing Bayview Hotel.	4,249
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)	3,943
153/154, Blubay Apartments, The Strand, Gzira	11 residential units (in addition, 3 shops and 2 offices are rented to third parties)	3,654
Blubay Bring Hostel, Reid Street, Gzira	17 residential units (in addition, 11 garages and 1 shop are rented to third parties)	3,209
Moroni Residence, Moroni Street, Gzira	70 apartments (in addition, 6 garages, 4 parking spaces and 1 store are rented to third parties)	3,261
134/135, The Strand, Gzira	8 residential units (in addition, 4 shops are rented to third parties)	2,720
165/166, Focal Residence, The Strand, Gzira	1 shop and 6 residential units	2,299
110/112/114 Carlo Manche Street, Gzira	12 residential units and 1 large garage	2,279
Blubay Fleet Hostel, Fleet Street, Gzira	46 room hostel	2,413
Petit Paradis, G. Bencini Street, Gzira	3 residential units and 1 garage	1,650
101, Moroni Street, Gzira	8 residential units and 1 large garage	1,604
Waterline Residence, 176/177, The Strand, Gzira	2 shops and 6 residential units	1,457
51/55 Moroni Street, Gzira	10 residential units	1,106
Other properties	Residential and commercial units	1,409
TOTAL		**77,128**

PROPERTIES RENTED TO THIRD PARTIES

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, ST Business Centre, The Strand, Gzira	10 levels of office space	14,909
196/197/198, ST Balluta Business Centre, Triq Censu Tabone, St Julians	Office and residential units	10,818
EC Language School, Triq Marguerite Mangion, St Julians	Language School	7,634
41/42/43, Avalon Residence, 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
Tower Mansions, Tower Gate Street, Msida	12 residential units and 1 large garage with 16 car spaces	1,984
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	2,021
Tigne Mansions, 44, Qui Si Sana Sea Front, Sliema	15 residential units and 4 garages	1,580
Charlie's Guest House, Valley Road, Msida	a guest house, 1 apartment and 3 garages	1,500
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
60/61, Ponsomby Street, 27/28 Belvedere Street, 118/120 St Albert Street, Gzira	Residential and commercial units	1,166
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	1,107
14 – 19, Ponsonby Street, Gzira	7 residential units and 3 shops	1,003
Other properties	Residential and commercial units	5,922
TOTAL		**91,384**

4.3 Hospitality Operations

Hospitality operations are performed by 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, 31 December 2018 and 31 December 2019.

Set out below is the statement of total comprehensive income extracted from the audited financial statements of ST Hotels Ltd for the financial years indicated hereunder:

ST Hotels Ltd **Statement of Total Comprehensive Income** **for the year ended 31 December**	**2017** **Actual** **€'000**	**2018** **Actual** **€'000**	**2019** **Actual** **€'000**
Revenue	9,656	10,972	14,351
Hotels	*4,135*	*4,693*	*8,082*
Hostels and short let apartments	*4,999*	*6,097*	*5,347*
Commercial and other income	*522*	*182*	*922*
Cost of sales	(4,102)	(4,718)	(6,147)
Gross profit	**5,554**	**6,254**	**8,204**
Other net operating costs	(1,167)	(1,799)	(1,808)
EBITDA	**4,387**	**4,455**	**6,396**
Depreciation & amortisation	(2,004)	(2,386)	(4,647)
Operating profit	**2,383**	**2,069**	**1,749**
Gain on disposals/write offs of assets	-	-	-
Waiver of related company balance	10,203	-	-
Net finance costs	(855)	(402)	(2,169)
Profit/(loss) before tax	**11,731**	**1,667**	**(420)**
Taxation	400	(273)	495
Profit for the year	**12,131**	**1,394**	**75**
Total comprehensive income	**12,131**	**1,394**	**75**

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).

In April **2019**, St Hotels Ltd commenced operating the 178-room 3-star Azur Hotel situated in Belvedere Street, Gzira, which contributed to the increase of €3.4 million (+72%) in revenue generated from the hotel segment to €8.1 million (FY2018: €4.7 million). Other revenue (including hostels, short let apartments and other income) remained stable on a y-o-y basis at €6.3 million. As such, total revenue in FY2019 increased by €3.4 million (+31%), from €11.0 million in FY2018 to €14.4 million.

In FY2019, the Company adopted IFRS 16 'Leases' that is effective for periods that begin on or after 1 January 2019. Under the new standard, an asset (the right-of-use of the leased item) and a financial liability to pay rentals are recognised, with the exception of short-term and low-value leases. During the reviewed year, the Company entered into lease agreements with the Guarantor, and accordingly right-of-use assets amounting to €34.6 million and lease liabilities amounting to €33.4 million was recognised. The statement of total comprehensive income includes depreciation charge of €1.8 million and interest on lease liabilities of €1.4 million instead of the annual rental lease of €2.6 million.

Profit for FY2019 amounted to €75,000 compared to €1.4 million in FY2018.

An analysis of revenue generated from the three hotels (Bayview Hotel, Sliema Hotel and Azur Hotel) operated by ST Hotels Ltd is provided below:

HOTEL OPERATIONS (Bayview Hotel, Sliema Hotel & Azur Hotel)		**FY2017 Actual**	**FY2018 Actual**	**FY2019 Actual**
Turnover (€'000)		4,135	4,693	8,028
Gross operating profit (€'000)		1,613	1,992	4,162
Gross operating profit margin (%)		39	42	52
Occupancy level (%)		88	88	89
Revenue per occupied room (RevPOR) (€)	(a)	62	71	75
Revenue per available room (RevPAR) (€)		55	62	66
Gross operating profit per available room (GOPAR) (€)	(b)	7,792	9,623	12,574
Benchmark performance				
Occupancy level (%)		84	74	80
Revenue per occupied room (RevPOR) (€)	(c)	67	87	89
Revenue per available room (RevPAR) (€)		56	64	71
Gross operating profit per available room (GOPAR) (€)	(d)	5,066	5,857	6,652
Revenue Generating Index (RGI)	(a)/(c)	0.93	0.81	0.84
Gross Operating Profit Generating Index (GOPGI)	(b)/(d)	1.54	1.64	1.89

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: The BOV MHRA Survey (Q4 2019 and Year to date); Management information.

With the addition of the Azur Hotel in April 2019, revenue generated from ST Hotels almost doubled from €4.1 million in FY2017 to €8.0 million in FY2019. Gross operating profit increased by 158% over the same period, from €1.6 million in FY2017 to €4.2 million in FY2019, thereby improving gross operating profit margin by 13 percentage points to 52%.

Occupancy level remained stable at slightly below 90%, compared to the benchmark average occupancy rate of 79%. RevPOR increased from €62 to €75 over the three-year period, which was below the growth rate achieved by its competitive set since the RGI decreased from 0.93 in FY2017 to 0.84 in FY2019. In contrast, GOPAR was notably much higher when compared to benchmark and in fact, the GOPGI increased over the reviewed period from 1.54 to 1.89.

4.4 Property Rentals

Long lets of residential and commercial Group properties to third parties are administered 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.

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, 31 December 2018 and 31 December 2019. Set out below is the statement of total comprehensive income extracted from the above-mentioned audited financial statements for the financial years indicated hereunder:

ST Properties Ltd **Statement of Total Comprehensive Income** **for the year ended 31 December**	**2017** **Actual** **€'000**	**2018** **Actual** **€'000**	**2019** **Actual** **€'000**
Revenue	2,721	5,119	6,457
Commercial	*1,004*	*3,311*	*2,941*
Residential	*1,717*	*1,808*	*3,516*
Cost of sales	(315)	(345)	(675)
Gross profit	**2,406**	**4,774**	**5,782**
Other net operating (costs)/income	373	536	661
Profit before tax	**2,779**	**5,310**	**6,443**
Taxation	(536)	(841)	(967)
Profit for the year	**2,243**	**4,469**	**5,476**
Total comprehensive income	**2,243**	**4,469**	**5,476**
Gross profit margin *(Gross profit/revenue)*	88%	93%	90%
Net profit margin *(Profit after tax/revenue)*	82%	87%	85%

During **FY2017**, 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).

In **FY2019**, the Company reported a year-on-year increase of €1.4 million (+26%), from €5.1 million in FY2018 to €6.5 million. The aforesaid growth was due to an increase in the number of residential properties subject to long term lease agreements. The growth in revenue was also reflected in yearly profits which increased by 23%, from €4.5 million in FY2018 to €5.5 million in FY2019.

5. BUSINESS DEVELOPMENT STRATEGY

Following the outbreak of COVID-19 in March 2020, the Directors are constantly monitoring the situation and have been taking necessary action to safeguard the interests of the Group, particularly to ensure that the Group's liquidity position remains adequate during these uncertain times. To date, the Group has proceeded on the following:

- Applied for wage support through Malta Enterprise;
- Applied for a new loan to be guaranteed by Government;
- Halted all new capital projects;
- Applied for moratorium with banks on outstanding loan facilities for the coming 12 months;
- Reviewed all costs including operational costs and payroll;
- Initiated discussions with suppliers to extend payments terms;
- Identified some properties for eventual disposal; and
- Requested extension to terms of existing promise of sale agreements relating to acquisition of property.

Beyond COVID-19, 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.

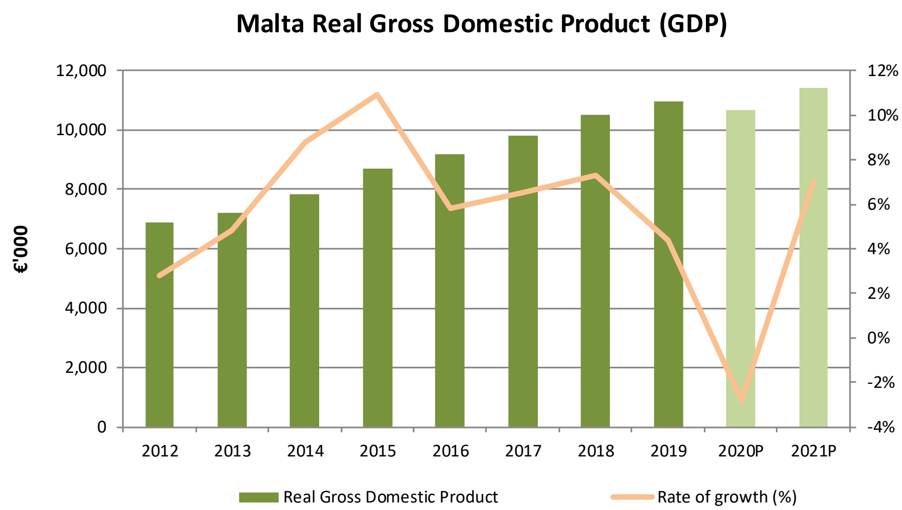
The Group's operations focus principally on the hospitality segment and the letting of commercial and residential units of the Group's own properties. In the hospitality sector, the Group aims to continue to provide services at the Group's hotels in line with the expectations of customers typically seeking 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.

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 long term 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]



Note: Projected real GDP data for 2020 and 2021 are based on IMF estimates (IMF World Economic Outlook, April 2020)
Source: National Statistics Office Malta

The domestic economy continued to register a healthy rate of economic expansion in 2019, notwithstanding the more challenging environment globally and in the euro area. Although GDP[2] growth moderated to 4.4% from 7.3% in 2018, it remained above its long-term average of around 4.0%. The expansion was driven by domestic demand, particularly government consumption and gross fixed capital formation. Private consumption had a positive impact, although it increased at a slower pace following the very strong outturn in 2018. Meanwhile, the contribution of net exports turned negative, as imports outpaced exports. Nominal gross value added (GVA)[3] data show that the expansion continued to be largely supported by services, although the manufacturing and construction sectors also expanded.

In the immediate term, GDP will be affected significantly, mainly on account of the negative effects of COVID-19 on confidence, disruptions in global supply chains and lower demand in a number of services sectors, most notably those related to tourism. However, growth should recover from 2021. At this juncture, projections of economic activity, both for Malta and globally, critically hinge on the duration of the pandemic, as well as the size of the local and global fiscal response.

[1] Fifty-second Annual Report and Statement of Accounts 2019 – Central Bank of Malta, 2020 (pages 13, 14 and 50).

[2] Gross Domestic Product (GDP) is an estimate of the value of goods and services produced in the economy over a period of time.

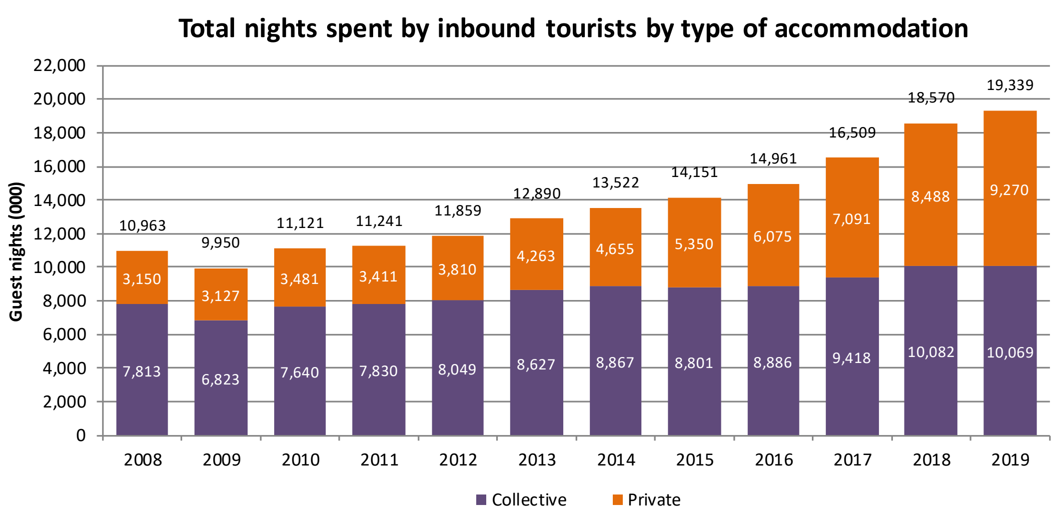
[3] Gross Value Added (GVA) is the value of output less the value of intermediate consumption; it is a measure of the contribution to GDP made by an individual producer, industry or sector.

The International Monetary Fund (IMF) has in their latest projections[4] estimated that the global economy will contract sharply by -3% in 2020, much worse than during the 2008-09 financial crisis. In its baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the global economy is projected to grow by 5.8% in 2021 as economic activity normalises, helped by policy support. On the same basis, Malta's real GDP is projected to decline by 2.8% in 2020, but is expected to rebound by 7% in 2021. Such outcome may vary significantly as economic performance is dependent on factors that interact in ways that are hard to predict, including *inter alia* the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, shifts in spending patterns, behavioural changes (such as people avoiding shopping malls and public transportation) and confidence effects.

6.2 Hospitality[5]

The tourism sector continued to expand in 2019, although the expansion moderated following an extended period of very high growth. Inbound tourist trips in 2019 reached nearly 2.8 million (+5.9% y-o-y) after increasing by 14.3% in 2018. The United Kingdom and Italy remained Malta's most important source markets, accounting for 23.6% and 14.3% of total visitors respectively.

Total nights spent by inbound tourists went up by 4.1%, surpassing 19.3 million nights. As shown in chart below, this was largely driven by an increase in nights stayed in rented accommodation other than collective accommodation (a y-o-y increase of 9.2% from 8.5 million guest nights in 2018 to 9.3 million in 2019).



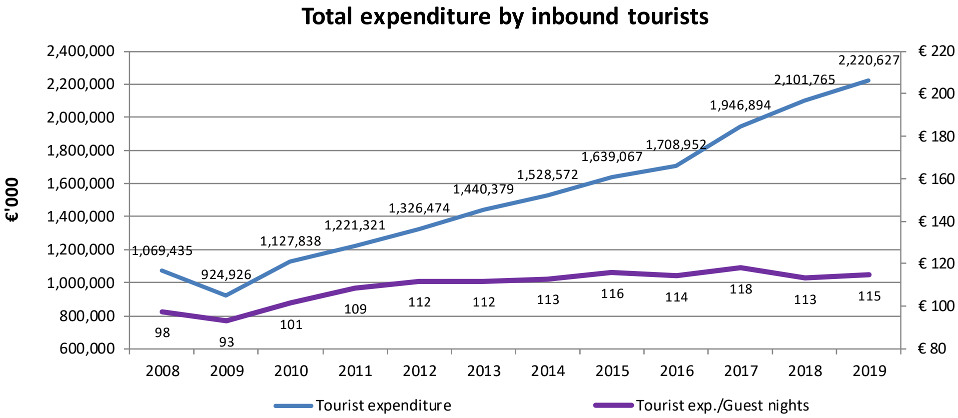
Source: National Statistics Office Malta

---

4 World Economic Outlook, Chapter 1 The Great Lockdown – International Monetary Fund, May 2020.

5 https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C3/Tourism_Statistics/Documents/2020/News2020_017.pdf; https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C3/Tourism_Statistics/Documents/2020/News2020_032.pdf; Fifty-second Annual Report and Statement of Accounts 2019 – Central Bank of Malta, 2020 (pages 72 to 74).

Total tourism expenditure amounted to €2.2 billion in 2019, a 5.7% increase over that recorded for 2018, while tourist expenditure per guest night increased by €2 from €113 in 2018 to €115 in 2019 (*vide* chart hereunder).



Source: National Statistics Office Malta

Total guests in collective accommodation establishments[6] during 2019 surpassed 2.0 million, an increase of 2.0% over the same period in 2018. Within the collective accommodation establishments, the 5-star and 3-star hotels lost 17,878 guests (-4.3%) and 27,665 guests (-5.3%) respectively, whilst the 4-star hotels gained 48,695 guests (+5.6%) in 2019 compared to a year earlier.

Room rates and occupancy levels of the 5-star hotel category remained more or less on par with 2018 and showed a marginal decrease in REVPAR (revenue per available room) of 1.3%. GOPAR (gross operating profit per available room) for 2019 decreased by 4% (y-o-y).

With regard to the 4-star hotel category, occupancy and room rates decreased, albeit marginally, by 0.9% and 0.8% respectively. Non-accommodation income increased by 4.5%, and overall, REVPAR levelled off at €96.70. Profitability of the 4-star sector decreased by 5.1% in 2019.

The 3-star sector in 2019 reported an increase in occupancy from 74% to 80%, whilst room rates increased by 1.7%. This trend resulted in a REVPAR improvement of 14.3%, while GOPAR increased by 13.6% (y-o-y).[7]

For the year 2020, the pandemic will undoubtedly have a negative impact on hotel bookings and related services. However, the situation is still very fluid and the full extent of the disruption to the hospitality industry in Malta is yet to be determined and assessed.

---

[6] Collective accommodation establishments comprise hotels, apart-hotels, guest houses, hostels and tourist villages.
[7] The BOV MHRA Survey Q4 2019 and Year to Date.

Apart from issues arising from COVID-19, the hospitality industry in Malta was already experiencing bed overcapacity emanating from significant growth in non-collective accommodation and, to a lesser extent, hotel properties. This situation of oversupply may get worse in the short to medium term as ongoing hospitality development projects are completed. Further competition is also expected from other countries, particularly in the southern Mediterranean region.

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. Prior to COVID-19, 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) generated a positive trend in the commercial property sector, in particular office space. In addition, demand for residential accommodation was gradually increasing due to an influx of foreign workers to the country.

It is too early to reliably determine the impact that the pandemic may have on the commercial property and residential accommodation sectors in Malta. It is possible that landowners will proceed with the completion of projects currently under development, but new projects will be put on hold or commence once the situation stabilises. Rent rates may have to be reduced until there is a return to normality. Despite the uncertainty of the current situation, there is some optimism that business activity can initiate a recovery in Q1 2021.

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:

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 and FY2019: Audited Consolidated Financial Information of 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.

The financial information relating to FY2018 and FY2019 is extracted from the audited consolidated financial statements of the Issuer for the period 21 August 2017 to 31 December 2018 and for the year ended 31 December 2019 respectively.

The projected consolidated financial information for 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.

Stivala Group Finance p.l.c. Consolidated Statement of Total Comprehensive Income for the year ended 31 December	2017 Actual (12 mths) €'000	2018 Actual (16 mths) €'000	2019 Actual (12 mths) €'000	2020 Projection (12 mths) €'000
Revenue	12,386	19,655	23,484	14,379
Cost of sales	(3,238)	(6,205)	(6,475)	(2,080)
Gross profit	**9,148**	**13,450**	**17,009**	**12,299**
Net operating costs	(2,396)	(2,645)	(2,898)	(2,456)
EBITDA	**6,752**	**10,805**	**14,111**	**9,843**
Depreciation & amortisation	(2,905)	(3,036)	(3,605)	(3,168)
Operating profit	**3,847**	**7,769**	**10,506**	**6,675**
Gain from bargain purchase and other net gains	8,644	112,886	-	-
Movement in revaluation of property	56,945	2,334	-	-
Other	253	(1)	-	-
Net finance costs	(710)	(2,894)	(2,871)	(2,888)
Profit before tax	**68,979**	**120,094**	**7,635**	**3,787**
Taxation	(9,035)	(4,532)	(1,532)	(1,192)
Profit for the year	**59,944**	**115,562**	**6,103**	**2,595**
Other comprehensive income:				
Movement in revaluation of property, net of tax	29,085	-	1,177	-
Deferred taxation	-	(35)	-	-
Total comprehensive income	**89,029**	**115,527**	**7,280**	**2,595**

Stivala Group Finance p.l.c. EBITDA (Earnings before interest, tax, depreciation and for the year ended 31 December	2017 Actual (12 mths) €'000	2018 Actual (16 mths) €'000	2019 Actual (12 mths) €'000	2020 Projection (12 mths) €'000
EBITDA has been calculated as follows:				
Operating profit	3,847	7,769	10,506	6,675
Add back:				
Depreciation and amortisation	2,905	3,036	3,605	3,168
EBITDA	**6,752**	**10,805**	**14,111**	**9,843**

Key Accounting Ratios	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Projection
Gross profit margin *(Gross profit/revenue)*	74%	68%	72%	86%
Operating profit margin *(EBITDA/revenue)*	55%	55%	60%	68%
Interest cover (times) *(EBITDA/net finance cost)*	9.51	3.73	4.92	3.41
Net profit margin *(Profit after tax/revenue)*	484%	588%	26%	18%
Earnings per share (€) *(Profit after tax/number of shares)*	1.33	385.21	20.34	8.65
Return on equity *(Profit after tax/shareholders' equity)*	41%	100%	5%	2%
Return on capital employed *(EBITDA/total assets less current liabilities)*	4%	6%	7%	4%
Return on assets *(Profit after tax/total assets)*	33%	57%	3%	1%

Source: MZ Investment Services Ltd

The operating results presented hereinabove primarily reflect the performance of the Group's operating subsidiaries - ST Hotels Ltd and ST Properties Ltd - 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 in FY2017 (+29%), principally due to a full year's operation of the Sliema Hotel as from FY2017 and a substantial increase in commercial and short-let leases following further acquisitions of property.

Operating profit decreased in FY2017 when compared to the prior year, from €5.0 million in FY2016 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).

Adoption of IFRS 16 (leases) as from 1 January 2019

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Group:

a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
c) Separates the total amount of cash paid into a principal portion (presented with financing activities) and interest (presented within operating activities) in the cash flow statement.

In FY2019, the Group has applied IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and by requiring the recognition of a right-of-use asset and a lease liability at commencement of all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The date of initial application is 1 January 2019. The disclosure requirements in IFRS 16 have not generally been applied to comparative information.

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of €645,931 and lease liabilities of €524,823. The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17.

The impact on the income statement in the reporting period is a reduction of the operating expenses by €144,310 (annual rental expense) and increases of depreciation and interest on lease liability by €129,186 and €23,201 respectively.

In FY2019, the Group generated revenue amounting to €23.5 million, an increase of €3.8 million (+19%) when compared to FY2018. 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). Furthermore, during the year, the Group sold 10 residential units and 4 garages situated at 33, Juliani Heights, Triq Zammit Clapp, St Julians for an aggregate consideration of €2.8 million. As a consequence, the Group's operating profit increased by €2.7 million (+35%) y-o-y to €10.5 million in FY2019. The Group reported a profit after tax in FY2019 amounting to €6.1 million (FY2018: €115.6 million).

Key accounting ratios: The positive results of the Group in FY2019 compared to FY2018 are reflected in various key performance indicators as follows: gross profit margin improved by 4 percentage points to 72%, while operating profit margin increased from 55% in FY2018 to 60%. Interest cover also improved from 3.73 times to 4.92 times. Other accounting ratios such as net profit margin and return on equity cannot be used as indicators for FY2018 due to exceptional items in the statement of total comprehensive income (gain from bargain purchase and movement in revaluation of property).

Revenue in FY2020 is projected to decrease by €9.1 million (y-o-y) to €14.4 million on account of the complete shutdown of the hospitality operations from mid March 2020 to 30 June 2020, and the expected curtailment of hotel and short-let operations during July to December 2020. On the other hand, the Group is anticipating that rental income from commercial premises and long-let apartments should remain broadly stable, although concessions and, or deferments of monthly rental payments were granted to a limited number of tenants during the shutdown period.

In consequence, EBITDA is projected to decrease by 30% from €14.1 million in FY2019 to €9.8 million. Despite the decline in business activities, the Group's operating profit margin is expected to increase from 60% to 68%, on account of the cost cutting exercise undertaken by management as well as Government's support through the wage subsidy scheme. Profit for the year is projected to decrease by 57% (y-o-y) to €2.6 million, while total comprehensive income is forecasted to decline from €7.3 million in FY2019 to €2.6 million.

The estimates for the projected financial year as presented in this document assume that the carrying values of hotel and investment properties will not be revalued upwards or impaired, and therefore no adjustment has been made as to possible uplifts or impairments in value of assets which can materially affect the consolidated income statement and the statement of financial position.

Stivala Group Finance p.l.c. **Consolidated Statement of Cash Flows** **for the year ended 31 December**	**2017** **Actual** **(12 mths)** **€'000**	**2018** **Actual** **(16 mths)** **€'000**	**2019** **Actual** **(12 mths)** **€'000**	**2020** **Projection** **(12 mths)** **€'000**
Net cash from operating activities	34,844	9,659	5,728	4,320
Net cash from investing activities	(34,742)	(50,274)	(18,808)	(7,744)
Net cash from financing activities	4,362	39,653	15,862	3,952
Net movement in cash and cash equivalents	**4,464**	**(962)**	**2,782**	**528**
Expected credit loss	-	-	(3)	-
Cash and cash equivalents at beginning of year	811	(1,410)	(2,372)	407
Cash and cash equivalents at end of year	**5,275**	**(2,372)**	**407**	**935**

The consolidated cash flow statement shows that in FY2019, the Group generated cash inflows from operating activities of €5.7 million as compared to €9.7 million in FY2018. The material variance from one year to another is mainly attributable to adverse movements in working capital (being inventories, trade and other receivables and payables). In the projected year, net cash inflows from operating activities is expected to amount to €4.3 million compared to €5.7 million in FY2019, which is a reflection of the projected decline in the hospitality business due to the COVID-19 outbreak.

Net cash outflows from investing activities amounted to €18.8 million in FY2019 (FY2018: €50.2 million), largely related to the expansion of the Group's property portfolio through acquisitions and development. In particular, the Group was involved during the year in the development of the Azur Hotel, Gzira; Bring Apartments, Gzira; Valley Towers, Birkirkara; 196, Triq Censu Tabone, St Julians; and Juliani Heights Apartments, St Julians. Furthermore, loans to related parties amounted to €5.2 million in FY2019 (FY2018: €7.7 million). It is estimated that during FY2020, the Group's capital expenditure (comprising developments and other improvements to Group properties as well as property acquisitions) will amount to €7.7 million.

Net cash inflows from financing activities amounted to €15.9 million in FY2019 (FY2018: 40.0 million), primarily derived from issuance of debt securities amounting to €14.9 million and the balance being movement in bank and other loans. During FY2020, the Group secured a bank loan through the Malta Development Bank Guarantee Facility, of which, *circa* €4.0 million is expected to be drawn down by the end of the current financial year.

Stivala Group Finance p.l.c. **Consolidated Statement of Financial Position** **as at 31 December**	**2017** **Actual** **€'000**	**2018** **Actual** **€'000**	**2019** **Actual** **€'000**	**2020** **Projection** **€'000**
ASSETS				
Non-current assets				
Intangible assets	36	70	68	70
Right-of-use asset	-	-	517	388
Investment property	106,035	115,846	116,469	123,581
Property, plant & equipment	62,841	74,947	84,538	85,038
Loans and receivables	-	7,621	15,494	15,644
Other non-current assets	1	1	1	1
	168,913	198,485	217,087	224,722
Current assets				
Inventory, trade and other receivables	5,281	3,705	7,315	5,602
Cash and cash equivalents	5,538	235	882	2,180
	10,819	3,940	8,197	7,782
Total assets	**179,732**	**202,425**	**225,284**	**232,504**
EQUITY				
Capital and reserves				
Share capital	45,005	300	300	300
Revaluation and other reserves	77,205	89,169	89,124	90,340
Retained earnings	22,912	26,357	33,683	36,877
	145,122	**115,826**	**123,107**	**127,517**
LIABILITIES				
Non-current liabilities				
Long-term borrowings & debt securities	14,215	59,246	75,200	80,184
Lease liabilities	-	-	378	231
Other non-current liabilities	13,731	15,394	15,110	15,544
	27,946	74,640	90,688	95,959
Current liabilities				
Bank overdraft	263	2,607	475	1,245
Borrowings	1,932	1,077	1,167	-
Lease liabilities	-	-	147	147
Trade and other payables	3,691	7,072	7,542	5,121
Other current liabilities	778	1,203	2,158	2,515
	6,664	11,959	11,489	9,028
	34,610	**86,599**	**102,177**	**104,987**
Total equity and liabilities	**179,732**	**202,425**	**225,284**	**232,504**

Key Accounting Ratios	**FY2017 Actual**	**FY2018 Actual**	**FY2019 Actual**	**FY2020 Projection**
Net debt to EBITDA (years) *(Net debt/EBITDA)*	1.61	5.80	5.42	8.09
Liquidity ratio (times) *(Current assets/current liabilities)*	1.62	0.33	0.71	0.86
Gearing ratio *(Total net debt/net debt and shareholders' equity)*	7%	35%	38%	38%

Source: MZ Investment Services Ltd

In the consolidated statement of financial position, the Group's total assets as at 31 December 2019 amounted to €225.3 million (+11% or €22.9 million y-o-y), predominantly composed of investment property and property, plant & equipment. Loans and receivables doubled from FY2018 to €15.5 million and represent loans to associates and other related parties.

In current assets, inventory amounting to €756,207 comprised 3 apartment, 2 garages and an office held-for-sale, which are situated at 33, Juliani Heights, Triq Zammit Clapp, St Julians. Furthermore, other receivables include current accounts of ultimate beneficial owners amounting to €4.3 million compared to €1.4 million in the comparable financial year.

Total assets are expected to increase by a further €7.2 million to €232.5 million as at 31 December 2020, on account of further property acquisitions and development during the year which will be partly offset by a decrease in inventory, trade & other receivables in view of the decline in hospitality operations.

Non-current liabilities as at 31 December 2019 amounted to €90.7 million (FY2018: €74.6 million), comprising debt securities of €59.6 million, bank loans of €15.6 million and other non-current liabilities (primarily deferred taxation) of €15.1 million. Furthermore, pursuant to the adoption of IFRS 16, long-term lease liabilities amounting to €0.4 million were recognised. Current liabilities amounted to €11.5 million (FY2018: €12.0 million) and include trade and other payable, current portion of bank, other borrowings and lease liabilities, overdraft facilities and other liabilities. In FY2020, total liabilities are projected to increase by €2.8 million, on account of an increase in bank borrowings of €4.6 million less a decrease in trade & other payables amounting to €2.4 million.

The gearing ratio of the Group increased on a y-o-y basis due to an increase in debt securities in issue and bank borrowings. Notwithstanding, a gearing ratio of 38% (FY2018: 35%) is relatively low when compared to the Group's peers in the hospitality and property sectors. An alternative to assessing leverage is the net debt to EBITDA ratio, which improved from 5.80 years in FY2018 to 5.42 years, due to the increase in EBITDA in 2019 which more than compensated for the increase in net debt. The Group's leverage for the forecast year is expected to remain unchanged at 38%, but net debt to EBITDA is projected to deteriorate from 5.42 years in FY2019 to 8.09 years due to the expected drop in EBITDA and increase in net borrowings.

Variance Analysis

Stivala Group Finance p.l.c. Consolidated Statement of Total Comprehensive Income for the year ended 31 December 2019 (€'000)	**Actual**	**Projection**	**Variance**
Revenue	23,484	20,436	3,048
Direct costs	(6,475)	(6,595)	120
Gross profit	**17,009**	**13,841**	**3,168**
Net operating costs	(2,898)	(3,310)	412
EBITDA	**14,111**	**10,531**	**3,580**
Depreciation and amortisation	(3,605)	(2,897)	(708)
Operating profit	**10,506**	**7,634**	**2,872**
Net finance costs	(2,871)	(2,885)	14
Profit before tax	**7,635**	**4,749**	**2,886**
Taxation	(1,532)	(627)	(905)
Profit for the year	**6,103**	**4,122**	**1,981**

As presented in the above table, the Group generated higher revenue in FY2019 than forecasted by €3.0 million, principally due to better than expected performance in hospitality operations and sale of residential units. In consequence, actual EBITDA was higher than projected by €3.6 million. The positive variance was diluted to €2.9 million as actual depreciation & amortisation was €0.7 million higher than expected. Actual profit for the year was higher when compared to forecast profits by 2.0 million.

Stivala Group Finance p.l.c.
Consolidated Statement of Financial Position
as at 31 December 2019

	Actual	Projection	Variance
	€'000	**€'000**	**€'000**
ASSETS			
Non-current assets			
Intangible assets	68	-	68
Right-of-use asset	517	-	517
Investment property	116,469	130,535	(14,066)
Property, plant & equipment	84,538	74,910	9,628
Loans and receivables	15,494	10,075	5,419
Other non-current assets	1	1	-
	217,087	215,521	1,566
Current assets			
Inventory, trade and other receivables	7,315	4,354	2,961
Cash and cash equivalents	882	7,474	(6,592)
	8,197	11,828	(3,631)
Total assets	**225,284**	**227,349**	**(2,065)**
EQUITY			
Capital and reserves			
Share capital	300	300	-
Revaluation and other reserves	89,124	88,274	850
Retained earnings	33,683	29,503	4,180
	123,107	**118,077**	**5,030**
LIABILITIES			
Non-current liabilities			
Long-term borrowings & debt securities	75,053	83,302	(8,249)
Lease liabilities	525	-	525
Other non-current liabilities	15,110	15,394	(284)
	90,688	98,696	(8,008)
Current liabilities			
Bank overdraft	475	748	(273)
Borrowings	1,314	426	888
Trade and other payables	7,542	8,568	(1,026)
Other current liabilities	2,158	834	1,324
	11,489	10,576	913
	102,177	**109,272**	**(7,095)**
Total equity and liabilities	**225,284**	**227,349**	**(2,065)**

Actual total assets in FY2019 amounted to €225.3 million compared to a forecast figure of €227.3 million. The shortfall of €2.1 million was mainly derived from lower than expected acquisitions of investment property and cash balances (in aggregate -€20.7 million), which was offset by higher investment in property, plant & equipment, loans to associates & related parties and inventory, trade & other receivables (in aggregate, +€18.0 million).

The variance in total liabilities was favourable by €7.1 million mainly due to lower than projected borrowings of €8.2 million. In equity, actual retained earnings amounted to €33.7 million, being €4.2 million higher than projected.

Stivala Group Finance p.l.c. Consolidated Statement of Cash Flows for the year ended 31 December 2019 (€'000)	**Actual**	**Projection**	**Variance**
Net cash from operating activities	5,728	8,386	(2,658)
Net cash from investing activities	(18,808)	(19,644)	836
Net cash from financing activities	15,862	20,356	(4,494)
Net movement in cash and cash equivalents	2,782	9,098	(6,316)
Expected credit loss	(3)	-	(3)
Cash and cash equivalents at beginning of year	(2,372)	(2,372)	-
Cash and cash equivalents at end of year	**407**	**6,726**	**(6,319)**

Actual net movement in cash and cash equivalents was lower than projected by €6.3 million, as net operating cashflow was lower by €2.7 million due to adverse working capital movements, which was partly mitigated by lower than anticipated capital expenditure amounting to €0.8 million. With regard to financing activities, actual cash inflows from financing activities was lower when compared to projections by €4.5 million, mainly on account of lower than expected net drawdowns from bank and other loans.

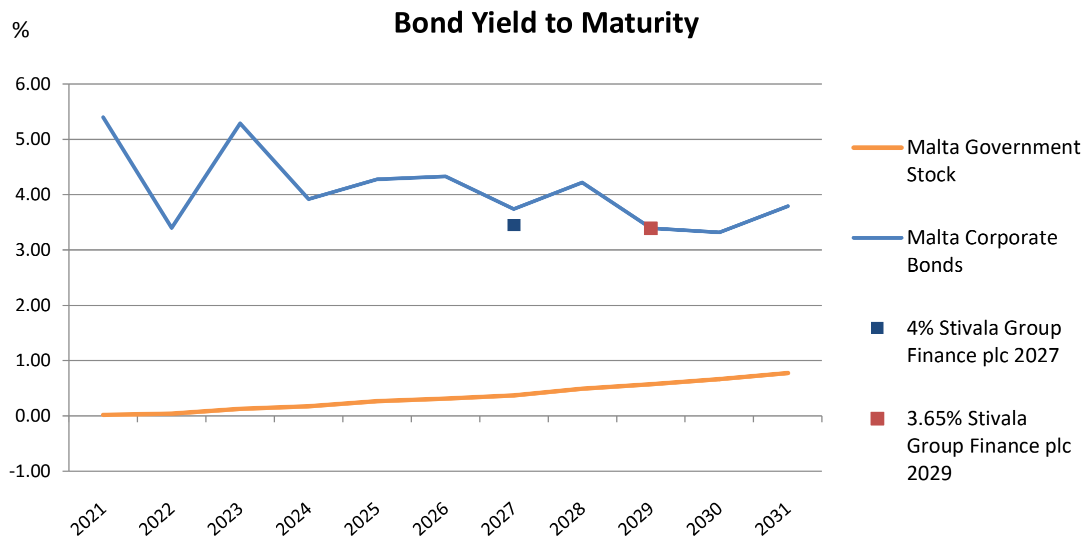
PART 3 – COMPARABLES

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 (%)
5.80% International Hotel Investments plc 2021	20,000,000	5.40	3.01	1,687,198	897,147	37.31
3.65% GAP Group plc Secured € 2022	36,736,700	3.40	2.22	87,886	11,155	77.98
6.00% Pendergardens Developments plc Secured € 2022 Series	26,921,200	3.44	3.75	81,524	28,343	37.45
4.25% GAP Group plc Secured € 2023	19,433,200	3.88	2.22	87,886	11,155	77.98
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	5.29	0.76	27,159	6,916	62.72
5.80% International Hotel Investments plc 2023	10,000,000	5.79	3.01	1,687,198	897,147	37.31
6.00% AX Investments Plc € 2024	40,000,000	4.82	5.55	342,395	226,115	19.63
6.00% International Hotel Investments plc € 2024	35,000,000	5.38	3.01	1,687,198	897,147	37.31
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	3.92	4.81	95,310	47,100	48.85
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	4.22	2.67	117,625	45,146	53.77
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	5.10	3.30	137,275	45,063	30.57
4.25% Best Deal Properties Holding plc Secured € 2024	16,000,000	3.50	-	27,455	3,366	85.88
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	5.26	3.01	1,687,198	897,147	37.31
5.10% 6PM Holdings plc Unsecured € 2025	13,000,000	5.19	4.03	4,066	- 18,883	-
4.50% Hili Properties plc Unsecured € 2025	37,000,000	4.28	1.65	150,478	57,635	56.47
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	4.33	6.47	48,019	6,405	81.08
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	4.45	2.74	1,784,681	908,883	40.11
4.00% International Hotel Investments plc Secured € 2026	55,000,000	4.00	3.01	1,687,198	897,147	37.31
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.57	8.99	273,233	57,082	60.43
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	3.73	3.01	1,687,198	897,147	37.31
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	3.25	5.55	341,785	227,069	19.11
4.35% SD Finance plc Unsecured € 2027	65,000,000	4.35	8.48	316,563	132,582	31.98
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.74	6.42	199,265	113,124	26.87
4.00% Stivala Group Finance plc Secured € 2027	**45,000,000**	**3.45**	**4.92**	**225,284**	**123,107**	**38.32**
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	4.22	3.87	628,916	110,128	77.11
3.65% Stivala Group Finance plc Secured € 2029	**15,000,000**	**3.39**	**4.92**	**225,284**	**123,107**	**38.32**
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	4.20	3.87	628,916	110,128	77.11
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.68	5.55	341,785	227,069	19.11

08-Jul-20

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, MZ Investment Services Ltd



Source: Malta Stock Exchange, Central Bank of Malta, MZ Investment Services Ltd   8 July 2020

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.

The 2027 bonds are trading at a yield of 3.45%, which is *circa* 29 basis points below other corporate bonds maturing in the same year. The premium over FY2027 Malta Government Stock is 308 basis points.

The 2029 bonds are trading at a yield of 3.39%, which is at par when compared to other corporate bonds maturing in 2029. The premium over FY2029 Malta Government Stock is 282 basis points.

Due to the global economic fallout from the coronavirus outbreak, the difference between corporate bond yields and benchmark Malta Government Stock yields has widened across the entire yield curve. This unprecedented event has brought about an economic slowdown, which will likely adversely affect operational results of a number of companies.

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.
Net debt to EBITDA	The net debt to EBITDA ratio is a measurement of leverage, calculated as a company's interest bearing liabilities minus cash or cash equivalents, divided by its EBITDA. This ratio shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
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.