MELITE

BONDHOLDERS' CIRCULAR

DATED: 18 October, 2021

This circular is being issued by Melite Finance p.l.c. (C 88405), a public limited liability company having its registered office at Level 3, Valletta Buildings, South Street, Valletta, VLT 1103, Malta (the "**Company**" or "**Issuer**"), for consideration by those holders of the €9,250,000 secured bonds of the Company of a nominal value of €100 per bond redeemable at their nominal value on 23 November 2028 bearing interest at the rate of 4.85% per annum and having ISIN MT0002031202 (the "**Bonds**"), issued pursuant to the prospectus of the Company dated 12 November, 2018 (the "**Prospectus**"), appearing on the register of bondholders of the Company as at the close of business on 27 October, 2021 (the **"Record Date**").

The present circular is intended to provide an explanation of the Covid-19 restructuring plan drawn up by the Board of Directors and management of the Company, and the resolutions relating thereto which are being proposed to bondholders at the meeting of the bondholders to be held on Friday, 12 November, 2021 at 09:00 (the "**Circular**").

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Annexes:

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1. IMPORTANT INFORMATION

This Circular, containing important information relative to the resolutions to be proposed for approval at the forthcoming bondholders' meeting, as approved by the Board of Directors of the Company, is being dispatched to all persons holding Bonds as appearing on the Company's register of bondholders as at the Record Date (the "Bondholders").

This Circular is being issued by the Board of Directors of the Company:

- after having given due consideration to the Capital Markets Rules issued by the Malta Financial Services Authority (the **"MFSA"**), in particular, the requirements set out in Capital Markets Rule 6.2 on the contents of all circulars;
- following submission, in draft form, to the MFSA for its consideration, particularly from a disclosure perspective. In terms of the Capital Markets Rules, the MFSA is not required to approve the Circular. Moreover, the MFSA accepts no responsibility for the contents of the Circular, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever, for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of the Circular, including any losses incurred by investing in the Issuer's securities;
- following submission, in draft form, to Alter Domus Trustee Services (Malta) Limited[1] in its capacity as security trustee with respect to the Bonds (the "**Security Trustee**"), for its consideration of the proposals to be tabled at the Bondholders' meeting as these affect the existing security arrangements, and in fulfilment of the process stipulated in Section 5.12.2 of the Securities Note forming part of the Prospectus on the meetings of holders of the Bonds concerning a proposal to amend and, or waive the Terms and Conditions of the Bonds contained in the said Securities Note and the terms and conditions of the Security Trust Deed relating thereto; and
- in accordance with the said Section 5.12.2 of the Securities Note forming part of the Prospectus.

Where any or all of the Bonds held by a recipient of this Circular have been sold or transferred by the date of receipt of this Circular, a copy of this Circular should be passed on to the person to whom the sale or transfer was effected. Any persons selling and acquiring Bonds following the Record Date shall,

[1] A private limited liability company registered in Malta with company registration number C 63887 and having its registered office at Vision Exchange Building, Territorials Street, Mriehel, Birkirkara BKR3000, Malta, duly authorised to act as a trustee or co-trustee in terms of Article 43(3) of the Trusts and Trustees Act (Cap. 331 of the laws of Malta), appointed as security trustee in respect of the Bonds pursuant to the Security Trust Deed.

in respect of the Bonds forming the subject of the trade, not be entitled to participate in the Bondholders' Meeting.

All the directors of the Company as at the date hereof, namely Jacqueline Briffa, Alan Frendo Jones, Christian Ganado, Paul Mercieca and Stanley Portelli (together the "**Directors**") accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, including but not limitedly further to extensive consultation with Andrew Ganado (former executive director of the Company and current executive director of Melite Properties srl), who holds the management function of the Melite Finance Group, the information contained in this Circular is in accordance with the facts and does not omit anything which is likely to affect the import of such information.

This Circular is important and requires your immediate attention as you shall be required to vote, either in person or by proxy, at the Bondholders' meeting. Bondholders in receipt of the present circular are advised to consult an appropriate independent adviser in respect of the contents hereof.

Instructions on voting, either in person or by proxy, may be found in the notice convening the Bondholders' meeting, dispatched to eligible Bondholders together with this Circular.

2. INTRODUCTION AND EXECUTIVE SUMMARY

The Directors are placing, before the Bondholders for their consideration, resolutions relating to:

i. the proposed Covid-19 restructuring plan involving the Company and its wholly-owned subsidiary, Melite Properties S.r.l. (a private limited liability company registered in Italy with company fiscal and VAT number 10510270969 and having its registered office at Via Vittor Pisani 20, 20124, Milano (MI), Italia ("Melite Properties", and together with the Company, the "**Melite Finance Group**" or "**Group**"), as explained in section 3 of this Circular;

ii. the proposed amendments to, and waiver of, specific terms and conditions of the Bonds set out in the Securities Note forming part of the Prospectus (the "**Terms and Conditions**"), in connection with, and as required for the purpose of the implementation of, the proposed Covid-19 restructuring plan; and

iii. the proposed amendments to, and waiver of, specific terms and conditions of the security trust deed entered into on the 7 November, 2018 (the **"Security Trust Deed"**) between the Company, Melite Properties and the Security Trustee.

Section 2 of this Circular sets out the backdrop for what has led to the need for the Covid-19 restructuring plan proposed by the Board of Directors of the Company, with particular reference to:

i. the devastating impact of the Covid-19 pandemic on Italy, where the Melite Finance Group's business is based, with particular reference to the Italian retail sector;

ii. the impact of the aforesaid on Melite Properties, upon which the financial position of the Company, and its ability to honour its obligations relative to the Bonds, are dependent;

iii. the counterparty risk represented by the fact that, as at the time of the onset of the Covid-19 pandemic, the majority of stores to which Melite Properties held title were sub-leased to a single sub-lessee, Melite Italia srl, the business of which was irreparably damaged by the effects of the pandemic and restrictive measures imposed in consequence thereof, ultimately resulting in Melite Italia srl entering into voluntary administration proceedings in terms of the Italian law and rendering it unable to honour its payment obligations towards Melite Properties.

The combination of the aforesaid resulted in a complete disruption of the business model upon which the operations of Melite Properties, as explained in the Prospectus, were dependent. As explained in further detail in Section 3 of this Circular, a fundamental premise that the entire model was built on was that quality retail real estate is always in high demand, that in case of difficulty tenants laboured on the reasonable assumption that they could transfer a lease to a new tenant and normally against a payment of substantial key-money, and that the locations chosen by Melite Properties remained consistently in high demand - this was the cornerstone of the model, in that Melite Properties was not dependent on any of its retailers or tenants, but dependent on the solidity of its quality retail locations, a solidity proven over decades but shattered by a global pandemic. The complete disruption of these basis premises gave rise to the need for remedial action to be taken by the Board of Directors of the Company, which is ultimately dependent on the business of Melite Properties.

Section 3 of this Circular explains the pillars upon which the proposed Covid-19 restructuring plan are based (such pillars collectively referred to as the **"Covid-19 Restructuring Plan")**, specifically:

i. financing from certain ultimate shareholders of the Company which was secured by the Board of Directors in support of the continued operation of the Melite Finance Group during the period in which the business of the Group was severely disrupted by the effects of the pandemic. Such support, which was provided notwithstanding that the Bonds had not, when issued, been guaranteed by the Company's direct shareholder or the ultimate owners thereof, proved crucial in enabling the Group to maintain its obligations towards landlords and maintain as much as possible of the asset base of Melite Properties;

ii. bridge financing under the Malta Development Bank Covid-19 guarantee Scheme;

iii. the measures adopted by Melite Properties management, Mr Andrew Ganado, formerly executive director of the Company and presently executive director of Melite Properties, responsible for the day to day running of the business operated by Melite Properties (**"Management"**) with a view to preserving the property rights of Melite Properties to the greatest extent possible, in particular: channeling all available cash towards safeguarding what are considered to be the more valuable leases essential to secure the fulfilment of Melite Properties' obligations towards the Company and, in turn, the Melite Finance group's long term survival, resulting in the rescission of a number of stores; and replacing Melite Italia srl (in voluntary administration) with alternative tenants which would be in a position to honour their rental payment obligations towards Melite Properties and in turn enable same to continue to meet its rental payment obligations towards landlords, with a view to retaining title to the stores the operation and, in future, transfer (for key money consideration) of which, are crucial to the ability of the Company to fulfil its obligations towards Bondholders;

iv. the temporary reduction in interest payable on the Bonds (currently 4.85%).

The Covid-19 Restructuring Plan assumes that the shareholder of the Company, Melite Retail, will not recover any return on its past investment unless all capital on the Bonds would have been repaid and until all interest, including any interest to be waived in terms of the proposed Plan, would have been paid to Bondholders by or on redemption.[2]

[2] Own emphasis.

Section 4 of the Circular explains the latest available financial information of the Melite Finance Group and should be read in conjunction with Annex 2 containing the consolidated unaudited interim financial statements of the Company for the financial period ended 30 June, 2021, published by the Company on 18 October, 2021.

Section 5 of this Circular sets out key forward-looking financial information explaining what the Board of Directors projects the cash flow of the Melite Finance Group to be in the six months ending 31 December 2021 and in the financial years ending 31 December 2022 and 2023. This period is considered crucial to the overall recovery of the business of the Melite Finance Group to what, it is hoped, is a position capable of enabling the Company to honour its Bond repayment obligations at the end of the term of the Bonds, whilst in the meantime continuing to service interest payments on the Bonds, albeit at a reduced rate limitedly with respect to the said three year recovery period (reduction to: 0% in 2021; 2.5% in 2022; and 3.0% in 2023, as explained below) and subject to the Company, on a best endeavours basis, seeking to compensate Bondholders for the abovementioned reductions, at the end of the term of the Bonds, in full or in part to the extent possible at the time, and subject to the considerations specified in section 3.4 of the Circular.

Section 5 of the Circular also illustrates the effect of the measures being proposed as part of the Covid-19 Restructuring Plan, particularly the alleviation of pressure on cash flow which is expected to result from the aforementioned proposed temporary reduction in interest on the Bonds.

The Covid-19 Restructuring Plan is, inevitably, susceptible to certain risks, the vast majority of which remain as pertinent today as they were at the time they were explained in the Prospectus. The continued impact of Covid-19 is, naturally, complimentary to such risks. Section 6 sets out what the Board of Directors considers to be the main risks to which the success of the Covid-19 Restructuring Plan, if approved by the bondholders, would be susceptible.

Section 7 proceeds to set out, and explain, the resolutions being presented to Bondholders for their consideration, and, if thought fit, approval. Whilst the Board of Directors considers each of the elements comprising the Covid-19 Restructuring Plan, and the rationale underpinning each element, to be necessary in order to realise the intended benefits of the Covid-19 Restructuring Plan, the resolutions in question are being tabled on an individual rather than cumulative basis.

The proposed resolutions read as follows:

> ***(1) Interest on the Bonds***
>
> ***That the interest rate payable on the Bonds shall be and is hereby reduced from 4.85% to 0.00%, 2.50% and 3.00% in respect of the interest due on the Bonds on each of the interest payment dates falling on 23 November 2021, 23 November 2022 and 23 November 2023 respectively;***
>
> ***(2) Increase in materiality threshold of permitted rescissions***

That the materiality threshold contained in clause 5 (2) of the Security Trust Deed, that is, the negative undertaking imposed upon Melite Properties S.r.l., in terms of which Melite Properties covenanted in favour of the Security Trustee, for the benefit of the Bondholders that "for all times during the continuance of any amounts outstanding under the Bonds, it shall not transfer or dispose of any rights over immovable property which it enjoys where such disposal exceeds €2,000,000, without the prior written consent of the Issuer and the Security Trustee" shall be and is hereby increased from €2,000,000 to €3,100,000, to the effect that clause 5 (2) of the Security Trust Deed shall read as follows:

"(5)(2) Melite Properties covenants to the Security Trustee, for the benefit of the Bondholders, that at all times during the continuance of any amounts outstanding under the Bonds, it shall not transfer or dispose of any rights over immovable property which it enjoys, where such disposal exceeds €3,100,000, without the prior written consent of the Issuer and the Security Trustee: PROVIDED THAT the giving of its consent in terms of this clause (5)(2) shall not be deemed to constitute the exercising of the Security Trustee's discretion for the purposes of clause 13 of this Security Trust Deed."

That, as a result of the aforesaid, the Bondholders hereby expressly resolve to authorise the Issuer to transfer or dispose of any rights over immovable property which it enjoys, up to an aggregate maximum of €3,100,000.

<u>(3) Amendment of the terms and conditions of the Securities Note and Security Trust Deed</u>

To hereby approve the proposed amendments to: (a) the terms and conditions of the Securities Note forming part of the Prospectus in the form as set out in Annex 3 to the Bondholders' Circular; and (b) the terms and conditions of the Security Trust Deed in the form as set out in Annex 4 to the Bondholders' Circular.

Section 8 sets out the Board of Directors' recommendation to Bondholders relative to such resolutions.

The following documents are available for inspection and, or appended to the Circular:

i. the Memorandum and Articles of Association of the Company;
ii. the consolidated audited financial statements of the Company for the financial year ended 31 December, 2020;
iii. the consolidated unaudited interim financial statements of the Company for the financial period ended 30 June, 2021;
iv. the Prospectus Valuations (as defined in section 3.3.2 below);

v. the valuations of the property assets forming part of the portfolio to which Melite Properties holds title, as at December 2020 and as at June 2021, drawn up by *Rustioni & Partners S.r.l.*

BACKGROUND TO THE PROPOSED COVID-19 RESTRUCTURING PLAN

2.1. Outbreak of the Covid-19 global pandemic

As early as December 2019, reports surfaced warning of the emergence of a potent virus, now known as the novel *'Coronavirus'* or *'Covid-19'*. The rapidity and intensity of the spread of Covid-19 led to the disease being officially declared by the Director-General of the World Health Organisation (**"WHO"**) as a 'Public Health Emergency of International Concern' (PHEIC) on 30 January 2020, and subsequently characterised by the WHO as a global pandemic with effect from 11 March 2020.[3]

With the Covid-19 pandemic spreading rapidly from its original epicentre in Wuhan (China), its devastating effects were soon felt across all corners of the globe, with cases reported across the European region reaching critical levels over the course of February 2020 through to May 2020, and with significant spikes and death tolls registered in the United Kingdom, Spain, France, and Italy in particular over the same period.

In an effort to curb the spread of Covid-19, the large majority of countries moved to introduce drastic and unprecedented preventative and containment measures, ranging from full lockdowns, to partial lockdowns and various other prohibitive and, or restrictive measures, such as rules on international and domestic travel bans, self-quarantine, curfews, closure of non-essential establishments, remote working policies and social distancing requirements, among others. Despite early signs of relief seen in the summer months of 2020 with a drop in positive Covid-19 cases and deaths, the resurgence in Covid-19 cases the world over registered between September 2020 and August 2021[4] resulted in governmental and public health authorities, including in Italy, maintaining and, in certain respects, even tightening, the prohibitive and restrictive measures put in place, a number of which remain in force as at the date of this Circular, with other measures only having been lifted in part. Whereas a number of countries have seen genuine progress in containing the spread of the Covid-19 pandemic, with deaths also relatively under control when compared to 2020, in large part due to the vaccine roll-out in developed countries, others have seen a surge of Covid-19 cases as they reopened.

From a local perspective, although Malta was not immune to pandemic, the severity of the pandemic and the resultant adverse effects on economic and market conditions felt in Malta may be said to have

[3] Source: 'WHO Timeline – Covid-19', maintained by the World Health Organisation (WHO), accessible on: https://www.who.int/news/item/29-06-2020-covidtimeline.

[4] Source: World Health Organisation Covid-19 Dashboard, available on: https://covid19.who.int/

been, on balance, less severe when compared with the situation prevailing in Italy, in which Melite Properties operates as explained in section 2.2 below.

Whilst the continued roll-out of the vaccination programme launched in early 2021 is expected to continue to allow for the gradual lifting of prohibitive and restrictive measures applied in Italy and elsewhere, as communities reach 'herd immunisation' target levels, the exact timing and extent of the lifting of such measures and the corresponding return to pre-Covid-19 activity levels remains impossible to predict with any degree of certainty, and, therefore, it is not possible to project when the adverse effects of the pandemic on economic and market conditions will subside.

Given that the business of the Melite Finance Group is based in Italy, the following two sub-sections of this Circular provide further information on the situation that has evolved, since the onset of the pandemic, in Italy, with particular reference to the retail sector in the north of Italy.

2.2 Market and economic conditions in Italy and adverse impact on financial and operational performance of Melite Properties

2.2.1 Covid-19 in Italy

Melite Properties' principal operation consists of the leasing and sub-leasing of retail outlets located in Italy (the **"Stores"**), and, therefore, the longer-term prospects of the Company are intrinsically linked to the state of the retail real estate market in Italy, particularly the market for prime locations on the primary high streets and shopping centres of the Italian peninsula and islands. More specifically, Melite Properties' leases typically relate to commercial outlets located in the prime position in high streets of cities such as Milan or Turin, or in the main retail area of towns such as Pavia, Como and Treviso, and, in turn, sub-leasing those outlets to operators in the retail industry.[5] This premise forms the very core of the parameters within which the business and operational model of the Melite Finance Group was conceived, that is, a model that positioned the group as a real estate management group, with its main target real estate market being real estate in locations that enjoyed a historical track record as being attractive and commercially viable locations ideal for retailers to operate therefrom.

According to the WHO's official Covid-19 situation reports,[6] Italy was one of the worst affected countries, having consistently registered some of the highest number of active cases and death toll in the European region between February and December 2020. In particular, Milan (and the wider Lombardia region) was one of the worst hit Italian cities and one of the first to be put under stringent mandatory lockdown measures.

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[5] Annual report and consolidated financial statements for the financial years ended 31 December 2019 and 31 December 2020 (section of Directors' Report entitled 'The current situation')

[6] Source: WHO, available on: https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports

Even after a gradual recovery and drop in cases registered over the months of June to August 2020, the number of positive cases registered in Italy spiked again over the months of September to December 2020, peaking at just under 41,000 cases registered in one day on 14 November 2020 (significantly higher than the high of 6,557 cases registered on 22 March 2020 at the height of the first wave of the pandemic), with a record of just over 242,000 cases registered for the week ending 9 November 2020 (significantly higher than the circa 39,000 cases registered for the week ending 23 March 2020). Moving into the new year, cases across Italy remained at constantly high levels in the early months of 2021, averaging circa 100,000 positive cases per week over the course of January and February 2021, hitting higher averages of circa 150,000 positive cases per week for March 2021. [7] Case numbers stabilised over the course of spring and the country entered the summer month of July with fewer than 1,000 positive cases per day.[8] Positive cases increased over the month of July however plateaued in August and subsequently started decreasing as at September 13, 2021.

2.2.2 Unprecedented prohibitive and restrictive measures introduced in Italy, including forced closures of retail outlets

Further to the outbreak of Covid-19 in Italy, particularly Northern Italy where most of the Stores over which Melite Properties holds title are situated, a series of unprecedented prohibitive and restrictive measures were introduced, with the measure having the most significant and direct adverse impact on, and disruption to, the activities and business of Melite Properties, being the forced closure of non-essential establishments, including retail outlets, for multiple stretches of periods in 2020 and 2021. Specifically, in the midst of the first wave of the pandemic, all retail outlets in Italy were forced to shut with effect from 10 March 2020, following the decree issued by the Government of Italy imposing a nation-wide lockdown and the introduction of a variety of stringent restrictive measures. Retail outlets were only permitted to re-open as from 18 May 2020. Initially, virtually all of Melite Properties' tenants elected not to re-open for the major part of 2020, in common with many retail outlets across Italy – with its tenants only gradually re-opening, with 18 out of 26 tenants having re-opened by August 2020.

However, with a spike in the number of positive Covid-19 cases and deaths recorded across Italy between September 2020 through to December 2020, the Italian government gradually re-introduced a series of restrictive measures as from early November 2020, aimed at containing the resurgence of Covid-19 cases. Such measures subsisted throughout the month of December 2020 and early January 2021, with the Italian Government subsequently announcing, on 13 January 2021, that the national state of emergency had been extended to, at least, the 30April 2021. This has been subsequently

[7] Source: Italy dashboard - World Health Organisation, accessed on 16 September 2021, on https://covid19.who.int/region/euro/country/it

[8] ibid, accessed on 16 September 2021.

extended to the 31 December 2021 and may keep being extended, should the situation require it, until 31 January 2022.[9]

During this period, retail activity has been intermittent across most regions of Italy, particularly in the Northern regions, in which Melite Properties' tenants operate, with little to no footfall at stores. Besides the forced closure of stores, the Italian government imposed curfews at night and restricted movement during the day and across towns and regions in Italy. Within areas designated as the so-called 'red zones', individuals were permitted to leave the confines of their homes in very limited circumstances (such as for essentials, health or emergency reasons), with catering establishments and non-essential shops, including retail outlets, being forced shut.

Moreover, even during those limited periods in which retail outlets were permitted to open in Italy, the footfall at stores and in the vicinity remained minimal, owing predominantly to other prohibitive and restrictive measures in Italy having remained in force during such periods, including the imposition of mandatory curfews, closure of or restricted activities at catering, cultural, entertainment and sporting venues, as well as regional and international travel bans.

Over the majority of the last eighteen months, tourism in Italy was severely restricted and, or totally disallowed, and travel was limited to people travelling for work or health reasons. Tourism plays a major part in contributing to retail throughout Italy, especially Milan being one of Italy's top destination for tourists.

2.2.3. Impact on operations and financial performance of Melite Properties

The period of forced closure of the retail Stores of Melite Properties, and overall high alert and restriction of movement and other *day-to-day* activities, has had and is expected to continue to have a significant adverse effect on the operations of the tenants of Melite Properties and, in turn, on Melite Properties itself.

In particular, the forced closure of retail stores, and the subsequent radical drop in retail business, has had an adverse effect on the revenue generated by all Melite Properties' tenants, including Melite Italia (a private limited liability company registered in Italy with company fiscal and VAT number 03712090962 and having its registered office at Via Vittor Pisani 16, 20124, Milano (MI), Italia (**"Melite Italia**"), Melite Properties' main tenant as at the onset of the pandemic. Specifically, Melite Properties faced a combination of the complete absence of revenue in the case of those Stores that were forced shut, and a fall in revenue recorded by those Stores which remained open, the latter caused by a significant fall in footfall and consumer demand in light of the restrictive measures imposed.

[9] https://www.money.it/Stato-di-emergenza-ulteriore-proroga-approvata-dal-Governo-la-nuova-scadenza , Money.it Article, accessed on 14 September 2021

In view of the magnitude of the adverse effects of the forced closure of Stores operated by Melite Italia and other third-party tenants, it became clear that the payment of rent to Melite Properties at the full rental levels contracted under the long-term lease agreements subsisting from well before the onset of Covid-19, was no longer a tenable and feasible position. This new economic and market reality was not exclusive to Melite Italia, but one faced similarly by the third-party tenants of Melite Properties, who requested to rescind their agreements or to apply heavy discounts on the rent payable to Melite Properties. Management's long term view with respect to such third-party tenants was that it would be more prudent to grant discounts to tenants with a view to retaining some, rather than losing such tenants and be faced with the prospect of having to search for new tenants in the midst of a global pandemic.

In so far as Melite Italia was concerned, in the context explained above, Melite Properties elected to terminate the long-term lease agreements with Melite Italia, and with effect from 18 May, 2020 entered into a temporary profit-sharing and occupancy agreement in lieu thereof.

The abovementioned temporary profit sharing and occupancy agreement, previously announced in the company announcement published on 13 August, 2020 (MTE12), was aimed at, on the one hand, reflecting the economic and market conditions precipitated by Covid-19 and, on the other hand, affording Melite Properties sufficient flexibility to pursue its strategy of gradually renting out Stores to third-party tenants. Specifically, as explained in the aforementioned company announcement:

> *"Until such time as negotiations with alternative tenants for the remaining Stores are concluded, Melite Italia is expected to continue to operate from the Stores in accordance with the terms of an agreement being entered into for the purpose of regulating such period of occupancy, subject inter alia to an undertaking by Melite Italia to vacate such Stores at short notice upon negotiations with new tenants being concluded. The Board of Directors of the Company considers such arrangement, in the circumstances, to be the most practicable for the purpose of ensuring continued generation of income for use of the Stores, albeit below rental income levels prevailing pre-pandemic, until such time as the operation of the Stores may be assumed by new tenants which are in a position to meet the rental terms set by Melite Properties. Furthermore management, on the advice of commercial real estate specialists engaged to assist in the process of sourcing new tenants, is of the view that the likelihood of success of such a process is greater if the Stores are operational and stocked, rather than vacant and less accessible*."

At the same time, Melite Properties sought to renegotiate the rent payable to landlords of the Stores. Whilst Melite Properties was successful, to varying extents, in securing discounts on rent due in respect of some of the Stores forming part of its portfolio, in other instances, landlords were unwilling or unable to grant such discounts, either at specific instances during the pandemic, or throughout.

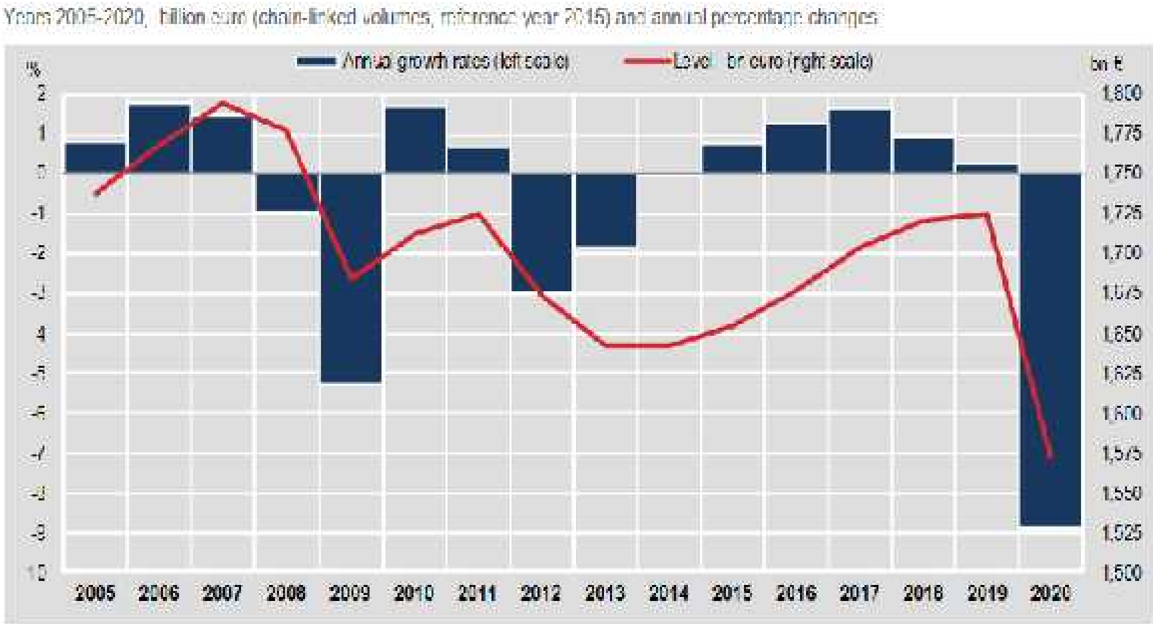
Whilst Management reasonably expects the lifting of some of the prohibitive and restrictive measures referred to above and a continued unrolling of approved Covid-19 vaccines to stimulate an improvement in prevailing economic and market conditions, including activity at retail outlets, the position remains subject to a variety of factors which are not within the sphere of control or influence of the Company or its Board of Directors, or that of Management, and the impact of which cannot be predicted with a sufficient degree of certainty. The timing and extent of such recovery is subject to, among others, the risk factors described in section 6 of this Circular.

2.2.4. Economic and market conditions in Italy and future outlook

Statistics concerning economic and market conditions in Italy since March 2020 illustrate the profound and significant adverse effect that the Covid-19 pandemic and the corresponding measures have had on the Italian economy and various industry sectors, including, in particular, the retail sector.

According to Italy's national statistics office - 'ISTAT' - Italy's economy contracted significantly in 2020, with Italy's gross domestic product ('GDP'), at current prices, falling by 7.8% compared with the previous year, with final consumption expenditure and national demand each falling by 7.8% in 2020.[10]

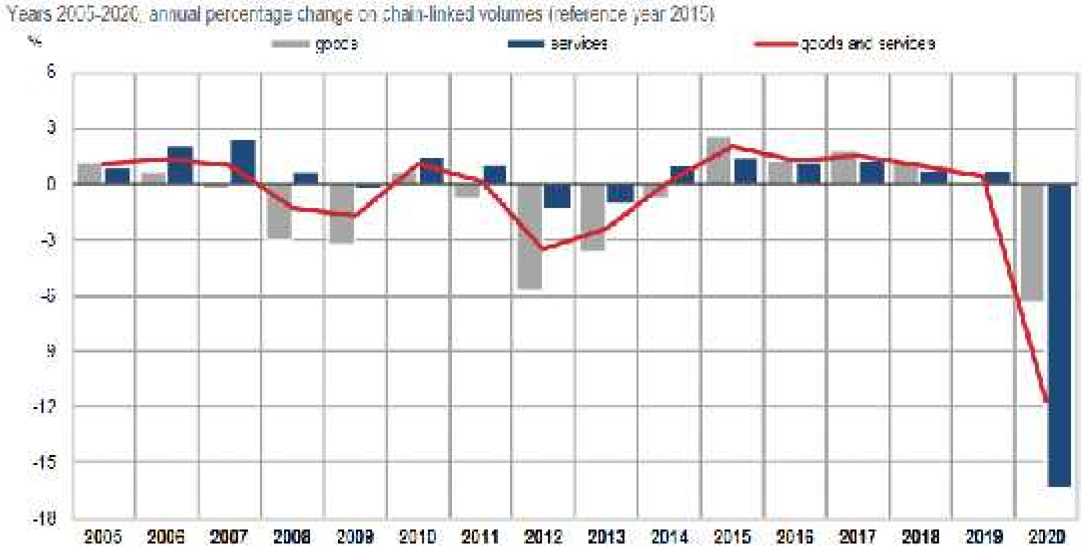
Chart 1: Italy GDP 2020 (by volume) [11]



[10] Source: ISTAT, 'GDP and General Government Net Borrowing', 1 March 2021, available on: https://www.istat.it/en/archivio/254252

[11] Source: ISTAT, 'GGDP and General Government Net Borrowing', 1 March 2021, available on: https://www.istat.it/it/files//2021/03/PIL_E_INDEBITAMENTO_AP_INGLESE_01marzo2021.pdf

Chart 2: Italy Household Domestic Final Consumption Expenditure by Product [12]



The first quarter of 2021 continued to see a negative economic trend. Although Italy's GDP increased by 0.1% with respect to the previous quarter (October to December 2020), its GDP contracted by 0.8% over the same quarter of the previous year (January to March 2020). The second quarter of 2021 saw a slight reversal whereby GDP increased by 2.7% to the previous quarter (January to March 2021) and by 17.3% over the same quarter of the year 2020 (April to June 2020), as illustrated hereunder: [13]

[12] Source: ISTAT, 'GGDP and General Government Net Borrowing', 1 March 2021, available on: https://www.istat.it/it/files//2021/03/PIL_E_INDEBITAMENTO_AP_INGLESE_01marzo2021.pdf

[13] Source: ISTAT, 'Quarterly National Accounts 2021', published on 31 August 2021, available on: https://www.istat.it/it/files//2021/08/CET_21q2_EN.pdf

Chart 3: Italy GDP Index [14]

Economic statistics published by Eurostat, the statistical office of the European Union, similarly illustrate the shock to the Italian economy precipitated by the Covid-19 pandemic, with Italy's GDP for Q2 2020 falling by 18.3% over the same quarter of the previous year (Q2 2019), ending Q4 2020 on a negative basis, with GDP for Q4 2020 shrinking by 6.1% over the same quarter of the previous year (Q4 2020), despite an 15.8% growth in GDP registered in Q3 2020 when compared with the immediately preceding quarter (Q2 2020), failing to recover from the drop of not less than 12.9% in Q2 2020 when compared with Q1 2020.[15]

Going forward, the European Commission observed that despite the strong rebound in Italy's real GDP over the summer months of 2020, when the Italian economy recovered almost three fourths of the output loss incurred in the first half of 2020, the Covid-19 pandemic has tightened its grip on the Italian economy, ending the year 2020 with a contraction in real GDP of 8.8%.[16] Furthermore, the rise in infection and hospitalisation rates which required the Italian authorities to re-impose restrictions on mobility and economic activity in the first quarter of 2021, retained over the second quarter of 2021,

[14] Source: ISTAT, 'Preliminary Estimate of GDP – Quarter 2', 30 August 2021, available on: https://www.istat.it/it/files//2021/08/CET_21q2_EN.pdf

[15] Source: Eurostat, Economic Trends, available on: https://ec.europa.eu/eurostat.

[16] See, for instance, the 'European Economic Forecast – Winter 2021 (Interim), issued by the European Commission on 11 February 2021, available on: https://ec.europa.eu/economy_finance/forecasts/2021/winter/ecfin_forecast_winter_2021_it_en.pdf

are expected to have a negative impact on economic and market conditions, with contact-intensive services, including the retail and tourism industries continuing to reel under the pandemic's economic impact and are again set to take the brunt of the imposed selective lockdown measures. [17]

In its interim Spring 2021 Economic Forecast, published on 12 May 2021, the European Commission forecast that the euro area economy will increase by 4.3% in 2021 and once more by 4.4% in 2022 with the wider EU economy expected to recover with a growth rate of 4.2% in 2021 and 4.4% in 2022[18]. However, notably, the European Commission urged caution, remarking that after the historic drop in activity recorded in the first part of the 2020 and the rebound in the summer, the EU economy faced another setback in late 2020 as the resurgence of the pandemic, together with the appearance of new, more contagious variants of Covid-19, prompted a new round of containment measures. This resulted in economic output falling once more in the last quarter of 2020 and the first quarter of 2021, by a cumulative 0.9%, pushing the EU back into recession, albeit at a milder rate than that experienced in the first half of 2020. Furthermore, the European Commission noted that economic developments in 2021 and 2022 are expected to be largely determined by the success of vaccination programmes and the rate and depth of the lifting of restrictions, with the base assumption being that the large part of restrictions will remain in place for the remainder of 2021, with limited containment measures remaining in effect in 2022.[19] Finally, the European Commission underlined that whilst the EU economy is expected to reach pre-pandemic levels of output earlier than originally anticipated, largely owing to the stronger momentum expected in the second half of 2021 and 2022, the speed of recovery will, however, vary significantly across the EU, with those economies that are more dependent on sectors such as tourism expected to likely to remain weak for some time. Ultimately, the European Commission underlined that the risks and uncertainties surrounding the GDP forecasts and outlook remain high and will remain so for as long as the pandemic hangs over the economy.

Specifically in so far as the Italian economy is concerned, in its interim Spring 2021 Economic Forecast, published on 12 May 2021, the European Commission forecast a modest recovery in Italy's GDP of 4.2% in 2021 (as compared to its earlier forecast of 4.1% published in November 2020[20] and 4.4% in 2022). Furthermore, the European Commission was not expecting real GDP in Italy to fully return to its 2019 levels before the end of 2022, with projected recovery resting heavily on continued policy support to cushion the fallout from the pandemic on earnings and employment levels.[21] The European Commission also remarked that the relaxation of restrictions in summer 2021 should boost consumer spending, as it is set to unleash pent-up demand in the second half of 2021. However, as high (forced

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[17] Source: 'European Economic Forecast – Winter 2021 (Interim), issued by the European Commission on 11 February 2021, available on: https://ec.europa.eu/economy_finance/forecasts/2021/winter/ecfin_forecast_winter_2021_it_en.pdf

[18] Source: European Commission, *"Spring 2021 European Economic Forecast",* 12 May 2021, available on: https://ec.europa.eu/info/sites/default/files/economy-finance/ip149_en.pdf

[19] Source: European Commission, *"Winter 2021 (Interim) European Economic Forecast: a challenging winter, but light at the end of the tunnel",* 11 February 2021, available on: https://ec.europa.eu/info/sites/default/files/economy-finance/ip144_en_1.pdf

[20] Source: European Commission, *'Economic forecast for Italy',* available on: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/italy/economic-forecast-italy_en

[21] Ibid.

and partly precautionary) household savings are likely to decline only gradually, consumer demand and consumption growth is forecast to remain moderate over the remainder of 2021.[22] A more recent outlook shows greater optimism. In the Summer 2021 European Economic Forecast, the expected real GDP growth for Italy is indicated as 5.0% in 2021 and 4.2% in 2022. The reason for this upward shift in forecast compared to the Spring forecast is due to the stronger than expected response of economic activity to easing of mobility and business restrictions, however, notably for the retail market, the return of tourist revenues is forecast to be more gradual.[23]

2.3 *Impact of Covid-19 on the retail industry (and, in particular, the Italian retail industry)*

2.3.1 Global retail industry negatively impacted by the Covid-19 pandemic

Economic statistics demonstrate that the retail sector emerged as one of the worst-hit sectors impacted by the ensuing measures aimed at containing Covid-19, including, naturally, the closure of non-essential establishments. Fashion retailers have been hit from all angles: piled up inventories of outdated and out-of-season stock, severe disruptions in supply chain, zero to negligible footfall in their physical outlets, incurrence of fixed or sunk operating costs – factors which have led to significant drops in revenue and a general drying up of positive cash flows.

The adverse economic ripple effect precipitated by the Covid-19 pandemic has led to a number and variety of retailers suffering significant financial woes, with some of the most renowned and well-established international retailers feeling the brunt of the pandemic, pushed to insolvency, or the brink thereof. A cursory look at the headlines across the international financial press evidences the extent of the disruption and unprecedented damage to the retail industry, with household names closing permanently and/or struggling to stay afloat.

2.3.2 Significant deterioration in retail industry in Italy caused by the Covid-19 pandemic

The negative trends witnessed across the global retail industry were similarly experienced in the retail industry in Italy, with economic and market statistics consistently showing that the retail industry was one of the hardest hit industry sectors in Italy since March 2020.

Statistics issued by ISTAT covering the period corresponding with the first wave of the Covid-19 pandemic show that retail sales in March 2020 fell by 20.5% in value and by 21% in volume compared to February 2020, with small retailers suffering greatly due to their inability to benefit from economies of scale attributable to larger retailers.[24] In particular, the greatest negative trend among consumer

[22] Ibid.

[23] Source: https://ec.europa.eu/economy_finance/forecasts/2021/summer/ecfin_forecast_summer_2021_it_en.pdf

[24] Source: *"Coronavirus, Istat: vendite al dettaglio a marzo -20,5% su febbraio. Crollo beni non alimentari. Fase 2: restano ferme 800mila imprese, 1 su 5"*, 7 May 2020, available on: https://www.ilfattoquotidiano.it/2020/05/07/coronavirus-istat-vendite-al-dettaglio-a-marzo-205-su-febbraio-crollo-beni-non-alimentari-fase-2-restano-ferme-800mila-imprese-1-su-5/5794161/

goods purchased in the first quarter of 2020 were seen in clothing and footwear, dropping by 57.1% and 54.1% respectively over the same period of 2019.[25]

These negative trends continued throughout much of the remainder of 2020. Figures published by ISTAT on 9 April 2021 confirmed this deterioration in market conditions in the retail industry in Italy in the first two months of 2021, with the largest fall in value of sales for February 2021 being reported in respect of shoes, leather goods and travel items, dropping 12.7% when compared against February 2020, with clothing having registered a drop of 11% over the same period.[26] Furthermore, ISTAT reported that notwithstanding an increase in the seasonally adjusted index of retail by 6.6% in value and volume terms when compared to the previous month, the 3-month average retail index as at end of February 2021 fell by 2.2% in value of sales and by 2.6% in volume of sales when compared with the previous 3-months ending November 2020. Notably, all channels of distribution, besides e-commerce, experienced a continuation negative trend registered since March 2020. More recently, in its retail trade update published on 8 June 2021, ISTAT noted that estimates for seasonally adjusted index of retail trade decreased by 0.4% in value terms and 0.5% in volume terms in the month-on-month series, with total retail sales levels in April 2021 remaining sub pre-pandemic levels of February 2020. That said, ISTAT noted a positive sign in the three months to April 2021 (January to March 2021), with value and volume of sales increasing by 4.3% when compared with the previous three-month period (October to December 2020).[27] As per the figures published on the 7 July 2021, in the three months to May 2021 the value of sales increased by 3.3% when compared to the previous three-month period, with volume being up 3.5%. When compared to May 2020, a period when non-essential retail stores were partially closed due to pandemic restrictions, the value of retail trade grew by 13.3% and volume by 14.1%.[28] ISTAT noted that the largest increase was reported for clothing, at +82.3%, and shoes, leather foods and travel items at +59.7%.[29] Furthermore, figures published on the 4 August 2021 show that retail sales grew by 0.7% in value terms and 0.6% in volume terms in June when compared to May 2021. When compared to June 2020, the value of retail trade grew by 7.7% and volume by 8.1%, whereas online sales increased by 23.7%.[30] More recently, as per figures published on the 8 September 2021, retail trade slightly decreased in July at 0.4% in value terms and 0.7% in volume terms when compared to June 2021. Despite this, Istat noted that both value and volume trade grew for the fifth month in a row when compared to the same months in 2020, with figures for

[25] Source: "*L'Istat e l'economia italiana: crollano le vendite al dettaglio, ancora ferme 800mila imprese",* Dire Giovani IT, 7 May 2020, available on: https://www.dire.it/07-05-2020/457020-listat-e-leconomia-italiana-crollano-le-vendite-al-dettaglio-ancora-ferme-800mila-imprese/

[26] Source: ISTAT, 'Retail Trade Press Release - February 2021', 9 April 2021, available on: https://www.istat.it/it/files//2021/04/EN_retail_trade_Feb21.pdf

[27] Source: ISTAT, 'Retail Trade Press Release – April 2021', published on 8 June 2021, available on: https://www.istat.it/it/files//2021/06/EN_retail_trade_Apr21.pdf

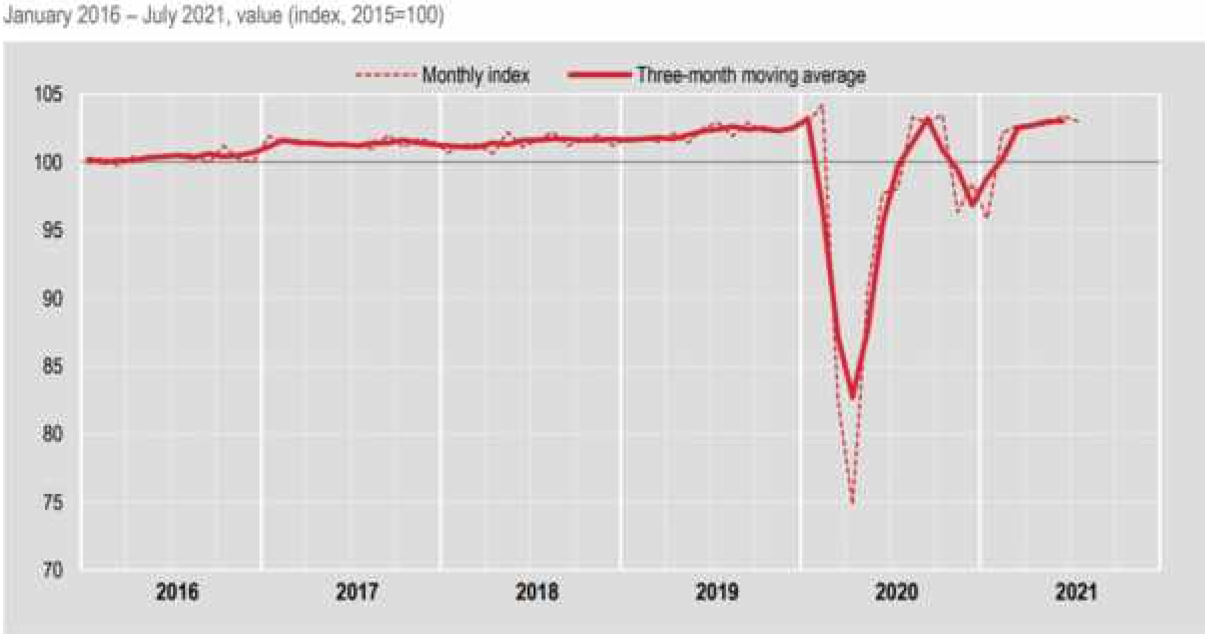
[28] Source: ISTAT, 'Retail Trade Press Release – May 2021, published on 7 July 2021, available on: https://www.istat.it/it/files//2021/07/EN_retail_trade_May21.pdf

[29] ibid

[30] Source: ISTAT, 'Retail Trade Press Release – June 2021, published on 4 August 2021, available on: https://www.istat.it/it/files//2021/08/Retail_trade_Jun21.pdf

July showing an increase of 6.7% in value terms and 8.8% in volume terms.[31] In July 2021, all channels of distribution increased when compared to July 2020, with large-scale distribution going up 5.6% and small-scale distribution grew by 8.2%.[32]

Chart 4: Retail trade in Italy, seasonally adjusted index and three-month moving average [33]



Moreover, sales generated by retailers in Italy through inbound tourism were also, inevitably, impacted, with an estimated loss of *circa* 67 million inbound tourists in 2020 alone, [34] translating into a drop in expenditure by tourists visiting Italy of *circa* €121 billion,[35] with booking cancellations across the Italian peninsula reaching as high as 232% in the peak of the pandemic.[36] A study from Federalberghi (one of the most prominent association of tourist and hospitality companies in Italy) evidences the bleak state of Italy's tourism industry, recording a 51% tourist drop in July 2020 alone

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[31] Source: ISTAT, 'Retail Trade Press Release – June 2021, published on 8 September 2021, available on: https://www.istat.it/it/files//2021/09/EN_retail_trade_Jul21.pdf

[32] Ibid

[33] Source: ISTAT, 'Retail Trade Press Release – July 2021', published on 8 September 2021, available on: https://www.istat.it/it/files//2021/09/EN_retail_trade_Jul21.pdf

[34] Source: Statista Research Department published on 11 August 2021, available on https://www.statista.com/statistics/1101025/impact-of-coronavirus-covid-19-on-tourist-arrivals-in-italy-by-region/

[35] See "WTTC research reveals Travel & Tourism sector's contribution to Italy's GDP dropped by €121 billion in 2020", World Travel & Tourism Council, 15th April 2021, available on: https://wttc.org/News-Article/Travel-Tourism-sectors-contribution-to-Italys-GDP-dropped-by-121-billion-in-2020

[36] Source: Statista Research Department published in January 2021, available on https://www.statista.com/statistics/1116630/cancellation-levels-of-short-term-rentals-due-to-coronavirus-in-italy/

(-76.4% foreigners and -24.5% Italians).[37] A financial loss of €120.6 billion for the year 2020 due to the Covid-19 pandemic has been reported, with tourism and travel seeing a 51% decrease in contribution to the Italian GDP.[38] Domestic visit spending is reported to have declined by 49.6% while international spending fell by 62%.[39]

In summary, the devastating economic effect of Covid-19 on the Italian economy is self-evident, described as nothing short of catastrophic by various industry players and market observers.[40]

Overall, the current outlook for the retail segment are showing signs of rebound due to sharp gowt registered in the second quarter of 2021. The devastating effect that Covid-19 has had on the Italian economy has not yet been overcome, however consumer sentiment and high levels of savings are likely to support retail sales growth in the coming months.[41]

2.4. Dependence of the Company upon the operational and financial performance of Melite Properties

Melite Finance plc is a finance company, with its main purpose being that of financing or re-financing the funding requirements of the Melite Finance Group. In this respect, the Company is mainly dependent on the business prospects of Melite Properties, its principal debtor, and consequently, the operating results of the Melite Finance Group have a direct effect on the Company's financial position and performance, and as such the risks intrinsic to the business and operations of the Melite Finance Group have a direct effect on the ability of the Company to meet its obligations in respect of principal and interest under the Bonds when due. As the majority of its assets consist of a loan issued to Melite Properties, its wholly owned subsidiary, the Company is largely dependent, including for the purpose of servicing interest payments on the Bonds described in the Securities Note and the repayment of the principal on maturity date, on the receipt of interest and loan repayments from Melite Properties. The interest payments and loan repayments to be effected by Melite Properties are subject to certain risks. More specifically, the ability of Melite Properties to effect loan repayments to the Company is dependent on its respective cash flows and earnings, which, as had been indicated in the Prospectus, was and remains susceptible to the risks indicated in the Prospectus, including, *inter alia*, the following

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[37] See: *"COVID-19 Impacts on Italy Real Estate",* Cushman & Wakefield, 19th August 2020, available on: https://www.cushmanwakefield.com/en/italy/insights/covid-19-impacts-italy-real-estate

38 See "WTTC research reveals Travel & Tourism sector's contribution to Italy's GDP dropped by €121 billion in 2020", World Travel & Tourism Council, 15th April 2021, available on: https://wttc.org/News-Article/Travel-Tourism-sectors-contribution-to-Italys-GDP-dropped-by-121-billion-in-2020

[39] ibid

[40] Source: "*Crollano le vendite al dettaglio a marzo, cresce solo il commercio elettronico",* Milano Finanza, 7 May 2020, available on: https://www.milanofinanza.it/news/crollano-le-vendite-al-dettaglio-a-marzo-cresce-solo-il-commercio-elettronico-202005071123418920

[41] Source: The Economist Intelligence Unit, published on 5 August 2021, available on https://www.eiu.com/industry/consumer-goods/europe/italy

risks identified in the Registration Document forming part of the Prospectus (refer to section 2 of the Registration Document forming part of the Prospectus):

a. 2.3 Risks relating to the Melite Finance Group: the Melite Finance Group and its business:

i. 2.3.1 dependence on the Italian market and exposure to general market and economic conditions;

ii. 2.3.2 fixed operating expenses;

iii. 2.3.11 risk of complaints and litigation;

iv. 2.3.12 risks relating to changes in legislation

b. 2.4 Risks relating to the Melite Finance Group: property market:

i. 2.4.1 general property market conditions;

ii. 2.4.2 valuations of and fluctuations in rights over immovable property;

iii. 2.4.3 leases and lease renewal;

iv. 2.4.4 dependency on sub-tenants fulfilling their obligations;

v. 2.4.5 single sector and client concentration risk;

vi. 2.4.8 governing law and jurisdiction.

The occurrence of any such factors could in turn negatively affect the ability of the Company to meet its obligations in respect of the payment of interest on the Bonds and repayment of principal when due. **As explained in this Circular, all of the risks listed above and set out in the Prospectus have materialised, in varying degrees, since the onset of the Covid-19 pandemic.**

Since the outbreak of the Covid-19 pandemic, the Directors have been closely monitoring the business and activities of the Company and Melite Properties, and have kept the impact of Covid-19 and the resultant measures on the financial performance and position of the Company and Melite Properties, under constant review.

Melite Properties is the Company's main debtor and, as a result, the Company is largely dependent on the business and prospects of Melite Properties.

As indicated earlier in this Circular and as explained in the Company's audited financial statements for the financial year ended 31 December, 2020, both the retail and commercial real estate landscape in Northern Italy, where the vast majority of the Stores are located, have been subjected to significant and unprecedented disruption as a result of the pandemic.

Melite Properties' tenants, all of which operate in the retail sector, have likewise been severely negatively affected, resulting in such tenants being unable to maintain rental payment obligations at the rates prevailing in Q1 2020 before the emergence of the pandemic, with tenants also facing challenges in satisfying rental payments within ordinary credit terms and requesting Melite Properties to accept discounts on rent in light of the economic hardships they faced. Melite Properties tenants were forced to close during the first 70-day lockdown of March to May 2020 and re-opening proved challenging. The situation remained bleak for most of 2020 and the first quarter of 2021, and while having improved over the second quarter, it remains uncertain for the remainder of 2021, with a combination of various factors, including expectations surrounding the continuation of extremely limited to totally forbidden tourism, office employees remaining at home due to smart-working arrangements or policies, the forced closure of certain establishments, and the persistence of national and international travel bans, with an overriding subsisting fear of infection, contributing to the extreme fluidity of the situation.

Management travelled regularly to Italy during the pandemic, and continues to do so, maintaining constant contact with landlords with respect to possible revisions of existing payment terms in consequence of the closure of retail outlets resulting from the lockdown implemented across Italy. On its part, Melite Properties has maintained payments of rent to landlords (as reduced, where possible, further to negotiations conducted by Management) and remains in contact with them, an approach considered fundamental for the purpose of safeguarding Melite Properties' rights over the Stores it has retained and, or plans on retaining going forward. The primary objective was to retain existing tenants, in the knowledge that, for the first time in decades, the search for new tenants will be extremely challenging, even in these top retail locations.

2.5 Relationship between Melite Italia and Melite Properties and impact of Covid-19 on ability to fulfil its obligations under the sub-leases

As previously reported, Melite Italia, a related party of the Company under common control of Melite Retail Limited (C 74224) ("**Melite Retail**"), was, at the time of the onset of the pandemic, the principal tenant of the Stores, as sub-lessee in respect of 21 out of the 26 leases held by Melite Properties as at March 2020. Melite Italia has been adversely affected by the impact of the pandemic.

The operational difficulties faced by Melite Italia at the time were principally founded in extraneous factors pertaining to the adverse impact of Accessorize UK (Melite Italia's main franchisor) - having been placed into voluntary administration in 2019. This adverse development led to Melite Italia facing operational challenges in the running of the Accessorize franchise, including operational difficulties relating to inventory management and, in turn, leading to reduced revenue levels and increased operational costs for Melite Italia. As previously reported, the Board of Directors was informed that these operational difficulties resulted in Melite Italia seeking to implement a plan to restructure its operations, including through a proposed injection of funding by its (and the Company's) shareholder, Melite Retail Limited, to provide financial support to Melite Italia. At the time, the Board of Directors sought, and obtained, reassurances from Management as to the potential impact of the difficulties being faced by Melite Italia on its payment obligations towards Melite Properties. The downturn in operational performance of Melite Italia resulted in it delaying the payment of rent due towards Melite Properties, albeit within a commercially reasonable and acceptable timeframe.

The onset of Covid-19 impacted Melite Italia, escalating what were previously ordinary trading difficulties to extraordinary levels and causing a comprehensive reconsideration of the original strategy. In February, 2020, by which time the North of Italy was already heavily impacted by the pandemic, the Board of Directors of the Company was informed that the continued strain on the operations of Melite Italia and, more critically, the sudden shock precipitated by the Covid-19 pandemic and the resulting impact on the aforementioned strategy, would ultimately lead to Melite Italia being unable to pay the rent due to Melite Properties in respect of November 2019 on time (that is, by February 2020). The situation subsisted thereafter, with rent due by Melite Italia to Melite Properties in respect of the months of November 2019 to March 2020 (specifically 11 March 2020, the date when stores were ordered to close down) remains unpaid. No rent accrued for the period between 11 March 2020 and 17 May 2020. For the period between 18 May 2020 and 17 June 2020, the rent due, amounting to €90,000, has not yet been paid. The terms of the profit-sharing agreement referred to in section 2.2.3 above continued to apply thereafter, and the amounts due in respect thereof have been duly settled. Through the *Concordato,* Melite Properties expects to claim up to 20% of the amounts due but as yet unpaid, which in total would amount to *circa* €0.4 million.

It was within this context that, on 2 December 2020, Melite Italia formally entered into the procedure of *'concordato in continuita',* a procedure available in terms of Italian law that is aimed at voluntarily restructuring a company's business and debts. As at 31 December 2020, the Group had receivables from Melite Italia amounting to €1,721,595, arising from rent payable to Melite Properties which was receivable three months in arrears, in line with the rental agreements. The fact that Melite Italia elected to commence the procedure of *'concordato in continuita'*, triggered a doubt on the recoverability of this balance, requiring an impairment provision of €1.3 million being recognised by the Melite Finance Group,[42] and resulted shortly thereafter in requests for support being made by the Board of Directors of the Company to its parent company Melite Retail. As a result of such requests, some of the ultimate owners of Melite Retail provided vital capital injections at the level of the Company, as explained in section 3.3.1 below.

The process of *'concordato in continuita'* entailed, *inter alia*, the termination of the 21 sub-lease agreements that Melite Italia held with Melite Properties. As a result of the termination of sub-lease agreements to be made pursuant to the '*concordato in continuita'* procedure, sourcing alternative tenants to sub-lease the properties vacated by Melite Italia became a key priority for Melite Properties. Whilst Melite Properties was actively looking for new tenants for these stores, instead of leaving these stores shut and vacated of all furniture and fittings, Melite Properties entered into a temporary profit-based rent arrangement with Melite Italia to keep these stores open and

[42] Audited financial statements for FY 2020, Melite Finance plc (see section of Director's Report headed 'The current situation')

operational, and collect some rent as opposed to no rent at all. In essence, Melite Properties collected 67% of all positive cash generated from the stores sub-leased to Melite Italia. Such actions were taken on the advice of commercial real estate specialists, on the basis of the experience of Management, and on a common sense basis - the likelihood of success in sourcing new tenants was deemed greater should the stores be operational, rather than closed. Furthermore, many stores would have been in breach of their lease agreements if closed and non-operational, which would have led to Melite Properties being evicted from these locations.

During this period Melite Properties actively looked for new tenants and was successful in sub-leasing several stores in the brief non-lockdown windows of June - July 2020 and September 2020, as well as, more recently, in June 2021, as explained in further detail in section 3.3.3 below.

This process of sourcing alternative tenants, as expected, proved to be extremely challenging not least due to repeated and extensive periods of lockdown, curfews, mobility restrictions, the complicated trading conditions resulting from the adverse effect of Covid-19 on the retail sector in Italy, more so with the pandemic having dragged on for far longer, and its impact on the retail sector in Italy proving far more significant, than originally anticipated. Further information on the outcome of this process of sourcing alternative tenants may be found in section 3.3.3 below.

3. COVID-19 RESTRUCTURING PLAN

In consequence of the seismic change in the economic and market conditions within which the Melite Finance Group has been operating since the onset of the Covid-19 pandemic, the Board of Directors of the Company considered and continues to maintain that it is necessary to reformulate certain fundamental aspects of its business, including its financing arrangements. Such plan is intended to support the viability and feasibility of Melite Properties' ongoing operations, retain as many of the high value assets forming part of its portfolio and, ultimately and most importantly, enable the Company to repay the capital due on the Bonds upon maturity. Such plan is also intended to support the continued servicing of interest on the Bonds, albeit temporarily subject to a reduction which, it is hoped, may be recovered upon maturity of the Bonds.

A key underlying premise of the plan is that the continued servicing of the payment of interest on the Bonds is entirely dependent - and the redemption of the Bonds is in part dependent - on Melite Properties being able to fulfil its repayment obligations towards the Company in terms of the loan amounting to €5.9 million granted by the Company to Melite Properties out of the proceeds of the Bond Issue, as set out in paragraph (ii) of Section 4.1 (entitled 'Reasons for the Issue and Use of Proceeds') of the Securities Note forming part of the Prospectus (the "**Loan**"). Interest is payable under the Loan on an annual basis, at the rate of 6.1%. The Loan, together with any interest remaining thereon is to be repaid in full by Melite Properties to the Company by not later than 16 November 2028.

As explained earlier in this Circular, Melite Properties underwent a process of seeking new tenants for all Stores previously operated by tenants which have since had to terminate their respective sub-leases. In the interim, it has sought to protect its assets consisting of rights over leased stores, entailing the continued need of ensuring payment of rent due to its landlords. The base assumptions underlying the model on which its business was run prior to the pandemic have been heavily compromised, as the continued servicing of Melite Properties' obligations towards landlords, Melite Finance and other creditors, can no longer, at this point in time, depend on the steady flow of rental income from Melite Italia and other tenants, upon which such model was originally premised.

A fundamental premise that the entire model was built on was that quality retail real estate is always in high demand. Should one tenant start to struggle, or no longer wish to carry on operating, that tenant laboured on the reasonable assumption that it could transfer its lease to a new tenant and normally against a payment of substantial key-money. Similarly, landlords in the retail real estate sector based their business model on the fact, backed by decades of experience, that whilst retail brands may come and go, the locations and streets within which they operate will continue to remain in high demand. These locations remained consistently in high demand, at least until the onset of Covid-19.

This was the cornerstone of the model – Melite Properties was not dependent on any of its retailers or tenants, but dependent on the solidity of its quality retail locations, a solidity proven over decades but shattered by a global pandemic.[43]

The continued and regular payment of rent to landlords is imperative to ensure that Melite Properties does not have to forfeit the property rights that it holds. These property rights are the principal asset held by this business and represent the underlying assets secured through the share pledge over the shares held by the Company in Melite Properties granted in favour of the Security Trustee as security in favour of the holders of the Bonds (in addition to a general hypothec over all of the Company's present and future, movable and immovable assets). Without these property rights, the Melite Finance Group will have no assets to generate the funds required to service interest and, eventually, redeem the Bonds.

In light of these financial and operational difficulties which continue to be faced by Melite Properties and which, in turn, jeopardise the Company' s ability to fulfil its obligations towards its own creditors given the intrinsic relationship and economic dependence between the Company and Melite Properties, the Directors of the Company, after having consulted financial and legal advisors of the Company, have formulated the following plan. The plan comprises certain essential amendments to the Terms and Conditions of the Bonds and the Security Trust Deed, which are considered necessary

[43] Own emphasis.

to place the Company in the best possible position to repay the Bond on maturity and service interest payments to the greatest extent possible. **The plan also assumes that the shareholder of the Company, Melite Retail, will not recover any return on its past investment unless all capital on the Bonds would have been repaid and until all interest, including any interest to be waived in terms of the proposed Plan, would have been paid to Bondholders by or on redemption.**[44]

The Covid-19 Restructuring Plan is based on the following four pillars:

3.1 Pillar 1 - Financing from shareholders:

Melite Finance is owned entirely by Melite Retail, which is in turn owned by:

- Lidsdale Limited, a company registered under the laws of Ireland which has a branch registered under the laws of Malta bearing number OC 636 (50.00%) (**"Lidsdale**"). In turn, Lidsdale is partly owned by Daystar Holdings Limited (C 16466) (**"Daystar**") as to (14.86%), GAN Limited (C 27089) (**"GAN**") as to (18.20%) and Andrew Ganado Limited (C 29861) (**"AGL**") as to (43.31%);
- Alf. Mizzi & Sons Ltd (C 203) (40.30%) (**"AMS**"); and
- MMGH Ltd (C 343) (9.70%) (**"MMGH**").

For the purposes of this circular, Daystar, GAN, AGL, AMS and MMGH shall hereinafter be referred to as the "**Financing Owners**"), being those direct or indirect owners of the Company's shareholder, Melite Retail, which have provided financial support to the Company in the manner specified in this section 3.

The Bonds are not guaranteed by Melite Retail or by the latter's direct or indirect shareholders, including the Financing Owners. However, in view of the difficulties faced by Melite Finance Group as of early 2020, some of the shareholders or ultimate beneficial owners of Melite Retail, specifically the Financing Owners, provided temporary relief to the Melite Finance Group, on multiple occasions on the demand of the Board of Directors of the Company, by way of a combination of financing and commitments to finance the Melite Finance Group, notwithstanding that they are under no legal or financial obligation to provide such support.

As at the date of this Circular, the Financing Owners have injected an aggregate amount of €1.1 million and have entered into commitments to inject a further aggregate amount of €1.0 million, as described in further detail hereunder.

[44] Own emphasis.

The €1.1 million injected during 2020 was utilised to finance rental payments due by Melite Properties to the landlords of the stores over which Melite Properties continued to hold rights, and was injected by way of capital contributions and loans, as follows:

3.1.1 Capital contributions: contribution of capital by indirect shareholders of the Company

€0.63 million was injected in the form of an interest-free capital contribution into the Company, repayable at the option of the Company only after the servicing of interest on, and the redemption of, the Bonds. Pursuant to a capital contribution agreement executed on 26 May 2020, this amount was injected, in varying proportions, by the following Financing Owners: AMS as to 69.53%, MMGH Ltd as to 16.74%, and Daystar as to 13.73%.

The proceeds of such capital contribution were, in turn, on-lent, in terms of a separate loan agreement executed on 26 June 2020, to Melite Properties for the purpose of enabling Melite Properties to satisfy its debt obligations towards its various third-party landlords. This loan from the Company to Melite Properties shall be repayable by Melite Properties in November 2028, prior to the redemption of the Bonds, and shall incur a rate of interest of 6.1%, payable annually. As indicated in the preceding paragraph, whether the Company would be in a position to repay the capital contribution made available by AMS, MMGH and Daystar would ultimately depend on whether – and shall not take place unless - the Company will prove able to repay the Bond in full (both capital and interest, including any interest reduced in terms of the proposal forming part of the Covid-19 Restructuring Plan) at maturity.

3.1.2 Loans advanced by indirect shareholders of the Company

€0.47 million was injected in the form of two loans granted, in varying proportions, by two of the shareholders of Lidsdale, that is AGL and GAN, to Melite Properties, pursuant to two loan agreements executed on 26 June 2020. These two loans do not bear any interest on principal and will be repayable through a bullet repayment due after five years, in May 2025. Contrary to the loans referred to in section 3.1.1 above, the repayment of the loans granted by AGL and GAN is not conditional upon the servicing of interest on, and the redemption of, the Bonds. Interest at the rate of 4.85% above six-month EURIBOR will accrue on any unpaid sums due by Melite Properties to the two lenders respectively, provided that if six-month EURIBOR falls below 0%, then six-month EURIBOR shall be deemed to be 0%.

Furthermore, in terms of the aforementioned loan agreements entered into between Melite Properties as borrower and AGL and GAN as respective lenders, Melite Properties has undertaken that, without the prior written consent of the respective lenders, which consent shall not be unreasonably withheld, it shall not pay any fees, interest or any monies to:

i. the Company or any other subsidiary thereof, other than those due in terms of agreements between Melite Properties and such other companies in force from time to time; and, or
ii. any company outside of the group of companies of which the Company is the parent company unless such payment is effected in the ordinary course of business or in accordance with the terms of the Covid-19 Restructuring Plan.

<u>3.1.3 Additional shareholder financing undertakings</u>

In addition to the above, the Financing Owners entered into a letter of undertaking dated 31 August 2020 (the **"Undertaking"**), recently renewed until the end of 2022, pursuant to which the Financing Owners undertook towards Melite Finance, on a several and pro-rata basis among themselves, that upon the request of Melite Finance, financing in an aggregate amount of €1.0 million shall be made available for the following purposes:

i. an amount not exceeding €350,000 will be made available to Melite Properties in the form of a bridge facility in anticipation of a payment in the amount of €350,000 that is expected to be recovered by Melite Properties from Melite Italia pursuant to the *'concordato in continuita'* process (the **"Melite Italia Debt"**). Once the Melite Italia Debt is settled by the administrator and is actually received by Melite Properties, it will be immediately repayable to the Financing Owners;

ii. an amount not exceeding €305,000 is being made available to the Company for the purpose of guaranteeing a payment due by Melite Retail to the Company, in circumstances where this payment is not settled by Melite Retail upon demand by the Company (the **"Melite Retail Debt"**). Such funds are expected to be paid in full to the Company by the end of 2021. Once the payment due by Melite Retail is actually received by the Company, the funds disbursed by the Financing Owners as aforesaid will be immediately repayable by the Company to the Financing Owners; and

iii. an amount not exceeding €345,000 will be available by the Financing Owners by way of additional (over and above the commitments relating to the Melite Italia Debt and the Melite Retail Debt referred to in (i) and (ii) above) buffer, which may be called upon by the Board of Directors of the Company for the purpose of supporting Melite Properties in settling payment of rent to landlords of the Stores to which it holds property rights and, or to fund operating expenses and support the Melite Finance Group's cash flow requirements (the **"Cash Buffer"**). The Cash Buffer amount will be repayable after redemption of the Bonds, unless the financial position of the Melite Finance Group allows for earlier repayment, in whole or in part.

It is pertinent to note that whilst the financing commitments by the Financing Owners relative to the Melite Italia Debt and the Melite Retail Debt were originally conditional upon, *inter alia,* the approval by the Bondholders of the Covid-19 Restructuring Plan, such conditionality was recently waived by the Financing Owners, on the demand of the Board of Directors of the Company. Insofar as the Cash Buffer is concerned, as previously disclosed in the Directors' Report on the audited consolidated financial statements of the Company for the financial year ended 31 December 2020, the conditionality to make available the Cash Buffer was waived, in part: AMS, MMGH and Daystar waived such conditionality insofar as it relates to their respective combined pro-rata share of the Cash Buffer, in an amount of *circa* €200,000; no such waiver was granted by AGL and GAN, and accordingly the balance of the Cash Buffer, amounting to *circa* €145,000, shall only be made available to the Company by GAN and AGL in the event that the proposals described in this Circular are approved by Bondholders, on the basis that without the Bondholders' approval of the wider plan, these contributions would be ineffective.

3.2 Pillar 2 - Bridge financing from Lombard Bank made available pursuant to the Covid-19 Guarantee Scheme offered by the Malta Development Bank:

As indicated by the Company in, *inter alia,* the company announcement published on 30 June 2020 (MTE11), the Company's Covid-19 restructuring plan envisaged obtaining financing under the Covid-19 Guarantee Scheme (the "**CGS**") offered by the Malta Development Bank for the purpose of effecting the interest payment due in respect of the Bonds on 23 November, 2020. In this respect, the Company has been successful in obtaining financing from its local bankers pursuant to the aforementioned CGS. The interest on the Bonds due on 23 November, 2020 was paid in full.

In terms of the sanction letter issued by Lombard Bank Malta p.l.c. dated 29 October, 2020 in connection with the Company's application under the CGS, the loan, amounting to €449,000, has a repayment term of six years (the maximum allowed by the CGS) inclusive of a one-year interest and capital moratorium. Thereafter repayments of €25,100 are payable every quarter, inclusive of interest, which currently stands at 3.00% in year 1, 3.25% in years 2 and 3, and 3.75% in years 4 to 6. Security in favour of the lending bank has been granted in the form of: pledge over deposit accounts held by Melite Retail with the bank, for 10% of the amount lent; joint and several guarantee by Melite Retail for the full amount of the loan; letters of undertaking for the full amount of the loan by each of the Financing Owners; as well as letters of undertaking by the Board of Directors of the Company and, separately, by the shareholders of the Company, not to undertake certain prescribed actions.

3.3 Pillar 3 - Rescission of leases:

3.3.1 Stores rescinded to date and stores earmarked for rescission

As indicated in the company announcements published on 28 December 2020 (MTE20) and more recently on 22 July 2021 (MTE23), Management had, since formulating a restructuring plan aimed at preserving the property rights of Melite Properties to the greatest extent possible, engaged in discussions with real estate agents and potential new tenants expressing an interest in the 21 Stores previously operated by Melite Italia, which, as announced previously, is currently in voluntary administration (*concordato preventivo*).

As was subsequently reported in the audited financial statements of the Company for the financial year ended 31 December, 2020, published on 30 April, 2021, following the onset of the Covid-19 pandemic and the decision by Melite Italia to enter into voluntary administration, a restructuring plan was agreed to by the Board of Directors of the Company that comprised, *inter alia*, the rescission of certain Stores and the flipping of others to third-party operators.

With a view to channelling all available cash towards safeguarding what the board of directors of Melite Properties believe to be the more valuable leases essential to secure the fulfilment of its obligations towards the Company and, in turn, the Melite Finance Group's long-term survival, Melite Properties identified a number of Stores for rescission (in addition to the three Stores which had already been rescinded in 2019). In 2020, notice of rescission was served with respect to four Stores, of which two have been concluded, and two are subject to ongoing discussions with regard to possible penalties for early termination. In 2021, notice of rescission was served in respect of one Store in an area of Milan which has been affected particularly badly by the drastic reduction in footfall and in respect of which favourable terms could not be secured from the relative landlord, as well as with respect to two Stores situated in train stations located in Milan and Turin. Also with respect to such three Stores, discussions remain ongoing with regards to possible penalties for early termination.

<u>3.3.2 Rationale for rescissions</u>

The leases rescinded to date (or in respect of which, to date, notification of rescission has been delivered to the respective landlord) relate to those stores (such as stores located within commercial centres and train stations) which, based on advice from real estate specialists, were expected to take longer to sub-lease to alternative third-party tenants. In addition, the leases rescinded to date (or notified as aforesaid), as well as those earmarked for rescission, feature a small margin between the pre-Covid-19 value of the property rights and the annual rent payable to landlords, given that in these cases the payment of rent to landlords while the store is vacant will substantially erode the key money value.

In determining which Stores ought to be rescinded, due consideration was given to the fact that commercial city centres and train stations have been hit particularly badly by the unprecedented and significant disruptions precipitated by the pandemic, caused by a combination of a variety of common factors, including:

i. general curfews imposed on the general public, with only limited exceptions related to work, health or other necessities;

ii. reduced opening times of shopping malls during the week, and forced closure of shopping malls on weekends, public holidays and the day immediately preceding and following a public holiday;

iii. curfews imposed on the opening times for restaurants and bars, with a total closure of restaurants and bars over certain periods. In addition, forced indefinite closure of amenities such as amusement arcades, gyms, theatres, cinemas, exhibition halls, museums and other amenities and establishments has resulted in a drop in footfall across Italy's main business and cultural city-centres;

iv. the introduction of legislation in Italy mandating social distancing on trains, constraining train operators to operate at not more than 50% of seat capacity, and at times, at even lower permitted capacity thresholds at the peak of the pandemic;

v. dependency on in-bound and inter-regional travel by business travelers, tourists, working commuters, and locals coming from suburban regions. Train passenger levels have dropped across all categories of travels since the pandemic hit Italy, with further drops registered between December 2020 and early 2021 following the introduction of restrictions and prohibitions on internal travel between regions and municipalities across Italy;

vi. locals residing in suburban regions have opted to stay away from offices, applying remote working arrangements, rules on social distancing, and general restrictions imposed as a means to contain the spread of the pandemic.

Ultimately, the combination of these and other factors has led to a significant decrease in footfall in and around train stations and shopping malls, directly causing a drop in sales at commercial and retail outlets in such locations. In view of this significant fall in the revenue generation capacity across the Stores rescinded to date and those that are earmarked for rescission, the Stores are considered to constitute a disproportionate cash drain with the margin on differentials between rent due and rent receivable being unsustainable.

In light of the fact that the early termination of the leases would typically be susceptible to the imposition of penalties on the party terminating the contract, the board of directors of Melite Properties sought advice from its Italian legal counsel as to whether termination resulting from the debilitating effects of Covid-19 on the business would likewise give rise to the imposition of penalties. The advice received to date is that whilst the possibility of incurring penalties for early termination is considered improbable but cannot be categorically excluded, the expected outcome of potential litigation on the matter would be that the Italian courts would uphold a request for early termination without liability on the basis of the rule of "*eccessiva onerosita' sopravvenuta*" as set out in article 1467 of the Italian *Codice Civile*. The latter provides, in essence, that in contracts with continuous or periodical execution, in the event that the obligation of one of the parties has become excessively onerous due to extraordinary and unpredictable events, the party which is obliged to such performance can demand the dissolution of the contract, provided that the party against which the dissolution is demanded can prevent this by offering to modify equitably the conditions of the contract. The party seeking to invoke the termination of the contract in question due to such "*eccessiva onerosita' sopravvenuta*" is obliged to provide such extraordinary and unpredictable events which were unforeseeable at the time of entry into the contract in question, have radically changed the nature of the reciprocal obligations between the parties. Having said that, the determination of whether the element of "*eccessiva onerosita' sopravvenuta*" subsists is a subjective determination, at the discretion of the presiding Court and over which Melite Properties retains no control.

The tables set out hereunder illustrate the Stores rescinded between the date of the issue of the Bonds and the date of this Circular, together with an indication of the Stores earmarked for future rescission:

Table 5: Rescissions (actual or notified) as at date of this Circular:

Store	**Type of contract with landlord**	**Estimated key money value as per Rustioni & Partners valuation as at date of issue of the Bonds**	**Estimated key money value as per Rustioni & Partners valuation as at 30 June 2021**	**Expiry date of contract with landlord**
RESCINDED IN 2019				
Curno, Curno CC	*Contratto d'affitto di ramo d'azienda ("**Affitto**")*	€48,800	N/A	January, 2020
Busnago, Il Globo CC	*Affitto*	€144,000	N/A	April, 2024
Auchan Mestre CC	*Affitto*	€50,000	N/A	December, 2024
RESCINDED IN 2020				
Orio, Orio Centre CC	*Contratto di locazione ("**Locazione**")*	€195,000	N/A	February, 2028
Milano, Corso Vercelli	*Locazione*	€456,120	N/A	August, 2027

Carugate, il Carosello CC	*Affitto*	€245,000		N/A	May, 2021
Auchan Rescaldina CC	*Affitto*	€100,000		N/A	December, 2024
RESCINDED IN 2021 OR EARMARKED FOR RESCISSION IN 2021					
Milano, Corso Buenos Aires	*Locazione*	€200,672		€175,588	January, 2028
Milano, Stazione Centrale	*Affitto*	€268,800		€351,600	March, 2022
Torino, Stazione Porta Nuova	*Affitto*	€200,184		€132,984	June, 2024
TOTAL RESCISSIONS SINCE BOND ISSUE DATE		**€1,908,576**		**€1,899,092***	

** Assumes Prospectus date values in respect of 3 stores rescinded in 2019 and 4 stores rescinded in 2020*

The guiding principle adopted by the Company in applying and monitoring the €2.0 million materiality threshold set out in clause 5 (2) of the Security Trust Deed[45], has been that of consistently applying the pre-Covid-19 property valuations, being those property valuations as set out in the independent expert's property valuations report at the time of issue of the Bonds, as annexed to the Prospectus (the **"Prospectus Valuations"**).

The rationale underpinning this approach is that it would be more prudent to ascertain the value of rescissions made by Melite Properties since the date of issue of the Bonds, whether on an individual or aggregate basis, by reference to those valuations which were reflective of the (generally higher) market value during normal economic and market conditions. By contrast, it would have been imprudent to make reference to the updated property valuations obtained since the onset of the pandemic – for instance valuations obtained as at 31 December 2020 for the purpose of drawing up the audited financial statements for the financial year ended 31 December, 2020 showed a reduction of either 15% or 20% (depending on the store) in key money values when compared to the values indicated in the Prospectus Valuations – applying the lower valuations to the computation of

[45] In terms of clause 5 (2) of the Security Trust Deed, Melite Properties covenants to the Security Trustee, for the benefit of the Bondholders, that at all times during the continuance of any amounts outstanding under the Bonds, Melite Properties shall not transfer or dispose of any rights over immovable property which it enjoys, where such disposal exceeds €2,000,000, without the prior written consent of the Issuer and the Security Trustee.

rescission values would have allowed for the possibility of further rescissions to be made within the materiality threshold of €2.0 million.

At this juncture, it is pertinent to explain the difference between, on the one hand, the aggregate value of rescissions based on the Prospectus Valuations, amounting to €1,908,576 as aforesaid, and, on the other hand, the line item reading *"Termination of leasehold agreement (€3,488,963) and "Depreciation released on termination of leasehold agreement (€1,245,553)"* as set out in note 4 (right of use assets) in the notes to the Company's audited annual consolidated financial statements for the financial year ended 31 December 2020. The two values are not comparable given that whereas the former is based on market valuations, the latter aggregates the:

i. book value of the property rights rescinded, as at rescission date; and
ii. reversal of the related right of use of asset that had been previously recognised in the consolidated financial statements of the Company in respect of those leases rescinded, which reversal was made in accordance with the requirements of IFRS 16.

Accordingly, the threshold in question has not, at any point, been exceeded.

The values specified above are drawn from the Prospectus Valuations as well as the valuation report appended to this Circular as Annex 1, drawn up by *Rustioni & Partners S.r.l.* as at 30 June, 2021. The latter represents the most recent independent valuation of the market value of the property rights attaching to Melite Properties' existing lease agreements. *Rustioni & Partners S.r.l.,* a firm based in Italy specialising in the valuation of retail property (and property rights relating to the rental thereof) in Italy, are based at no. 10, Piazza Borromeo, Milano 20123, Italy. Further information may be found at www.rustioni-partners.com (the "**Valuer**").

The said valuation reports have been included in the form and context in which they appear with the authorisation of Mr Rodolfo Rustioni, who on behalf of *Rustioni & Partners S.r.l.* has given and has not withdrawn his consent to the inclusion of the reports herein. *Rustioni & Partners S.r.l.* do not have any beneficial interest in the Company or Melite Properties. The valuation reports have been accurately reproduced in the Circular and so far as the Board of Directors is aware and has been able to ascertain from such parties, including through a confirmation to this effect provided by the author of the reports, there are no facts of which the Company is aware that have been omitted and which would render the reproduced information inaccurate or misleading.

3.3.3 Retained Stores as at 30 June, 2021

Taking into account the rescissions referred to above, Melite Properties currently holds rights over a total of 19 stores (the **"Retained Stores"**), with a combined valuation of circa €9.0 million as at 30 June 2021 (vide valuation report set out in Annex 1) as summarised in the table below:

Summary valuations as at 30 June 2021

City	Street	€'000
Milano (Mi)	Via Torino	3,223
Firenze	Via dei cerretani	953
Milano (Mi)	Galleria Passarella	806
Como (Co)	Via V. Emanuele	577
Bolzano (Bz)	Via dei Portici, 25	559
Pavia (Pv)	Cso. Cavour 18	501
Verona	Via Mazzini 69	441
Bologna (BO)	Via Indipendenza	417
Genova (Ge)	Via XX Settembre	238
Milano (Mi)	Il Portello CC	212
Torino	Via Garibaldi	206
Bolzano (Bz)	Via dei Portici ,49	178
Como (Co)	Via Luini	174
Milano (Mi)	Citylife CC	150
Pavia (Pv)	C.so Cavour/XX Settembre	137
Pavia (Pv)	Cso. Cavour	93
Padova (Pd)	Padova Stazione	74
Milano (Mi)	Stazione Garibaldi	64
Treviso (Tv)	Cso. del Popolo	-
Estimated total value of leases		**9,003**

The book value of the above leases in the Group's financial statements as at 30 June 2021 is of €8.9 million and is included within the Non-Current Assets balance of €19.9 million included in the consolidated unaudited interim financial statements of the Company for the financial period ended 30 June, 2021 set out in Annex 2. The table below sets out a breakdown of the said Non-Current Assets balance as at 30 June, 2021:

Breakdown of Non-Current Assets balance as included in interim accounts as at 30 June 2021

	€'000
Property, plant and equipment	229
Intangible Assets: Leases	8,857
Intangible Assets: Other	285
Available-For-Sale Financial Assets	19
Right Of Use asset	10,072
Deferred tax assets	412
Total Non-Current Assets	**19,874**

The leases have been valued on the basis of the margin between the Valuer's assessment of the current rental potential of each store and the contracted rent payable to the landlord of each store.

The value assessment also takes into account the remaining term of the contracts in place with landlords. The Directors have been advised that in certain valuations of leases expiring in the short to medium term, the Valuer has assumed that the underlying rental contract will be renewed for a further period at substantially the same rent that is currently being paid. This assumption was made by the Valuer based on representations provided by Management.

The Directors were also advised that the leases with negligible or zero values primarily relate to situations where market rents for stores in those locations have evolved in such a manner that has substantially eroded the margin in relation to the contracted rent payable to the landlords.

As illustrated in the valuation report attached to the Circular as Annex 1, the Valuer has applied a discount of 7% to the base valuation of some of the leases. The Valuer explained that the discount was applied to those locations that, in the Valuer's judgement, were more adversely impacted by the effects of Covid.

<u>3.3.4 'Flipping' of the stores by sourcing alternative third-party tenants</u>

As previously announced by the Company, Melite Properties was, over the course of 2020, successful in concluding agreements with alternative sub-tenants in respect of four (4) of its Retained Stores, namely the Via Portici (Bolzano), Via Torino (Milan), Via Indipendenza (Bologna) and Via Luini (Como) stores (see company announcement MTE20 published by the Company on 28 December 2020). Under these new sub-lease agreements, the rental income due to Melite Properties from the new tenants is set to increase in a stepped manner, such that whilst the rent due for the remainder of 2020 was discounted, the rent due increased in 2021 and will increase once again in 2022 to a rent almost equivalent to pre-pandemic levels. In addition to these four Retained Stores, the Stores situated in Via XX Settembre (Genoa), Viale Mazzini (Verona), Via dei Portici (Bolzano) and Corso Cavour (Pavia) continue to be sub-leased by other third-party operators.

As announced on 22 July, 2021 (see company announcement MTE23), 11 Stores, previously operated under the "Accessorize" brand by Melite Italia, have also been flipped, in fulfilment of one of the pillars of the Company's Covid-19 Restructuring plan, seeking to reduce and altogether eliminate the dependence on Melite Italia (in administration) as a tenant of Melite Properties. The Stores in question are located at:

1. Milano, Galleria Passarella;
2. Firenze, Via de Cerretani;
3. Milano, Stazione P. Garibaldi;
4. Padova, Padova Stazione;
5. Milano, Il Portello CC;
6. Milano, Citylife CC;
7. Pavia, Corso Cavour 18;
8. Bolzano, Via dei Portici;

9. Como, Via Vittorio Emanuele;
10. Treviso, Corso Del Popolo; and
11. Torino, Via Garibaldi.

The flipping of these 11 Stores is further explained hereunder.

Shortly before the publication, in end April, 2021, of the Company's audited financial statements for the financial year ended 31 December 2020, a single third-party retail operator submitted an irrevocable offer for the rental and subsequent purchase of the branch of business operated by Melite Italia, comprising the sub-lease of nine stores held by Melite Properties (with the possibility of an additional two, for a total of 11). Following lengthy negotiations, a final agreement was reached for the sub-lease of such Stores to a third-party retail operator, with effect from 21 June, 2021 in the case of ten of the Stores, and with effect from 26 July, 2021 in the case of the remaining Store. Such operator, which currently operates its own brand across more than 80 stores all over Italy, has, as part of an agreement reached with Melite Italia, also assumed responsibility for the "Accessorize" franchise in Italy, and placed an irrevocable offer for the purchase of the branch of business previously held by Melite Italia, relative to nine of the said 11 Stores it sub-leases from Melite Properties as aforesaid, subject to an auction process to be undertaken in terms of the voluntary administration proceedings which Melite Italia is currently undergoing. The said nine Stores are sub-leased by Melite Properties to the operator on a fixed rent basis. The remaining two of the abovementioned 11 Stores, which are currently sub-leased by the same operator, are to remain on sub-lease but are subject to an option to convert to a purchase of branch of business. Such two Stores are subject temporarily to the payment of rent based on profitability, due to revert to a fixed rent basis in April, 2022.

This leaves only one Retained Store, situated in Pavia (Corso Cavour, corner with Via XX Settembre), vacant pending sourcing of a new tenant.

The Board of Directors of the Company believes that the underlying commercial rationale underpinning the split between stores earmarked for flipping, rescission, and sale - all of which is intended to preserve the value of the key part of the property portfolio of Melite Properties which is best placed to support continued servicing of the Bonds (albeit temporarily at a reduced coupon as is being proposed as part of the Covid-19 Restructuring Plan) and final redemption, whilst managing the cash flows in the immediate and short-term by focusing on those stores that are viable - is sensible and in the best interests of Bondholders. Whilst the conclusion of the flipping process referred to above constitutes a significant development in the business of Melite Properties, the Board of Directors cautions that the position in Italy, and that of the business, remain subject to a variety of factors which are not within the sphere of control or influence of the Company and Management, and the impact of which cannot be predicted with a sufficient degree of certainty. Although the Board of Directors continues to closely monitor the situation, the position remains a constantly and rapidly developing one. Accordingly, the Board of Directors considers the other pillars of the Covid-19 Restructuring Plan to be crucial to the continued survival of the Melite Finance Group.

3.4 Pillar 4 - Reduction in interest payable on the Bonds

At the time of approval of the audited consolidated financial statements of the Company for the financial year ended 31 December 2020, the Covid-19 restructuring plan of the Company had contemplated the possibility of proposing a reduction in the interest rate payable on the Bonds from 4.85% to 3.5% as from November 2021 (equivalent to €124,875 in annual interest on the Bonds, or €1.35 per nominal value of Bonds of €100.00 per Bond).

When formulating the original parameters of the Covid-19 restructuring plan back in early 2020, the general expectation was that the Covid-19 pandemic would subside by the end of 2020, with the positive market sentiment being recorded in Q2 and Q3 2020 following the gradual re-opening of other establishments and international travel in the summer months of 2020 providing indications that economic and market recovery would be registered by the end of 2020. The reality is, however, that the worsening of economic and market conditions with the onset of the second and subsequent waves of the Covid-19 pandemic in September 2020 and through to the early months of 2021 has left a profound adverse impact on economic and market conditions, as explained in further detail in section 2 of this Circular.

These conditions have resulted in a deterioration in the consolidated net cash flow position of the Group as at 30 June 2021, with a marginal net positive cash flow position of €233,755 (€315,438 as at 31 December 2020). With the continued forced closure of retail outlets for the large part of the first months of 2021 and the repercussions of the protraction in dampened economic and market conditions, the Melite Finance Group's net cash flow position remains under considerable distress. As described in further detail in section 5 of this Circular (Projected Financial Information).

In this context, the Board of Directors considers it necessary to alleviate the cash constraints of the Melite Finance Group, by reducing the interest payable on the Bonds from 4.85% to **0.00%, 2.50% and 3.00%** in respect of the bond interest payments due on 23 November 2021, 2022 and 2023 respectively.

This resolution is being presented to Bondholders on the understanding that interest on the Bonds in respect of the bond interest payments due on 23 November 2024 – 2028 would return to the full **4.85%**, although at this stage the Board of Directors of the Company reserves the right, at a future bondholders' meeting, to request Bondholders to extend or modify the applicability of the reduction referred to above in respect of any, or all, of the interest payable on the interest payment dates over the remaining term of the Bonds, having due regard to the financial position and performance of the Melite Finance Group.

The Company will, on a best endeavours basis, compensate Bondholders for the abovementioned reductions, at the end of the term of the Bonds. In this respect, the Board of Directors of the Company would seek to pay Bondholders (on the register of Bondholders as at Bond redemption date) the interest forgone as a result of the said reductions, in full or in part to the extent possible at the time. However, it is important to note that such payment of lost interest would:

a. be made upon maturity of the Bonds, and not earlier. Such payment(s) would be made prior to the shareholder of the Company, Melite Retail, recovering any return on its past investment, prior to any repayment of the capital contributions made by AMS, MMGH and Daystar[46]), but assumes that the loans advanced by AGL and GAN would have been repaid in accordance with the terms thereof by the loan repayment dates due in 2025;
b. not be guaranteed; and
c. be conditional upon the consolidated net cash flow position of the Melite Finance Group as at maturity of the Bonds showing a sufficient net consolidated cash flow position to pay such lost interest, in full or in part.

The proposed reduction in interest is considered necessary by Board of Directors in order to alleviate the strain on the cash flows of the Melite Finance Group precipitated by the unprecedented and dampened market and economic conditions induced by Covid-19 which are envisaged to persist for at least the remainder of 2021, with recovery only picking up as from 2022 and reaching pre-Covid or near pre-Covid levels as from 2023, and which strain would, save for such reduction, be further magnified by the cash flow that would be required to cover the full interest on the Bonds.

In addition, the Board of Directors is well cognisant of the inherent difficulty in predicting the exact duration and quantum of the adverse economic and market impact of the Covid-19 pandemic over the remaining term of the Bonds with a sufficient degree of certainty, including the material uncertainties described in the Directors' Report contained in the consolidated annual financial statements of the Company for the financial year ended 31 December 2020, together with the Risk Factors described in section 6 of this Circular. In particular, even though the gradual roll-out of the Covid-19 vaccination over the course of 2021 (and beyond) is reasonably expected to have a positive effect on consumer and market sentiment and in positive movements in economic conditions, there is as yet insufficient certainty not only as to when the immunisation programme will be completed in Italy and elsewhere (in particular, those countries that Italy is heavily reliant on for inbound and outbound tourism, import and export trade, logistics and supply chain, among other economic sub-sectors). Similarly, uncertainty remains as to the extent to which the prohibitive and restrictive measures introduced to curb the spread of Covid-19 will be alleviated and, therefore, the time by which activities, including retail activities, that necessitate physical presence will return to pre-Covid-19 levels.

[46] See section 3.1.1, entitled 'Capital Contributions'

In view of this prevailing uncertainty, the Board of Directors considers it prudent to allow for a degree of flexibility to manage the cash flow requirements of the Company and the Melite Finance Group over the immediate and short-term period between 2021 to 2023 and the medium-to-long term period between 2024 and maturity in 2028.

The impact on Bondholders of the proposed reduction in the interest rate from 4.85% to 0.00%, 2.50% and 3.00% in 2021, 2022 and 2023 respectively would equate to a loss on the return of investment in the Bonds equivalent to interest, and a cash saving for the Company, in an aggregate amount of €837,125 (€448,625 in 2021; €217,375 in 2022; and €171,125 in 2023), as explained in further detail in section 4 of this Circular.

Whilst this cash saving for the Company would serve as a crucial alleviation of the Company's debt servicing requirements during this post-pandemic recovery period, as indicated above the Company will, on a best endeavours basis, compensate Bondholders for the abovementioned reductions, at the end of the term of the Bonds, in full or in part to the extent possible at the time and subject to the considerations marked (a) – (c) above.

4. LATEST AVAILABLE HISTORICAL FINANCIAL INFORMATION

The latest available historical financial information of the Company is represented by the consolidated unaudited interim financial statements of the Company for the financial period ended 30 June, 2021, a copy of which is appended to this Circular as Annex 2. As at the date hereof, the Board of Directors of the Company is not aware of any material changes in the financial position of the Company since the date up to which the said consolidated unaudited interim financial statements are made.

As announced on 31 August, 2021 (MTE24), the Board of Directors was not in a position to meet the deadline for the publication of its unaudited interim financial statements for the financial period ended 30 June, 2021, that is 31 August, 2021. Such delay, at the time, was linked to the delay in the convening of the Bondholders' meeting. At the time, it was announced that the Circular would include consolidated interim management accounts of the Company as at 30 June, 2021, with a view to providing Bondholders with updated financial information relative to the Melite Finance Group, amongst other information pertaining to the Company and Melite Properties and their respective business, financial position and prospects, and that the Board will use its best endeavours to ensure that the unaudited consolidated interim financial statements for the financial period ended 30 June, 2021 will be finalised and published as soon as possible following conclusion of the Bondholders' Meeting.

The Board of Directors has since decided to bring forward the date of approval of the Company's unaudited consolidated interim financial statements for the financial period ended 30 June, 2021, albeit subject to the considerations specified therein (see directors' report forming part of Annex 2 appended hereto). Nonetheless, the Board of Directors would like to emphasise that although the basis of preparation of the unaudited consolidated interim financial statements as at 30 June 2021 is that of a going concern, and accordingly, this financial information has been prepared on a basis consistent with the accounting policies applied in the 2020 audited consolidated financial statements, the appropriateness of the basis of preparation may need to be re-assessed depending on the outcome of the Bondholders' Meeting that has been called on 12 November 2021. As outlined in Section 5 of the Circular, the projected operating cash flows of the Group and the committed funding made available to the Group, are not sufficient to service the debt service commitments of the Group in the short to medium term. Therefore, in the event that the Bondholders do not approve the proposed reduction in the bond interest coupon, the Directors expect that the basis of preparation of financial information would need to be amended to a break-up basis. These amendments would include revising the carrying value of the intangible assets to a forced sale basis, and give rise to the need for an assessment of contractual obligations to be carried out which might result in the consequential recognition of other liabilities which are not yet known or reflected. These factors indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern.

It is pertinent to note that this may give rise to claims of an event of default having arisen in terms of the Securities Note forming part of the Prospectus, and the Security Trust Deed, the consequences of which would be as specified therein. The Board of Directors confirms that, as at the date hereof, no event of default as aforesaid subsists.

The Directors have not as yet been able to carry out a full assessment of the effects of an eventual change in the basis of preparation of the Group's financial statements. However, the Directors are of the view that should the portfolio of leases be liquidated in the very short term it would be reasonable to expect that under what are commonly referred to as forced sale conditions, the expected amount recoverable would be significantly lower. In contrast, in the event that the portfolio of leases were to be sold over a more protracted period of, for instance, circa 12 months, and as part of a more structured programme, the amount recoverable would be reasonably expected to be significantly higher than the amounts recoverable under a forced sale scenario, yet still lower than the current valuations of the leases as at 30 June 2021 set out in Annex 2.

5. PROJECTED FINANCIAL INFORMATION

Projected cash flows in the current scenario

The table below sets out the projected consolidated cash flows for the Melite Finance Group for the period from 1 July to 31 December 2021 and the financial years ending 31 December 2022 and 31 December 2023. The projections reflect the directors' assumptions based on their best assessment and the information available as at the date of the Circular. As outlined earlier in the Circular, the situation in Italy remains very fluid and highly uncertain and future developments including, for example, further regional or nationwide lockdowns may have a significant effect on the projected numbers.

Consolidated cash flow projections for the Melite Finance Group

Amounts in €'000	1 July - 31 Dec 2021 (6 mths)	2022 (12 mths)	2023 (12 mths)	**Total**
Rent received from sub-leasing	748	2,313	2,755	**5,816**
Rent paid to landlords	(986)	(1,835)	(1,970)	**(4,791)**
Net margin on rentals	**(238)**	**478**	**785**	**1,025**
Operating expenses: Melite Finance	(181)	(130)	(105)	**(416)**
Operating expenses: Melite Properties	(161)	(105)	(105)	**(372)**
Cash covering guarantees issued to landlords	(120)	-	-	**(120)**
Provision for costs incurred on sub-leasing of stores	-	(56)	(56)	**(112)**
Settlement of outstanding creditors	(256)	(53)	-	**(309)**
Temporary facility from Financing Owners	346	(346)	-	**-**
Receipts from outstanding debtors	305	346	-	**651**
Net Cash from Operations	**(305)**	**133**	**518**	**347**
Drawdown of shareholder advances	205	-	-	**205**
Servicing of Melite Finance bond	(449)	(449)	(449)	**(1,346)**
Servicing of Covid loan drawdown by Melite Finance	(6)	(100)	(98)	**(204)**
Net cash movement for the period	**(554)**	**(416)**	**(28)**	**(997)**

Having successfully found tenants for all but one store, the operational cashflow of the Group is projected to: move into positive territory in 2022 (as rents charged increase); and improve further in 2023 (as rents are expected to return to close to pre-COVID19 rates). In 2023, the Group is projected to realise a margin from rentals of *circa* €0.8 million.

From an operational perspective, the Group is, as at the date hereof, back on solid footing, and its principal cashflow problem for the period covered by the above projections (2021, 2022 and 2023) is the servicing of its financing, including, in the main, the servicing of interest payable in terms of the Bonds. Accordingly, the Board of Directors is proposing the reduction in interest on the Bonds, as described further below in this section 5 (vide part headed "*Illustrating the effect of the revisions being proposed in the Circular*").

The projected rental income is based on the income as per rental contracts in hand with third party tenants as well as assumed future inflows from the sub-leasing of the one store that is currently vacant.

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The Group has negotiated lease contracts that provide for a gradual increase in rental income over the next three years and this, together with the sub-leasing of the currently vacant store, explains the projected growth in rent receivable from €0.75 million in the six months to 31 December 2021 to €2.8 million in 2023. For two of the stores, the Group has negotiated a temporary arrangement whereby the rent will be paid in full should each store's EBITDA (earnings before interest, tax, depreciation and amortisation) be equal to or in excess of the rent due. Should each store's EBITDA be less than the rent due, then the rent paid will be equal to EBITDA. Should EBITDA be zero or less, then no rent will be due. The projected rental for these stores is therefore based on Management's estimate of the projected profits of these stores.

In terms of the rental payable to landlords, the projections provide for the payment of the full rent as per lease contracts except for any short-term discounts that have confirmed by landlords as at the date of this Circular.

Operating expenses reflect the ongoing costs being incurred to run the Group's operations in Malta and Italy. The difficulties related to the Group's current situation have given rise to additional operating costs being incurred in the short-term and this explains the higher projected costs in earlier periods. The projections also include a provision for commissions and legal fees that may be incurred on the sub-leasing of stores (in the event that any of the existing sub-leases be terminated) and a provision (€0.12 million) for restricted cash required to cover bank guarantees issued to landlords.

The projections assume that the majority of outstanding trade creditors as at 30 June 2021 (€0.26 million) will be settled in full during 2021. All income and expenses in 2022 and 2023 are assumed to be received/paid in the year in which they arise.

Projected receipts from debtors in 2022 include an amount of €0.35 million that represents the expected amount to be recovered by Melite Properties from the ongoing voluntary administration process being carried out by Melite Italia srl. The Board has been informed that, contrary to previous indications that the process would be concluded by the end of 2021, this process is likely to be concluded by around mid-2022. In light of this delay, on the Board's request the Financing Owners have undertaken to anticipate this amount to Melite Properties should the Group's cash flows require it. The cash flow projections presented in the Circular assume that the Melite Finance Group will receive this amount from the Financing Owners by the end of 2021 given that its current projections indicate that these funds will be required at this point. The amount anticipated by the Financing Owners will be settled through the proceeds to be received in due course from Melite Italia. A further amount of €0.3 million relates to the settlement of a balance due by Melite Retail Limited, which receivable has been underwritten by the Financing Owners. On 11 October 2021 the Board of Directors was informed that the conditionality to which the contribution of these two amounts by the Financing Owners to the Group in anticipation of settlement by Melite Italia and Melite Retail (as applicable) was previously subject, has been lifted.

Based on these assumptions, the projections reflect a gradual improvement in the cash generated from operations to €0.5 million in 2023.

In terms of financing activities, the projections reflect further shareholder advances of *circa* €0.2 million in 2021. These reflect injections that have been committed by the following Financing Owners: AMS, MMGH and Daystar. A further injection of *circa* €0.145 million has been committed by AGL and GAN but this is conditional on the Bondholders accepting the changes in the terms and conditions of the bond that are being proposed in this Circular and have therefore been excluded from the projected cashflows.

The Directors have been advised that the Financing Owners, or indeed any other ultimate beneficial owners of the Group, will not be making any further funding available to the Group. The same applies to the Company's direct shareholders, Melite Retail and its wholly owned subsidiary Melite Retail Systems Limited (C-76083), which in an Extraordinary General Meeting of the Company held on 30 August, 2021, were requested, by the Board of Directors of the Company, to consider providing additional support to the Company (over and above the support provided to date and documented in the financial information published previously by the Company including, most recently, the audited financial statements of the Company for the financial year ended 31 December, 2020 notwithstanding that the Bondholders' Meeting has not yet been held. At the time, the Board of Directors of the Company was informed that, in the circumstances, the shareholders were not in a position to uphold the request tabled at the meeting.

The debt service commitments of the Group include the servicing of the Bonds and the Covid loan drawn down by the Company to finance the bond coupon in 2020. These facilities carry a debt service cost of circa €0.1 million per annum once the capital moratorium on the Covid loan expires in 2022.

The projections indicate that the projected operating cash flows and the committed funding made available by the Financing Owners are not sufficient to service the debt service commitments of the Group giving rise to a projected aggregate net cash deficit of €1.0 million in the period from 1 July 2021 to 31 December 2023. As illustrated by the table below, when adding the net cash balance available as at 1 July 2021 this results in a projected consolidated net cash deficit of €0.76 million by 31 December 2023:

Projected consolidated cash position for Melite Finance Group

Amounts in €'000	1 July - 31 Dec 2021 (6 mths)	2022 (12 mths)	2023 (12 mths)
Opening cash balance	234	(320)	(735)
Net cash movement for the period	(554)	(416)	(28)
Projected cash balance at the end of the period	**(320)**	**(735)**	**(763)**

Illustrating the effect of the revisions being proposed in the Circular

As set out in section 7 of the Circular, the Directors are proposing that the coupon on the Melite Finance bond is reduced from 4.85% to 0.0%, 2.5% and 3.0% in 2021, 2022 and 2023 respectively. Should the Bondholders accept this change in the terms and conditions of the Bond, the Group will also receive a further injection of *circa* €0.145 million by AGL and GAN, which as explained above is conditional on the Bondholders accepting the proposed changes to the Terms and Conditions.

As illustrated in the table below the proposed changes would improve the Group's cash position across the projected period by *circa* €1.0 million, which funds would allow the Group to service its debt commitments in this period (as adjusted further to the proposed reduction in coupon) with a marginal cash buffer:

Projected effect of proposals being made to bond holders

Amounts in €'000	1 July - 31 Dec 2021 (6 mths)	2022 (12 mths)	2023 (12 mths)
Projected net cash movement as per current scenario	**(554)**	**(416)**	**(28)**
Proposed reduction in bond coupon	449	217	171
Further advances from shareholders	145	-	-
Revised net cash movement in the period	**40**	**(198)**	**143**
Revised projected consolidated cash position for the Melite Finance Group:			
Opening cash balance	234	274	76
Net cash movement for the period	40	(198)	143
Projected cash balance at the end of the period	**274**	**76**	**219**

The Directors believe that, in the current circumstances, it is premature to attempt to project the Group's cash generation beyond the period covered by the above projections. The proposed revisions in the Terms and Conditions of the Bonds are required to support the Group in the short-term. Further funding may well be required, but this is inherently dependent on the pace at which the Italian economy and the fashion retail market in Italy recover from the effects of the pandemic.

Potential eligibility for a Covid-19 relief measure

In the days prior to the publication of the Circular, the Directors were informed by Management and Melite Properties' Italian legal and accounting advisors that Melite Properties may be eligible for a Covid relief measure announced by the Italian Government. This measure would entitle Melite Properties to a credit of up to €0.4m that could potentially be offset against future tax payments (including VAT) to be made by the company. Management explained to the Board that it expects this credit to crystallise gradually over the next few months.

As at the date of the publication of the Circular, the Directors are not in a position to confirm the eligibility for, and treatment of, this potential credit, and for this reason it has been excluded from the projections set out herein. Should Melite Properties be eligible for this credit on the lines being currently interpreted by Management, this would improve the Group's projected cash generation in 2022.

6. KEY RISKS ASSOCIATED WITH THE COVID-19 RESTRUCTURING PLAN AND THE CONTINUING BUSINESS AND OPERATIONS OF THE MELITE FINANCE GROUP

THE COVID-19 RESTRUCTURING PLAN IS SUBJECT TO A VARIETY OF RISKS, INCLUDING BUT NOT LIMITED TO THE RISK FACTORS DESCRIBED IN THIS SECTION 6.

THE RISKS ASSOCIATED WITH THE COVID-19 RESTRUCTURING PLAN HAVE BEEN CATEGORISED INTO TWO PRINCIPAL CATEGORIES, NAMELY: (A) RISKS ASSOCIATED WITH THE APPROVAL, OR OTHERWISE, OF THE COVID-19 RESTRUCTURING PLAN, AND THE REALISATION OF THE BENEFICIAL IMPACT IT IS INTENDED AND EXPECTED TO HAVE ON THE COMPANY AND THE MELITE FINANCE GROUP; AND (B) RISKS ASSOCIATED WITH THE CONTINUING BUSINESS AND OPERATIONS OF THE MELITE FINANCE GROUP. IN TURN, THE RISK FACTORS RELATING TO THE OPERATIONS OF THE MELITE FINANCE GROUP HAVE BEEN SUB-CATEGORISED INTO THREE SUB-CATEGORIES, AS FOLLOWS: (I) RISKS RELATING TO THE APPROVAL, OR OTHERWISE, OF THE COVID-19 RESTRUCTURING PLAN; (II) RISKS RELATING TO THE ECONOMIC REPURCUSSIONS OF COVID-19 AND UNCERTAINTIES SURROUNDING ECONOMIC RECOVERY; (III) RISKS RELATING TO THE DEPENDENCE OF THE COMPANY UPON MELITE PROPERTIES AND EXPOSURE TO ECONOMIC AND MARKERT CONDITIONS IN ITALY; AND (IV) RISKS RELATING TO THE PROPERTY RIGHTS OF THE MELITE FINANCE GROUP. THE SEQUENCE IN WHICH THE RISKS BELOW ARE LISTED IS NOT INTENDED TO BE INDICATIVE OF ANY ORDER OF PRIORITY OR OF THE EXTENT OF THEIR CONSEQUENCES.

IF ANY OF THE RISK FACTORS WERE TO MATERIALISE, THEY COULD HAVE A SERIOUS AND MATERIAL ADVERSE EFFECT ON THE SUCCESSFUL IMPLEMENTATION AND OUTCOME OF THE COVID-19 RESTRUCTURING PLAN, AS WELL AS THE FINANCIAL CONDITION, FINANCIAL PERFORMANCE, TRADING PROSPECTS, AND, OR ABILITY OF THE COMPANY, AND OF THE MELITE FINANCE GROUP, TO CONTINUE AS A GOING CONCERN.

Some of these risks are subject to contingencies which may or may not occur, and the Directors are not in a position to express their view on the likelihood of any such risk factors or contingencies occurring, or the magnitude of the adverse effects that could arise if such risks (or any one or combination thereof) were to occur.

Furthermore, some of the risks identified hereunder contain *"forward-looking statements*": forward-looking statements can be identified by the use of forward-looking terminology, including the terms *"estimates", "forecasts", "anticipates", "expects", "intends", "may", "could"*, or comparable terms. These forward-looking statements relate to matters that are not historical facts and which, by their nature, involve risks and uncertainties because they relate to events that may or may not occur in the future, or on consequences that are as yet unknown or unquantifiable.

However, as indicated in section 2.4 of this Circular, other risks identified hereunder are not merely forward-looking, but are reflective of the actual risks that have already materialised and the prevailing and unprecedented economic and market environment within which the Company and the Melite Finance Group has found itself operating within since the outbreak of the Covid-19 pandemic. Although the effects of such risks are already being experienced by the Company and the Melite Finance Group, uncertainty subsist over the exact depth and magnitude of the operational and financial adverse effects of such risks, as well as the potential prolongation or worsening of the conditions that may be caused as a result of the occurrence of suck risks.

The Directors shall keep these risks under review and shall provide updates to the market and the Bondholders as to the realisation and consequential effect of these and other risks should these arise, as and when appropriate.

6.1 RISKS RELATING TO THE APPROVAL, OR OTHERWISE, OF THE COVID-19 RESTRUCTURING PLAN

6.1.1 <u>Risks relating to the ability of the Company to continue as a going concern</u>

Reference is made to the Directors' report on the audited consolidated financial statements of the Company for the financial year ended 31 December 2020, wherein the Board of Directors noted that: *"current cash flow projections indicate a manageable shortfall in the coming 12 months, but a shortfall of around €0.6 million is indicated for the financial year ending 31 December 2022,",* adding that, "*the above conditions [described in the Directors' report] surrounding the retail sector in Italy, the impact of the pandemic on the operations and financial position of the Group, and the tenancy risk that will* *remain, indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern."* Furthermore, reference is also made to the auditor's report on the audited consolidated financial statements of the Company for the financial year ended 31 December 2020, wherein the auditors of the Company reported that: *"We draw attention to note 1.1.1 to the financial statements which discusses the impact of Covid-19 on the Group's ability to continue as a going concern. The ability of the Group to continue as a going concern is critically dependent on the prospects and timing of the recovery of the retail sector in Italy, and its ability to identify, and retain, tenants for its properties while, at the same time, addressing short and medium term funding needs following the impact of the pandemic on the Group's balance sheet and cashflows. These conditions, along with other matters explained in note 1.1.1 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern."*

There can be no guarantee that the Company will continue on a going concern basis nor can there be any assurance that the occurrence of the risk factors identified herein, or other supervening events (some of which are or may not be wholly within the control of the Company and, or the Melite Finance Group), and regardless of whether such events are related to the Covid-19 pandemic and the ensuing economic and market repercussions or otherwise, would render the realisation of the expected and intended beneficial impact of the Covid-19 Restructuring Plan sufficient to enable the Company to continue on a going concern basis. In turn, the ongoing operations and business of the Melite Finance Group is susceptible to the materialisation, or otherwise, of a variety of risk factors, including those risk factors identified in this section 6 of this Circular.

If the Company and, or the Group were assessed to be unable to continue as a going concern basis, the Company would be unlikely to be able to satisfy its obligations towards the Bondholders under the Bonds in respect of the payment of interest and the return of capital as and when they fall due, and the recoverability of all, or part, of the amounts due to the Bondholders thereunder may not be possible in such a scenario.

6.1.2 Risks associated with the ability to raise additional funding required to meet the funding and capital requirements of the Melite Finance Group

Even if the Covid-19 Restructuring Plan were to be approved and subsequently implemented, there can be no guarantee that the cash generated from the operations of the Melite Finance Group will be sufficient to meet the Company's and, or the Melite Finance Group's funding requirements to maintain its existing or future operations at optimal or even the minimum levels of activity, or to pursue its future operational and, or strategic plans.

Furthermore, there can be no assurance that additional capital, debt or hybrid funding will be available from the shareholders of the Company, or from other third-parties (such as the bankers of the Company) or if such funding were to be available, that such funding would be made available on commercially sound and reasonable terms acceptable to the Company and, or the Melite Finance

Group. Moreover, there can be no guarantee the Company would be eligible, in whole, or in part, for emergency funding schemes, tax deferrals, tax schemes, grants, bridge financing schemes, investment schemes, or other financial assistance or stimulus incentives offered or administered by the Government of Malta, the Malta Development Bank, Malta Enterprise, or other relevant public authorities in Malta or in Italy, or by financial or credit institutions. Even if the Company or the Melite Finance Group were to be eligible for such assistance and, or stimulus packages, there can be no assurance that such funding or other financial assistance would be available in sufficient amounts, or within the necessary timeframe, to support the funding requirements of the Company and, or the Melite Finance Group.

The Company's inability to generate sufficient cash, or to access sufficient capital, debt, or hybrid financing for its operations may have a material adverse effect on its financial condition, results of operations and prospects of the Company and, or the Melite Finance Group. In the eventuality of prolonged weakened economic and market conditions and consumer sentiment precipitated by the Covid-19 pandemic, there can be no assurance that the Company and, or the Melite Finance Group would not face serious short-term or longer-term liquidity shortages, the occurrence of which could have a significant, if not detrimental, impact on the ability of the Company and, or the Melite Finance Group to continue to fund its operations and its ability to satisfy its debts as and when they fall due, including the indebtedness of the Company towards the Bondholders in respect of the repayment of capital at maturity and interest payable on the applicable interest payment date.

6.1.3 Enforcement of security over assets of the Melite Finance Group

In the event that any company forming part of the Melite Finance Group defaults under the terms of any borrowing agreements it is a party to, or other borrowing agreements that may be entered into, the lender or relevant security holder concerned may seize title to such assets by enforcing its security, where applicable, which seizure could have a material adverse effect on the assets, financial position and performance of the Melite Finance Group.

In addition, any amounts owing under borrowing agreements may rank ahead of Bondholder entitlements. If such circumstances were to arise or subsist at the time that the Collateral is to be enforced by the Security Trustee, it could have a material adverse effect on the recoverability, on the part of the Bondholders, of all the amounts that may be outstanding in their favour under the Bonds.

6.2 RISKS RELATING TO THE ECONOMIC REPERCUSSIONS OF COVID-19 AND UNCERTAINTIES RELATING TO ECONOMIC AND MARKET RECOVERY

The outbreak of the Covid-19 pandemic has wreaked havoc globally, with government and health authorities the world over grappling to control the spread of Covid-19. Many countries have resorted to the implementation and enforcement of various preventative and containment measures, including the imposition of total lockdowns, partial lockdowns, closure of non-essential outlets (including, in particular, retail outlets and catering establishments) and other restrictive measures such as rules on travel bans, self-quarantine and social distancing.

As a direct result of the spread of Covid-19, global economic activity has experienced a general downturn, with certain industry sectors and market segments grinding to a standstill, including in particular, the retail, tourism and catering sectors emerging as some of the sectors hardest hit by the economic repercussions that unfolded. Furthermore, the global economy has suffered from significant volatility, rising unemployment, delays and disruptions in supply chains and logistical arrangements, and significant deterioration in credit quality.

In addition, although the Government of Malta, the Government of Italy and other relevant stakeholders, such as the Malta Development Bank and Malta Enterprise and other authorities in Malta and Italy, have launched and administered a variety of economic incentives and financial assistance schemes as a direct result of Covid-19, including but not limited to the Covid-19 wage supplement, banking guarantees and teleworking grants, tax deferral schemes and other measures or incentives, there can be no assurance as to the magnitude and duration over which such incentives and schemes shall be continued. Moreover, even if such incentives and schemes were to be continued, there can be no guarantee that the companies forming part of the Group would meet the eligibility criteria to benefit therefrom. In addition, such economic stimulus packages could have unintended negative macroeconomic consequences, including reduced government expenditure, increased taxation or other charges, volatility in inflation or interest rates, and material strain on public debt.

While certain effects of the Covid-19 pandemic have been or are expected to be temporary, the full extent of the impacts of the pandemic are unknown, evolving and likely to continue for some time. While the Melite Finance Group continues to monitor and assess the impact of Covid-19, the extent to which the pandemic, or any other pandemic which may emerge in the future, may impact the Melite Finance Group's business, results of operations, financial condition and overall performance, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by government authorities and other third-parties in response to the pandemic.

The exact nature of the risks that the Melite Finance Group faces and the manner and the extent to which they ultimately will impact the Melite Finance Group is difficult to predict in the light of (i) the uncertainty as to the duration and depth of the impact of the Covid-19 pandemic, (ii) the interrelated nature of the risks involved, (iii) the difficulties in predicting whether recoveries will be sustained and at what rate, and (iv) the fact that the risks are totally or partially outside the control of the Group. In particular, there can be no assurance or guarantee as to the exact duration of the Covid-19 pandemic or the possibility of its resurgence, its economic effects, or the restrictive measures put in place in response thereto. Nor can there any assurance that a pandemic such as that caused in 2020 by Covid-19 will not occur again in the future.

The Covid-19 pandemic has had and could continue to have material adverse effects on the business and operations of the Melite Finance Group, its financial performance and position, as well as its trading prospects and ability to continue as a going concern. In turn, there exists a material risk to the Company's own financial performance and position, as well as its ability to continue as a going concern. Consequently, the continued realisation of the economic and financial repercussions associated with the Covid-19 pandemic, or the emergency of another global pandemic, constitutes a risk to the ability of the Company to fulfil its obligations towards Bondholders.

6.3 RISKS RELATING TO THE DEPENDENCE OF THE COMPANY UPON MELITE PROPERTIES AND EXPOSURE TO ECONOMIC CONDITIONS IN ITALY

6.3.1 Dependence of the Company upon the Melite Finance Group and its business

The Company is a finance company and the holding company of the property business of the Melite Finance Group, with its main purpose presently being that of financing or re-financing the funding requirements of the Melite Finance Group, including funding requirements relating to the acquisition of assets. In this respect, in so far as the continued servicing and repayment of principal on maturity of the Bonds are concerned, the Company is mainly dependent on the business prospects of the Melite Finance Group (particularly Melite Properties, its principal debtor), and consequently, the operating results of the Melite Finance Group have a direct effect on the Company's financial position and performance, and as such the risks intrinsic to the business and operations of the Melite Finance Group shall have a direct effect on the ability of the Company to meet its obligations in respect of principal and interest under the Bonds when due.

As the majority of the assets of the Company consist of two loans granted to Melite Properties, its wholly owned subsidiary, the Company is largely dependent, including for the purpose of servicing interest payments on the Bonds and the repayment of the principal on maturity date, on the receipt of interest and loan repayments from Melite Properties.

The interest payments and loan repayments to be effected by Melite Properties are subject to certain risks. More specifically, the ability of Melite Properties to effect loan repayments to the Company in terms of present and any future borrowing agreements will depend on its respective cash flows and earnings, which may be affected by a variety of risks, including but not limited to the risks described in this section 6. The occurrence of any such factors could in turn negatively affect the ability of the Company to meet its obligations towards Bondholders in respect of the payment of interest on the Bonds and repayment of principal when due.

In particular, in the event that the Covid-19 Restructuring Plan is not approved by the Bondholders, or, if approved, the implementation thereof does not result in the beneficial impact it is expected and intended to bring about, the Directors caution that this could give rise to a serious doubt as to the ability of Melite Properties to satisfy its payment obligations towards the Company pursuant to the Loan, which inability will, in turn, cast a serious doubt on the ability of the Company to meet its obligations towards Bondholders under the Bonds.

The Company's dependence on the business and operations of Melite Properties renders it dependent, in turn, on Melite Properties' key senior personnel and management, which at present consists solely of Andrew Ganado. If Mr Ganado were to be unable or unwilling to continue to occupy a Group management function, the Melite Finance Group might not be able to replace him within the short term, or at all, which could have a material adverse effect on the Melite Finance Group's business, financial condition and results of operations.

6.3.2 Dependence on the Italian market and exposure to general market and economic conditions

The Melite Finance Group's business activities are concentrated in and aimed at the Italian market. Accordingly, the Melite Finance Group is highly susceptible to the economic trends that may be felt from time to time in Italy. Negative economic factors and trends in Italy, particularly those having an effect on consumer demand and the retail industry, have had and may continue to have a serious negative impact on the business of the Melite Finance Group.

As explained in further detail in section 2.2 of this Circular, the Covid-19 pandemic has resulted in a material contraction of the Italian economy, with economic statistics evidencing a fall in consumer purchasing power and consumption propensity, a rise in unemployment, a diminution of output production and import/export activities, a sharp drop in inbound tourism, and other negative economic indicators, all of which point towards generally unfavourable economic and market conditions. Going forward, it is expected that the negative economic and market conditions will subsist over the coming months and economic recovery is only expected as from 2022.

The Melite Finance Group's business activities are also subject to general market and economic conditions including, *inter alia*, financial market volatility, inflation, fluctuation in interest rates, exchange rates, direct and indirect taxation, the health of the local retail markets, and real estate property prices, energy and fuel costs, unemployment, wage rates, tightening of credit markets, government spending and budget priorities and other general market and economic conditions.

In the event that general market and economic conditions were to continue, or were to deteriorate further, these weakened conditions may have an adverse impact on the financial position and operational performance of the Melite Finance Group's business activity, potentially having a serious adverse effect on the Company's financial position, cash flows, operational performance and its ability to fulfil its obligations under the Bonds.

Additionally, in relation to the continued and uninterrupted leasing of its properties to third-party tenants, the success of the Melite Finance Group's business operations is dependent upon the priority and preference of prospective tenants and its ability to swiftly anticipate, identify and capitalise upon these priorities and preferences. If the Melite Finance Group (specifically, Melite Properties) were to be unable to do so, it could experience a reduction in its revenue, which reduction could in turn have a material adverse effect on the Company's financial condition and ability to fulfil its obligations in terms of the Bonds. A similar adverse impact could arise in cases in which, contrary to the Melite

Finance Group's projections, Melite Properties were to be unable to secure the sub-letting of outlets to third-party tenants geared towards maximising real estate margins, that is outlets which are available for letting by Melite Properties at prices lower than market rents but which Melite Properties would be able to sub-let at above market rents and, accordingly, at a higher margin than that typically achievable in respect of outlets selected specifically for their retail potential. The failure to achieve the higher and more expedient return on key money invested which such a change in strategy is expected to yield, could have a detrimental effect on the performance of the Melite Finance Group and in turn on the Company's financial position, cash flows, operational performance and its ability to fulfil its obligations under the Bonds. In the prevailing market and economic conditions, this risk has heightened, with the Melite Finance Group experiencing a fall in demand and a consequential fall in market prices for real estate, together with demand for discount on contracted rental levels due to Melite Properties by its tenants. As a result, the ability of the Company and the Melite Finance Group to optimise its leasing and sub-letting activities is impaired, and for so long as the dampened market and economic conditions persist or experience a further downturn, the prospects of attaining such optimisation is subject to uncertainty and the risks identified herein.

6.4 RISKS RELATING TO THE PROPERTY RIGHTS OF THE MELITE FINANCE GROUP

6.4.1 General property market conditions

The health of the property market may be affected by a number of factors such as national economy, political developments, introduction of or changes to government regulations (including a mandatory order for the closure of all retail stores, such as that which took place in Italy as a result of the Covid-19 pandemic), changes in planning or tax laws, interest rate fluctuations, inflation, and the availability of financing and yields of alternative investments. Such factors may be expected to cause property prices to fluctuate and an increase in the supply thereof could impact negatively upon capital values and income streams of the property.

6.4.2 Valuations and fluctuations in rights over immovable property

The value of immovable property and the rights thereto are affected by and may fluctuate, *inter alia*, as a result of changing demand, changes in general economic conditions, changing supply within a particular area of competing space and attractiveness of real estate relative to other investment choices. The valuation of the rights over immovable property comprising the Melite Finance Group's portfolio of assets, being intangible assets, is itself an inherently riskier exercise than that of the valuation of immovable property *per se*, and the value thereof may also fluctuate as a result of other factors outside the control of the Melite Finance Group. These include changes in regulatory requirements and applicable laws (including in relation to taxation and planning); political conditions; the condition of financial markets; potentially adverse tax consequences and interest and inflation rate fluctuations. Furthermore, in view of the rapidly changing market and economic conditions and volatility induced by the Covid-19 pandemic, the inherent difficulties associated with property valuation is only more acute in the prevailing circumstances and the estimated value of the portfolio of assets of the Melite Finance Group may be subject to a number of underlying assumptions that are subject to change and which may or may not materialise.

The operational performance of the Melite Finance Group could be negatively affected by a downturn in the property market in terms of capital and rental values. The valuation of property, property-related assets and rights attaching to immovable property is inherently subjective. This is due to, *inter alia*, the individual nature of each property and the assumptions on which valuations, including valuations relating to rights over immovable property, are carried out. There can be no assurance that such valuations of rights over immovable property and property-related assets will reflect actual market values.

6.4.3 <u>Leases and lease renewal</u>

Melite Properties is party to a number of rental contracts *qua* lessee. Continued use and enjoyment of the properties in question is therefore susceptible to a number of risks typically associated with leases, including:

i. exercise of early termination rights by the lessor;
ii. default of obligations under the lease agreement(s), whether on the part of Melite Properties or the lessor, including the default, or late payment of, any amounts due by Melite Properties under the lease agreement;
iii. changes in the general economic conditions of the property market, including the cyclical nature of the property market;
iv. the ability of Melite Properties to maintain its commercial relationship with the current lessor on existing or more favourable terms, and its ability to enter into new commercial relationships with a new lessor on existing or more favourable terms; and
v. changes in laws, regulations, taxes or government policies relating to leases.

No assurance can be given as to the occurrence or non-occurrence of any of these risks, and if any of these risks were to materialise, the Melite Finance Group's business may be adversely affected.

6.4.4 <u>Dependency on sub-tenants fulfilling their obligations</u>

The revenue generated from the Melite Finance Group's property leasing activities is dependent in the main part on sub-tenants fulfilling their obligations under their lease agreements with Melite Properties.

Even if Melite Properties is successful in sourcing new tenants, there can be no assurance that the sub-tenants will not fail to perform their obligations, whether due to insolvency, lack of liquidity, market or economic downturns, operational failure or other reasons which are beyond Melite Properties' control, which failure may have a material adverse effect on the financial condition of

Melite Properties, and in turn of the Company, the results of their operations and their prospects, which risks are accentuated in the difficult economic and market conditions precipitated by the Covid-19 pandemic.

In addition, Melite Properties is susceptible to the risk that sub-tenants may terminate, or elect not to renew, their respective lease agreements. Failure to maintain a good relationship with existing sub-tenants, or to renew lease agreements, or enter into new lease agreements, on similar or more favourable terms, could have a material adverse effect on Melite Properties' business, the results of its operations and its prospects, and in turn those of the Company.

6.4.5 Single sector concentration risk

The majority of the Melite Finance Group's property leasing revenue stream is generated through the leasing of units by Melite Properties to third-party sub-tenants, for the purpose of using such units principally for the retailing of clothes and fashion accessories as specified in terms of the relevant lease agreements.

Consequently, the Melite Finance Group's revenue generating capacity is dependent, to some degree, on the continued success of the clothing and fashion accessories industry, thereby exposing the Melite Finance Group to single sector concentration risk. The risk inherent in concentrating substantial investments in a single industry is that a decline in said industry, whether triggered by economic and market conditions in general, changes in consumer trends and preferences and/or other factors over which Melite Properties and the sub-tenants have no control, including heightened competition with e-commerce and online retailers and a global pandemic such as Covid-19, would likely have a greater adverse effect on the financial condition of the Melite Finance Group than if the Melite Finance Group maintained a more diverse array of sub-tenants. A significant downturn in this particular sector and/or a reduction in the influx of additional market players could lead to a reduced need for the Melite Finance Group's product, which in turn could have a material adverse effect on its results of operations and prospects.

7. PROPOSED RESOLUTIONS

The following are the resolutions being presented to eligible Bondholders, for their consideration and, if thought fit, approval, in connection with the proposed Covid-19 Restructuring Plan. Whilst the Board of Directors considers each of the elements comprising the Covid-19 Restructuring Plan, and the rationale underpinning each element, to be necessary in order to realise the intended benefits of the Covid-19 Restructuring Plan, the resolutions in question are being tabled on an individual rather than cumulative basis.

The proposed resolutions read as follows:

(1) Interest on the Bonds

That the interest rate payable on the Bonds shall be and is hereby reduced from 4.85% to 0.00%, 2.50% and 3.00% in respect of the interest due on the Bonds on each of the interest payment dates falling on 23 November 2021, 23 November 2022 and 23 November 2023 respectively;

(2) Increase in materiality threshold of permitted rescissions

That the materiality threshold contained in clause 5 (2) of the Security Trust Deed, that is, the negative undertaking imposed upon Melite Properties, in terms of which Melite Properties covenanted in favour of the Security Trustee, for the benefit of the Bondholders that "for all times during the continuance of any amounts outstanding under the Bonds, it shall not transfer or dispose of any rights over immovable property which it enjoys where such disposal exceeds €2,000,000, without the prior written consent of the Issuer and the Security Trustee" shall be and is hereby increased from €2,000,000 to €3,100,000, to the effect that clause 5 (2) of the Security Trust Deed shall read as follows:

"(5)(2) Melite Properties covenants to the Security Trustee, for the benefit of the Bondholders, that at all times during the continuance of any amounts outstanding under the Bonds, it shall not transfer or dispose of any rights over immovable property which it enjoys, where such disposal exceeds €3,100,000, without the prior written consent of the Issuer and the Security Trustee: PROVIDED THAT the giving of its consent in terms of this clause (5)(2) shall not be deemed to constitute the exercising of the Security Trustee's discretion for the purposes of clause 13 of this Security Trust Deed."

That, as a result of the aforesaid, the Bondholders hereby expressly resolve to authorise the Issuer to transfer or dispose of any rights over immovable property which it enjoys, up to an aggregate maximum of €3,100,000.

<u>(3) Amendment of the terms and conditions of the Securities Note and Security Trust Deed</u>

To hereby approve the proposed amendments to: (a) the terms and conditions of the Securities Note forming part of the Prospectus in the form as set out in Annex 3 to the Bondholders' Circular; and (b) the terms and conditions of the Security Trust Deed in the form as set out in Annex 4 to the Bondholders' Circular.

MELITE

8. DIRECTORS' RECOMMENDATIONS

The Board of Directors, having made the appropriate evaluations and having considered the advice received in connection therewith, is of the view that the proposed resolutions set out in section 7 of this Circular are, in the long term, in the best interests of the Company and its Bondholders as a whole. The Board of Directors is, therefore, strongly recommending that the Bondholders vote in favour of each of the proposed resolutions at the forthcoming Bondholders' meeting.

As described in further detail in section 3 of this Circular, the Covid-19 Restructuring Plan is aimed at preserving the majority of the property rights held by Melite Properties and supporting the ongoing viability of the operations of the Melite Finance Group, with a view to supporting the continued servicing of interest payable on the Bonds (as amended in light of the resolutions set out in this Circular) and redemption of the Bonds upon maturity. The preservation of such property rights is fundamental in retaining the intrinsic value of the security granted by the Company in favour of the Security Trustee for the benefit of Bondholders.

The Board of Directors has formulated the view that this overriding objective is best achieved through the implementation of the combination of each of the pillars of the Covid-19 Restructuring Plan. This combination is considered to be necessary to attain the following commercial and business objectives:

i. reducing the cost base of the Company, and the wider Melite Finance Group, through cost savings on rental expenditure on the leases that have been rescinded and those that may be rescinded going forward with a view to directing the cash flows of the Melite Finance Group towards those immovable properties that, having regard to, among other factors, the terms and conditions of the underlying lease agreements, the locations within which the properties are situated, the legal implications of defaulting on such leases, the historical revenue generating record of such properties, and Management's best estimates of the projected value as impacted by the Covid-19 pandemic, have the better revenue and margin generating capacity (relative to their lease value) versus that of those rescinded;

ii. having the leeway to make further rescissions up to a maximum pre-Covid-19 leasehold value of €3.1 million, which leeway will only be availed of if necessitated by a further prolonged impact of the pandemic on the retail market in Italy, bearing in mind that Management, the Board of Directors of the Company and the Board of Directors of Melite Properties have been doing their utmost and continue to do their utmost to retain as many leases as possible in these most difficult and precarious operating circumstances brought on by this devastating pandemic;

iii. allowing the Company and the Melite Finance Group sufficient flexibility to build up a reserve of positive cash flows, with a view to enabling the Company and the Melite Finance Group to continue to service the interest payable on the Bonds and the repayment of capital upon maturity.

The Covid-19 Restructuring Plan has been formulated with the protection of Bondholders' interest at its core. Cognisant of the circumstances that the Melite Finance Group has found itself constrained to operate within as a result of the economic and market conditions precipitated by the significant and unprecedented disruptions caused by the Covid-19 pandemic, the Board has incessantly sought to identify and evaluate various options that may be pursued to attain the objective of protecting the interests of Bondholders and their investment. After having critically evaluated the relative positives and negatives of the options at hand, and the feasibility and viability thereof, the Board considers the Covid-19 Restructuring Plan described in this Circular to be, on balance, both necessary and beneficial for the safeguarding of the viability of the Melite Finance Group and, in turn, for the safeguarding of the Bondholders' immediate and longer-term interests.

In this regard, it is pertinent to note that whilst the Bonds were not guaranteed or underwritten by the shareholders of the Company, certain indirect shareholders of the Company (the Financing Owners) demonstrated their goodwill and willingness to provide financial support to the Melite Finance Group in the manner and in the amounts described in section 3 of this Circular. They have done so in cognisance of the fact that the Covid-19 Restructuring Plan has been designed to safeguard the Bondholders' interests as its prime, if not sole, objective. In fact, the plan envisages that the shareholders will, to the greatest extent possible, bear the brunt of the erosion of rental margins due to the pandemic and the erosion of leasehold value as a consequence of the related rescissions and, as a result, are likely to see little to no return on their investment. The plan seeks, first and foremost, to ensure that the benefits it is designed to produce will be directed entirely towards the payment of interest, including, to the extent possible, that forgone through the implementation of this Plan, and towards the repayment of capital upon redemption of the Bonds. Save for the repayment of the loans granted by AGL and GAN, as described in section 3 of this Circular, no payment, distribution or other benefit whatsoever will be received the Company's shareholders or the Financing Owners unless and until the Bondholders are repaid, in full, all capital and interest on the Bonds, including interest to be foregone should the first of the resolutions tabled at the Bondholders' meeting be upheld.

Conclusion

In conclusion, the Board of Directors undertakes to keep the market regularly appraised of developments surrounding the business and operations of the Company and Melite Properties. In this respect, the Board wishes to highlight the fact that, in the spirit of complete transparency and in what it considered to be the best interest of Bondholders, a proposal was made to the Security Trustee for a representative thereof to sit as an observer on the Board of Directors of the Company, as a consequence of which the Security Trustee would be entitled to receive notice of, attend at and participate in, meetings of the Board of Directors of the Company. The Security Trustee elected to decline such offer, however noting that it intends to continue to avail itself of its rights in terms of the Security Trust Deed, including, *inter alia,* its right to request such information relating to the business or affairs of the Company. In addition to continuing to respond to requests made in terms of the Security Trust Deed by the Security Trustee as it has done throughout the term of the Bonds and in particular in anticipation of the Bondholders' Meeting, the Board of Directors of the Company hereby extends its proposal, declined as aforesaid by the Security Trustee, to the Bondholders.

Accordingly, the Board of Directors of the Company invites Bondholders to make submissions for the appointment of one representative of the Bondholders as a director of the Company, either in a full or observer capacity. Such representative would be entitled to receive notice of, and attend at and participate in, meetings of the Board of Directors of the Company. The shareholders of the Company have confirmed their commitment to support such appointment should a proposal for appointment be forthcoming by the Bondholders.

9. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents or certified copies thereof will be available for inspection at the Company's registered office situated at Level 3, Valletta Buildings, South Street, Valletta VLT 1103, Malta, for at least 14 days from the date of publication of this Circular:

i. the Memorandum and Articles of Association of the Company;

ii. the consolidated audited financial statements of the Company for the financial year ended 31 December, 2020;

iii. consolidated unaudited interim financial statements of the Company for the financial period ended 30 June, 2021;

iv. the valuations of the property assets forming part of the portfolio to which Melite Properties holds title, as at 30 June 2021, drawn up by *Rustioni & Partners S.r.l.*

The above listed documents may also be accessed on the website of the Company, on http://meliteproperties.com/.

10. PROCEEDINGS AT THE MEETING OF THE BONDHOLDERS

Details on voting in person or by proxy at the meeting of the Bondholders and the proceedings to be undertaken before, during and after the meeting of Bondholders are contained in the Notice convening the Meeting of the Bondholders despatched to Bondholders entitled to receive such Notice together with this Circular. The Bondholders are urged to consult an appropriate independent adviser.

11. CONTACT INFORMATION

Should Bondholders have any queries in relation to the contents of this Circular, they are to seek advice from their advisors. Should Bondholders rather raise such queries directly with the Board of Directors, as the authors of this document, they may establish contact by email on corporate@meliteproperties.com with a view to holding a meeting with representatives of the Board.

Approved and issued by Melite Finance p.l.c. (C 88405), with registered office situated at Level 3, Valletta Buildings, South Street, Valletta, VLT 1103, Malta.

MELITE

Annex 1 – Property Valuation Report as at 30 June 2021

MELITE PROPERTIES S.R.L.

COMMERCIAL KEY-MONEY VALUATION

UPDATE – JUNE 2021

Background

THE COMPANY

Rustioni & Partners S.r.l. is a company specializing in the real-estate/commercial sector with 20 years of experience in the national and international markets.
Rustioni & Partners is not tied to any large bank or insurance group. It aims to find the best solutions for its clients' commercial positioning in city centers and shopping centers, and it also deals with real-estate investments on behalf of third parties.
To carry out such activities more effectively and give the best service, Rustioni & Partners offers all the necessary support services and, as a rule, a strategic analysis of the project on the basis of the criteria agreed with the client. This strategic analysis identifies the companies and the properties that could be purchased and/or managed.
It provides the necessary support for the valuation and commercial real-estate estimates, evaluating the congruity of the rental payments according to the market value, estimating the property value appropriate to the case in question and providing all the necessary assistance in the negotiation stages, coordinating the activity of the consultants involved (legal, fiscal, due diligence, etc.).

Rustioni & Partners S.r.l.
Sede Legale e Operativa:
Milano 20123 - Piazza Borromeo, 10 - Tel. 02.58303994 - Fax 02.58315588
e-mail : rustioni@rustioni-partners.com - CF/P.IVA 06508790968

GENERAL CONSIDERATIONS

MARKET

After the protracted crisis afflicting the whole of Europe in the preceding decade, the property and commercial market began to grow significantly again from 1998 until 2007, driven by the favorable economic climate in Europe, lower mortgage interest rates, and the new single currency. The potential downturn in the US real-estate market encouraged international investors to seek solid investment opportunities in Europe.
The Italian property market has changed significantly in recent years, with a massive new initiative to sell off and convert public assets and those belonging to the main banks, insurance companies and industrial groups, with the aim of balancing the books and rationalizing administrative and production processes. The availability of these properties for sale and commercial lease afforded a major opportunity to renovate and optimize the buildings and render them productive, by adopting a new way of managing them as properties and financial assets.
The Italian market therefore experienced a period of growth, especially in the interest attracted from all kinds of investor (qualified or private) looking for purchase or commercial-lease opportunities but also in the number of transactions taking place. Prices rose further from 2001 under the combined effect of various factors: the introduction of the single currency, the burden of uncertainty in the international political arena, the slump in the stock markets and resulting loss of capitalization, the return of capital from overseas, and the persistently low interest rates that cut borrowing costs for families looking to buy a house and for businesses seeking to purchase property and use it under other types of contractual arrangement, including buying the actual company.
The need for better returns on commercial property has penalized some kinds of good, which have given way to more profitable ones, especially in old town centers: hence the boom in clothing and leisure stores at the expense of small and medium-sized food outlets. Moreover, in a stagnant market, retailers must seek other ways to boost margins, as prices can no longer be raised to cover increased costs. This explains the interest in suburban sites for some product types, in improving retail-staff productivity, and in extending the range of products for sale.
In the past year, various sectors have continued to weaken, as turnover growth has slowed and margins have shrunk. Earnings are sluggish largely because of the downturn in the main world markets and the weakness in the domestic market, where the reduced spending power has prompted buyers to look beyond the traditional sectors.
The cumulative effect has been to reshape the market: specifically, the top positions have held their value, while all the others have fallen away (by a good 15%).

LOCATION

R&P's valuation reflects standard practice throughout the property and commercial market. We have taken into account the commercial ventures' positioning, the impact of rental payments on turnover net of sales VAT, the rental value per square meter of retail area, the positive or negative weightings for the store's positioning, and the positive or negative weightings according to how soon the leases expire (the last two based both on our considerable experience and on the views and typical approaches of the *International Valuation Standards Committee*).

RENTS

Our analyses are based on a dual comparison between, on one hand, the market values for transactions involving properties of similar sizes and locations and, on the other, the property investment's profitability per unit area (5–8%).

Furthermore, in Italy (unlike France and Belgium), there is no procedure for recourse to the courts or public authorities to establish the extent to which rents reflect market rates. Unfortunately, rents in Italy are determined entirely by the free market, and supply and demand may be strongly at variance, even with the calculation method above.
For example, if the property is the only one of its size on that street, then the asking rent may be well above the market rate, and no public authority can force the lessor down to acceptable levels.

GOODWILL

According to settled case law and established economic, legal and business practice, goodwill is that surplus that makes it possible to achieve greater profit from the resources used, because of various subjective/objective elements, such as those listed above, in particular: the company's reputation and business acumen, the business's situation, when it is transferred, the company / business unit size and location, whether or not there are employees. None of these factors can be divorced from the potential earnings in relation to the actual earnings in previous years.

POTENTIAL

The stores' potential based on their net sales area stated has not been explicitly considered. That potential is expressed in the calculation of the potential average turnover for different types of good in the contexts under valuation.
That calculation has not enabled R&P to determine the potential value of the business (having established the cost of the products analyzed in the various sectors).
The demand from the industrial and commercial groups and companies interested in leasing premises of similar sizes and settings must also be taken into account.

Purpose of valuation

Melite has asked R&P to assess the value (or, strictly speaking, the price) that a retail business owner would be prepared to accept for the immediate release of its retail premises (along with the loss of goodwill for its commercial business : the 18 or 36 monthly payments). This value/price is commonly known as Key Money.

Key money is commonly defined as the value attributable to the retail site, with regard to the interconnection between the commercial license and the right (deriving, in most cases, from lease contracts) to use the retail premises.

The purpose of the valuation is to assist the directors of Melite in assessing the current values of the leases in connection with the preparation of the financial statements.

Valuation date

We have been asked to assess the Key money as at 30 June 2021.

Valuation criterion

The main method that we have used to determine the commercial value of the retail outlets in question is commonly known as the **Average Rental Value per sqm** method.

Rental Value is a valuation tool based on the rent amount and the commercial value of the key money / goodwill (amortized over the normal 12-year duration of a lease or a business-unit lease contract) added together and divided by the weighted sqm to give the **Average Rental Value per sqm** – the valuation unit for shopping streets.

R&P calculates a property's **Average Rental Value** based on the latest transactions made as well as the supply and demand for stores on the same street. Where this information is not available, R&P estimates the Average Rental Value based on the Average Rental Values in similar circumstances.

The market value may, however, be different (normally higher), depending on individual companies' strategies and their respective interest in given position.
This may further increase the Average Rental Value used.

Key factors may include: the store's size, the visibility of the location, and the advertising strategy. These situations can all raise the rental value above the market average.

The commercial value of the retail outlets based on Average Rental Value is calculated in two steps. First, obtain the difference between the theoretical rent according to the Average Rental Value (based on market parameters or by simulating a new lease contract for the property concerned) and the rent actually paid by the retail company. Then, multiply the result by the number of years left on the lease or business-unit lease contract.

This approach – now by far the most prevalent both for evaluating retail businesses and in the subsequent negotiation of commercial deals – does not take into account the effects of discounting.

Indeed, the "depreciation" due to the mathematical process of discounting would exclusively neutralize (i.e. absorb) the greater rental value that would result by considering the market to be growing rather than steady, as this valuation, moreover, considers it to be.

The above takes into account that the reference economic parameters – the average annual rental values – are in constant flux, such that the differential with regard to the rent would increase year by year. Cyclical market fluctuations, however, are deemed effectively negligible in the context of this valuation, as the retail sites in question are expected to maintain their value even in an economic downturn.

Note that, in some cases, where the result of applying the Average Rental Value criterion according to the principles set out above yielded valuations that we consider incommensurate, given our experience of similar transactions (e.g. because the lease expires soon, and the new lease has not yet been renegotiated although it surely will be, or where recent transactions involving retail outlets that are more comparable have taken place), we have made an adjustment to produce a value in line with market transactions.

Sintesi della valutazione dei “key money” commerciali

Sulla base dei criteri sopra esposti, si ritiene opportuno assumere quale valore economico, alla data del 30 Giugno 2021, dei punti vendita Melite Priperties s.r.l., l’importo di Euro 9.448.338,00 come riepilogato nella tabella che segue.
Tuttavia, in considerazione dell’attuale situazione di mercato, abbiamo ipotizzato un abbattimento del 7% con riferimento ad alcuni punti vendita, come indicato nella tabella a seguire, pertanto il valore economico risulta essere pari ad Euro 9.003.253,00

Melite Properties srl

Scheda Punti Vendita

	Città	Indirizzo	Contratto	Marchio	Area Ven. *mq*	Area Mag. *mq*	Valore Key Money Giugno 2021	Valore Key Money Giugno 2021 *riduzione in % post Covid19*	Valore Key Money Giugno 2021 *post Covid19*
							9.448.338		**9.003.253**
1	Bolzano (Bz)	Via dei Portici	LOC	Accessorize	102	55	559.045	-	559.045
2	Como (Co)	Via V. Emanuele	LOC	Accessorize	73	20	620.046	7%	576.643
4	Milano (Mi)	Citylife CC	ARA	Accessorize	56.5	13	150.000	-	150.000
6	Milano (Mi)	Il Portello CC	ARA	Accessorize	53	14	228.000	7%	212.040
10	Pavia (Pv)	Cso. Cavour 18	LOC	Accessorize	87	60	538.972	7%	501.244
12	Torino	Via Garibaldi	LOC	Accessorize	60	49	206.216	-	206.216
13	Treviso (Tv)	Cso. del Popolo	LOC	Accessorize	65	132	0	-	0
8	Milano (Mi)	Stazione Porta Garibaldi	LOC	Accessorize	44	3	64.410	-	64.410
9	Padova (Pd)	Padova Stazione	LOC	Accessorize	39	14	74.195	-	74.195
5	Milano (Mi)	Galleria Passarella	LOC	Accessorize	147	67	866.160	7%	805.529
3	Firenze (FI)	Via dei Cerretani	LOC	Accessorize	85	60	952.812	-	952.812
14	Genova	Via XX Settembre	LOC	BIALETTI	61	21	238.340	-	238.340
15	Como	Via Luini	LOC	CKU	67	55	173.592	-	173.592
16	Pavia	C.so Cavour 9	LOC	Pesci	60	15	93.100	-	93.100
17	Pavia	C.so Cavour / V. XX Sett.	LOC	Sfitto	58	82	137.146	-	137.146
18	Verona	Via Mazzini	LOC	INCANTO	74	10	441.120	-	441.120
19	Bologna	Via Indipendenza	LOC	THC	60	10	448.580	7%	417.179
20	Milano	Via Torino	LOC	MARLU	72	50	3.465.636	7%	3.223.041
21	Bolzano (Bz)	Via dei Portici 50	LOC	VANITY	90	80	190.968	7%	177.600

Milano, 8 Ottobre 2021

RUSTIONI & PARTNERS SRL
Rodolfo Antonio Rustioni

Annex 2 – Consolidated unaudited interim financial statements of the Company for the financial period ended 30 June, 2021

MELITE FINANCE P.L.C.

Condensed Interim Consolidated
Financial Statements
30 June 2021

For the period 1 January 2021 to 30 June 2021

Company Registration Number: C 88405

Directors' report

The directors present their report in terms of Chapter 5 of the Capital Markets Rules issued by the Malta Financial Services Authority ('MFSA'), and in terms of the Prevention of Financial Markets Abuse Act 2005. The underlying accounting policies are the same as those adopted by Melite Finance p.l.c. and its subsidiary (the 'Group') in its published annual report. The published figures have been extracted from the Company's unaudited accounts for the six months ended 30 June 2021, as approved by the Board of Directors on 18 October 2021 and are in accordance with accounting standards as adopted by the EU for interim financial statements, (International Accounting Standard 34, 'Interim Financial Reporting'). In accordance with the terms of Capital Markets Rule 5.75.5, this interim report has not been audited or reviewed by the Group's independent auditors.

The appropriateness of the underlying accounting policies may need to be re-assessed depending on the outcome of the bondholders meeting that has been called on 12 November 2021. As outlined in Section 5 of the Circular to bondholders, the projected operating cash flows of the Group and the committed funding made available to the Group, are not sufficient to service the debt service commitments of the Group in the short to medium term. Therefore, in the event that the bondholders do not approve the proposed reduction in the bond interest coupon, the Directors expect that the basis of preparation of financial information would need to be amended to a break-up basis. These amendments would include revising the carrying value of the intangible assets to a forced sale basis, and that an assessment of contractual obligations would need to be carried out which might result in the consequential recognition of other liabilities which are not yet known or reflected.

Principal activities

The principal activity of the Company, which forms part of the Melite Retail Group, is to act as a finance company by advancing amounts on loan to its subsidiary Melite Properties S.r.l (Melite Properties). The subsidiary holds investment property through its rights to properties which it lets out to related and non-related parties.

The principal activity of the Melite Retail Group is the operation of international retail and franchise networks involving costume jewelry and related fashion accessories. The retail operations of the Group have entered into voluntary administration, and, hence, are no longer in operation.

Review of the business

During the six month period under review, the Revenue for the Group, which was primarily generated from rental operations, amounted to €487,777 (2020: €1,144,059) – net of concessions granted to tenants amounting to €103,069 (2020: €63,485), resulting in a gross loss of €709,353 (2020: gross profit of €31,092). The decrease reflects the closure of outlets during the COVID -19 pandemic that caused disruption to the economic environment in Italy as from the end of February 2020. The Group registered a loss before tax amounting to €1,986,386 (2020: €3,323,611) after taking into consideration impairments in respect of receivables and on the value of leasehold premia of €Nil (2020: €1,317,856) and €704,222 (2020: €1,155,313) respectively, which are other consequences of the COVID -19 pandemic.

The Group's total asset base stands at €21,559,435 (2020: €22,175,674). The main non-current assets comprise right-of-use assets of €19,214,203 (2020: €19,245,756). At 30 June 2021, the Group's current assets amounted to €1,685,116 (2020: €1,723,687) and are mainly represented by trade and other receivables, net of impairment provisions, of €963,555 (2020: €1,183,306) and cash of €721,561 (2020: €540,381). The Group's non-current liabilities amounted to €19,993,555 (2020: €18,581,449) which mainly consist of borrowings of €9,930,727 (2020: €9,914,997) and lease liabilities of €10,062,828 (2020: €8,666,452). The Group's current liabilities amounted to €2,311,075 (2020: €2,270,208) which primarily consist of the current portion of the lease liability of €1,247,380 (2020: €1,396,690) and trade and other payables of €1,063,695 (2020: €873,518).

Directors' report - continued

Business update

As described in the financial statements for the year ended 31 December 2020, both the retail landscape and the commercial real estate landscape in Northern Italy, where the vast majority of the Stores are located, have been subjected to significant and unprecedented disruption as a result of the pandemic. Following the outbreak of COVID-19 in Italy, particularly in Northern Italy where most of the leases held by Melite Properties are situated, all retail outlets in Italy were shut with effect from 10 March 2020. Retail outlets were permitted to re-open as from 18 May 2020 but virtually all of Melite Properties' tenants had elected not to re-open for the major part of the year, in common with many retail outlets across Italy. Further to a spike in the number of positive COVID-19 cases recorded across Italy over the latter months of 2020, the Italian government re-introduced a series of restrictive measures as from early November. Such measures subsisted throughout the month of December and only started to be gradually relaxed in parts of Italy in mid 2021.

Melite Properties' management remains in constant contact with both its landlords and tenants with respect to possible revisions of existing payment terms in consequence of the current economic trading conditions existing in Italy. The Company has so far maintained payments of rent to landlords (as reduced, where possible, further to negotiations conducted by management) and remains in contact with them as this is considered essential for the purpose of the safeguarding of the company's property rights over the Stores it has retained and/or plans on retaining.

Melite Italia had informed Melite Properties of the intention to enter into a restructuring of its business and debts in terms of a procedure available in terms of Italian law. Accordingly, sourcing alternative tenants for the Stores which were operated by Melite Italia remained a key priority for the Company and Melite Properties (together the "Melite Finance Group"). On the advice of commercial real estate specialists, the Company entered into profit-sharing agreements with Melite Italia as the likelihood of success in sourcing new tenants was deemed as greater should the stores be operational and stocked, rather than closed. This arrangement remained in place through 2020 and the initial months of 2021 other than those periods when further COVID-19 waves in Italy led to further lockdown decrees and the shops remaining shut. During the six months ended 30 June 2021, new tenants have been found for all remaining properties and agreements entered into accordingly.

In the context of the above, the Board of Directors of the Company remains focussed on taking such steps as may be necessary to ensure, that the underlying business retains as much value as possible to enable the Company to continue, as far as possible, to service its obligations to the holders of the €9,250,000 secured bonds 2028 issued by the Company (the "Bonds").

Following the onset of COVID-19 and the decision by Melite Italia to enter into voluntary administration, and as described in the financial statements for the year ended 31 December 2020, a restructuring plan was agreed to by the Board of Directors of the Company., As part of the restructuring plan, Melite Properties rescinded seven stores until the year ended 31 December 2020. During the six months ended 30 June 2021, Melite Properties rescinded another property and was in the process of rescinding another two stores in 2021. This is being effected in order to channel all available cash towards safeguarding what the Board of Directors of Melite Properties believe to be the more valuable leases that are essential to secure the fulfilment of its obligations towards the Company and, in turn, the Melite Finance Group's long term survival. The leases that were rescinded relate to those stores (such as stores located within commercial centres) which, based on advice from real estate specialists, were expected to take longer to sub-let.

Directors' report - continued

Following the rescission of these contracts including those two stores still to be formally rescinded, Melite Properties will be left with a total of nineteen stores (the "Retained Stores"), with a combined valuation as at 30 June 2021 of €9 million. These nineteen stores had a value of €8.5 million as at 31 December 2020 reflecting the slight improvement in trading conditions that are now prevalent in Italy. Notwithstanding the challenging economic climate and rapidly evolving conditions, management concluded or retained agreements for the sub-letting of eight of these stores to third party operators. Furthermore, in April 2021, management concluded negotiations and accepted an irrevocable offer from a third party retail operator which secured the sub-letting of another nine stores as from June 2021 for a period of twenty four months, and which may be further extended for an additional period of six years. Management also concluded the sub-letting of an additional two stores with the first few months being subject to a profit-sharing agreement.

The process of identifying new tenants required time, not least due to the complicated trading conditions in view of the adverse effect of COVID-19 on the retail sector in Italy. COVID-19 has dragged on beyond initial expectations and its impact on the retail sector in Italy has been far more significant than anticipated. In the intervening period until Melite Properties sourced new tenants for its properties, and in order to protect its assets, it needed to finance the payment of rent due to its landlords. The continued and regular payment of rent to landlords is imperative to ensure that Melite Properties does not have to forfeit the property rights that it holds. These property rights are the principal asset held by this business and represent the underlying assets secured through the share pledge granted in favour of the Security Trustee as security in favour of the holders of the Bonds (the "bondholders"). Without these property rights, the Melite Finance Group will have no assets to generate the funds required to service interest, as far as possible, and eventually redeem the Bonds.

As described in the financial statements for the year ended 31 December 2020, the Board secured shareholder funding in the amount of €1.1 million, which based on the restructuring plan, was used to finance rental payments to the landlords of the retained stores in the intervening period until such time as Melite Properties identified new tenants. As at 31 December 2020, an additional undertaking totalling €0.35 million was provided by the shareholders, subject to bondholder approval of certain changes to terms of the bond. Alf. Mizzi & Sons Ltd, MMGH Ltd and Daystar Holdings Ltd have since waived the conditionality insofar as relates to their combined share of €0.2 million. The balance of the €0.15 million support by Andrew Ganado Ltd and by GAN Ltd remains conditional on bondholder approval.

As part of the fulfilment of the restructuring plan set out in the previous year, the Board was successful in obtaining a loan amounting to €0.449 million from the Malta Development Bank under the COVID Guarantee Scheme which enabled the Company to service, in full, the Bond interest payment which was due in November 2020.

The recent agreements reached with new tenants together with the funding made available has provided relief to the Melite Finance Group and the underlying business in this unprecedented, and extremely difficult and uncertain time, allowing the Board of Directors of the Company, and Melite Properties' management, to forge a plan which would see the Melite Finance Group retain as much as possible of the value of the property rights it holds and on which the future servicing and repayment of the Bonds is ultimately dependent.

Directors' report - continued

Although, the basis of preparation of the unaudited consolidated interim financial statements as at 30 June 2021 is that of a going concern, and accordingly, this financial information has been prepared on a consistent basis with the accounting policies applied in the 2020 audited consolidated financial statements, the appropriateness of the basis of preparation may need to be re-assessed depending on the outcome of the bondholders meeting that has been called on 12 November 2021.

As outlined in Section 5 of the Circular to bondholders, the projected operating cash flows of the Group and the committed funding made available to the Group, are not sufficient to service the debt service commitments of the Group in the short to medium term. Therefore, in the event that the Bondholders do not approve the proposed reduction in the bond interest coupon, the Directors expect that the basis of preparation of financial information would need to be amended to a break-up basis. These amendments would include revising the carrying value of the intangible assets to a forced sale basis, and furthermore an assessment of contractual obligations would need to be carried out which might result in the consequential recognition of other liabilities which are not yet known or reflected. These factors indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern.

Results and dividends

The condensed interim consolidated statement of comprehensive income is set out on page 9. The directors do not recommend the payment of an interim dividend for the period under review.

Directors

The directors of the company who held office during the period were:

Jackie Briffa
Alan Frendo Jones
Andrew Ganado (resigned on 21st September, 2021)
Christian Ganado
Paul Mercieca
Stanley Portelli

Approved by the Board of Directors on 18th October 2021 and signed on its behalf by:

Paul Mercieca
Director

Stanley Portelli
Director

Registered office:
Level 3, Valletta Buildings
South Street
Valletta VLT 1103
Malta

Statement pursuant to Capital Markets Rule 5.75.3

We hereby confirm that to the best of our knowledge, subject to the outcome of the bondholders' meeting that has been called on 12 November 2021, and any amendments to the basis of preparation as may be required and as described in the Directors' report:

- the condensed interim consolidated financial statements give a true and fair view of the financial position of the Group and Company as at 30 June 2021, as well as of the financial performance and cash flows for the said period, in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (IAS 34: 'Interim Financial Reporting'); and

- the Interim Directors' Report includes a fair review of the information required in terms of Capital Markets Rule 5.81.

Paul Mercieca
Director

Stanley Portelli
Director

18th October 2021

Condensed interim consolidated statements of financial position

	As at 30 June 2021		As at 31 December 2020	
	Group	**Company**	Group	Company
	€	**€**	€	€
ASSETS				
Non-current assets	**19,874,319**	**9,138,695**	20,451,987	11,511,401
Current assets	**1,685,116**	**1,053,733**	1,723,687	949,941
Total assets	**21,559,435**	**10,192,428**	22,175,674	12,461,342
EQUITY AND LIABILITIES				
Total equity	**(745,195)**	**248,843**	1,324,017	2,695,008
Non-current liabilities	**19,993,555**	**9,468,287**	18,581,449	9,452,557
Current liabilities	**2,311,075**	**475,298**	2,270,208	313,777
Total liabilities	**22,304,630**	**9,943,585**	20,851,657	9,766,334
Total equity and liabilities	**21,559,435**	**10,192,428**	22,175,674	12,461,342

The notes on pages 6 to 9 are an integral part of these condensed interim consolidated financial statements.

The condensed interim consolidated financial statements on pages 1 to 9 were authorised for issue by the board on 18th October 2021 and were signed on its behalf by:

Paul Mercieca
Director

Stanley Portelli
Director

Condensed interim consolidated income statements

	Period from 1 January to 30 June 2021		Period from 1 January to 30 June 2020	
	Group €	**Company €**	Group €	Company €
Revenue	**487,777**	**-**	1,144,059	-
Cost of sales	**(1,197,130)**	**-**	(1,112,967)	-
Gross (loss)/profit	**(709,353)**	**-**	31,092	-
Administrative expenses	**(199,272)**	**(110,024)**	(247,847)	(135,705)
Impairment of receivables	**-**	**-**	(1,317,856)	-
Impairment on leasehold premia	**(704,222)**	**-**	(1,155,313)	-
Other income	**210,648**	**85,000**	-	85,000
Operating loss	**(1,402,199)**	**(25,024)**	(2,689,924)	(50,705)
Impairment on investment in subsidiary	**-**	**(2,372,706)**	-	(2,473,169)
Finance costs	**(584,187)**	**(246,857)**	(633,687)	(240,043)
Finance income	**-**	**198,422**	-	180,865
Loss before tax	**(1,986,386)**	**(2,446,165)**	(3,323,611)	(2,583,052)
Tax expense	**-**	**-**	(213,321)	-
Loss for the period – total comprehensive loss	**(1,986,386)**	**(2,446,165)**	(3,536,932)	(17,871)
Attributable to:				
Owners of the parent	**(1,986,386)**	**(2,446,165)**	(3,536,932)	(2,583,052)

Condensed interim consolidated statements of comprehensive income

	Period from 1 January to 30 June 2021		Period from 1 January to 30 June 2020	
	Group €	**Company €**	Group €	Company €
Loss for the period	**(1,986,386)**	**(2,446,165)**	(3,536,932)	(2,583,052)
Other comprehensive loss:				
Fair value movement on available-for-sale financial assets	**(82,826)**	**-**	-	-
Total comprehensive loss for the period	**(2,069,212)**	**(2,446,165)**	(3,536,932)	(2,583,052)

The notes on pages 6 to 9 are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statements of changes in equity

Group

	Share capital €	Capital contribution €	Fair value reserve €	Retained earnings €	Total €
Balance at 31 December 2019	5,874,406	-	82,826	(1,035,424)	4,921,808
Comprehensive loss					
Loss for the period - total comprehensive loss	-	-	-	(3,536,932)	(3,536,932)
Transactions with owners					
Capital contribution	-	69,552	-	-	69,552
Balance at 30 June 2020	**5,874,406**	**69,552**	**82,826**	**(4,572,356)**	**1,454,428**
Balance at 31 December 2020	5,874,406	637,560	82,826	(5,270,775)	1,324,017
Comprehensive loss					
Loss for the period	-	-	-	(1,986,386)	(1,986,386)
Other comprehensive loss:					
Fair value movement on available-for-sale financial assets	-	-	(82,826)	-	(82,826)
Total comprehensive loss	-	-	(82,826)	(1,986,386)	(2,069,212)
Balance at 30 June 2021	**5,874,406**	**637,560**	**-**	**(7,257,161)**	**(745,195)**

Condensed interim consolidated statements of changes in equity - continued

Company

	Share capital €	Capital contribution €	Retained earnings €	Total €
Balance at 31 December 2019	5,874,406	-	(1,113,197)	4,761,209
Comprehensive income				
Loss for the period - total comprehensive loss	-	-	(2,583,052)	(2,583,052)
Transactions with owners				
Capital contribution	-	69,552	-	69,552
Balance at 30 June 2020	**5,874,406**	**69,552**	**(3,696,249)**	**2,247,709**
Balance at 31 December 2020	5,874,406	637,560	(3,816,958)	2,695,008
Comprehensive income				
Loss for the period - total comprehensive loss	-	-	(2,446,165)	(2,446,165)
Balance at 30 June 2021	**5,874,406**	**637,560**	**(6,263,123)**	**248,843**

The notes on pages 6 to 9 are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statements of cash flows

	Period from 1 January to 30 June 2021		Period from 1 January to 30 June 2020	
	Group €	**Company €**	**Group €**	**Company €**
Net cash generated from/(used in) operating activities	280,947	(174,904)	977,978	(2,398,833)
Net cash generated from/(used in) investing activities	530,343	-	(2,690)	-
Net cash (used in)/generated from financing activities	(892,953)	-	(1,164,826)	2,382,721
Net movement in cash and cash equivalents	(81,663)	(174,904)	(189,538)	(16,112)
Cash and cash equivalents at beginning of period	315,438	194,415	602,194	210,488
Cash and cash equivalents at end of period	**233,775**	**19,511**	**412,656**	**194,376**

The notes on pages 6 to 9 are an integral part of these condensed interim consolidated financial statements.

Notes to the condensed interim consolidated financial statements

1. General information

Melite Finance p.l.c. ("the Company") is a limited liability company domiciled and incorporated in Malta.

The consolidated financial statements for the year ended 31 December 2020 are available upon request from the company's registered office at Level 3, Valletta Buildings, South Street, Valletta, VLT 1103, Malta. They are also available for viewing on its website at www.meliteproperties.com.

This condensed interim consolidated financial information was approved for issue by the Board of Directors on 18th October 2021.

2. Basis of preparation

The condensed consolidated interim financial information for the six-month period ended 30 June 2021 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34, 'Interim Financial Reporting)'. The condensed interim consolidated financial information should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2020, which have been prepared in accordance with IFRSs as adopted by the EU.

Although, the basis of preparation of the unaudited consolidated interim financial statements as at 30 June 2021 is that of a going concern, and accordingly, this financial information has been prepared on a consistent basis with the accounting policies applied in the 2020 audited consolidated financial statements, the appropriateness of the basis of preparation may need to be re-assessed depending on the outcome of the bondholders meeting that has been called on 12 November 2021. As outlined in Section 5 of the Circular to bondholders, the projected operating cash flows of the Group and the committed funding made available to the Group, are not sufficient to service the debt service commitments of the Group in the short to medium term. Therefore, in the event that the Bondholders do not approve the proposed reduction in the bond interest coupon, the Directors expect that the basis of preparation of financial information would need to be amended to a break-up basis. These amendments would include revising the carrying value of the intangible assets to a forced sale basis, and furthermore an assessment of contractual obligations would need to be carried out which might result in the consequential recognition of other liabilities which are not yet known or reflected. These factors indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Group to continue as a going concern.

3. Summary of significant accounting policies

The accounting policies applied in the preparation of the condensed consolidated interim financial information are the same as those applied in the consolidated financial statements for the year ended 31 December 2020.

(a) Standards, interpretations and amendments to published standards effective in 2021

In 2021, the company adopted revised standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2021. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

Notes to the condensed interim consolidated financial statements - continued

3. **Summary of significant accounting policies** - continued

(b) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning after 1 January 2021 have been published by the date of authorisation for issue of this financial information. The company's directors are of the opinion that there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

4. **Financial risk management**

The Company's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2020.

5. **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, except as outlined in Note 2 to these financial statements and as highlighted in the following paragraph.

The accounting estimates include the valuations of the intangible assets held by the Company. These valuations were prepared by accredited real estate valuers in Italy based on the established market practices for carrying out these types of valuations. The valuations are based, inter alia, on the valuer's assessment of the current market rental value of the individual leases held by Melite Properties. The assessment of market rental value is currently subject to the heightened turbulence created by the slowdown in the overall retail market in Italy further to the outbreak of the COVID-19 pandemic in 2020. As described in note 2 to these interim condensed consolidated financial statements, in the event that the Bondholders do not approve the proposed reduction in the bond interest coupon, the Directors expect that the basis of preparation of financial information would need to be amended to a break-up basis. These amendments would include revising the carrying value of the intangible assets to a forced sale basis.

6. **Right of use assets**

Right of use assets relates to leasehold properties and premia paid on such properties. Additions to right-of-use assets following lease modifications during the course of the current financial period amounted to €2,144,802. The movement in the carrying amount of right of use assets during the period is also attributable to depreciation charges, reversal of right-of-use assets and impairment on leasehold premia as a result of rescissions, which amounted to €794,638 (2020: €1,212,640), €617,130 (2020: €3,079,294) and €704,222 (2020: €1,155,313) respectively .

7. **Taxation**

The tax expense for the period ended 30 June 2020 amounting to €213,321 consisted of a release of a deferred tax asset recognised in the prior period.

Notes to the condensed interim consolidated financial statements - continued

8. Loans receivable

In the ordinary course of its business activities, the Company also advances funds to group companies. Such amounts are subject to a fixed rate of interest of 6.1%, are unsecured and repayable by not later than 23 November 2028.

9. Equity instruments at fair value through other comprehensive income

The Group's equity investments consist of equity instruments in listed foreign companies. Accordingly, these equity investments are categorised as Level 1 within fair value measurement hierarchy required by IFRS 13. During the period ended 30 June 2021, most of these investments were disposed of and the balance of €82,826 in the fair value reserve was released.

10. Capital commitments

As at 30 June 2021 and 31 December 2020, the Company did not have any capital commitments.

11. Interest bearing borrowings

By virtue of an offering memorandum dated 12 November 2018, the Group issued €9,250,000 bonds with a face value of €100 each. The bonds have a coupon interest of 4.85% which is payable annually in arrears, on 23 November of each year. The bonds are redeemable at par and are due for redemption on 23 November 2028. The bonds were admitted on the Official List of the Malta Stock Exchange on 12 November 2018. The quoted market price as at 30 June 2021 for the bonds was €80.00. As of 1 September 2021, secondary trading in the bonds has been suspended by order of the MFSA, due to non-submission of interim financial statements by the end of August 2021, as explained in the Company Announcement no.25/2021.

In accordance with the provisions of the prospectus, the proceeds from the bond issue have been advanced by the Group to group related parties.

The Bonds constitute the general, direct, unconditional, unsecured, unsubordinated obligations of the Company, and rank equally without any priority or preference with all other present and future unsecured and unsubordinated obligations of the Company.

As from 1 January 2019, the Group has also adopted the amendments to IFRS 16 and has recognised a lease liability reflecting future lease payments and a 'right-of-use asset' for all property lease contracts. The lease liability as at 1 January 2019 amounted to €15,636,817, and a deemed interest cost of 6.1% has been applied. The balance of lease liability as at 30 June 2021 amounted to €11,310,208 (2020: €10,063,142).

12. Lease liabilities

The lease liabilities associated with the right of use assets relate to leasehold properties. The total cash outflows for leases during the reporting period was €892,953 (2020: €1,135,913).

13. Contingent liabilities

As described in Note 2 to these financial statements, the projected operating cash flows of the Group and the committed funding made available to the Group, are not sufficient to service the debt service commitments of the Group in the short to medium term. Therefore, in the event that the Bondholders do not approve the proposed reduction in the bond interest coupon, an assessment of contractual obligations would need to be carried out which might result in the consequential recognition of other liabilities which are not yet known or reflected.

No further events occurred since 31 December 2020 that require disclosure of any contingent liabilities as at 30 June 2021.

14. Related parties

The Group forms part of the Melite Retail Group of Companies. All companies forming part of the Melite Retail Group, which are all ultimately owned by Melite Retail Limited, are considered to be related parties in view of common ultimate shareholding.

The principal transactions carried out by the Group with related parties during the six month period ended 30 June 2021 are outlined below:

- Rental income from companies within the Melite Retail Group amounting to €Nil (2020: €904,068).

- Management fees charged by related party amounting to €25,000 (2020: €25,000).

- Management fee charged by director amounting to €25,000 (2020: €Nil)

- Non-current liabilities include amounts advanced by related parties of €462,440.

Annex 3 – Proposed amendments to the Securities Note forming part of the Prospectus

Amendments to Securities Note:

In terms of resolution 3 set out in section 7 of the Bondholders' Circular dated 18 October, 2021, it is proposed that the provisions of the Securities Note forming part of the Prospectus dated 12 November, 2018 set out below, in the column below headed "Current provision", be amended and replaced as set out in the column below headed "Proposed amended provision":

Section no.	**Current provision**	**Proposed amended provision**
IMPORTANT INFORMATION	THIS SECURITIES NOTE CONTAINS INFORMATION ON AN ISSUE BY MELITE FINANCE P.L.C. (THE "**ISSUER**") OF A MAXIMUM OF €9,250,000 SECURED BONDS 2028 OF A NOMINAL VALUE OF €100 PER BOND, ISSUED AT PAR AND BEARING INTEREST AT THE RATE OF 4.85% PER ANNUM, PAYABLE ANNUALLY ON 23 NOVEMBER OF EACH YEAR (OR THE NEXT BUSINESS DAY WHERE THE 23 NOVEMBER FALLS ON A DAY WHICH IS NOT A BUSINESS DAY IN MALTA). THE NOMINAL VALUE OF THE BONDS WILL BE REPAYABLE IN FULL AT MATURITY ON 23 NOVEMBER 2028. THE ISSUER SHALL REDEEM THE BONDS ON SUCH DATE UNLESS OTHERWISE PREVIOUSLY REPURCHASED FOR CANCELLATION.	THIS SECURITIES NOTE CONTAINS INFORMATION ON AN ISSUE BY MELITE FINANCE P.L.C. (THE "**ISSUER**") OF A MAXIMUM OF €9,250,000 SECURED BONDS 2028 OF A NOMINAL VALUE OF €100 PER BOND, ISSUED AT PAR AND BEARING INTEREST AT THE RATE OF 4.85% PER ANNUM,SAVE IN RESPECT OF THE YEARS 2021, 2022 AND 2023, IN WHICH YEARS THE BONDS SHALL BEAR NO INTEREST (2021), OR BEAR INTEREST AT THE RATE OF 2.50% (2022) OR 3.00% (2023). SAVE FOR THE YEAR 2021, INTEREST IS PAYABLE ANNUALLY ON 23 NOVEMBER OF EACH YEAR (OR THE NEXT BUSINESS DAY WHERE THE 23 NOVEMBER FALLS ON A DAY WHICH IS NOT A BUSINESS DAY IN MALTA). THE NOMINAL VALUE OF THE BONDS WILL BE REPAYABLE IN FULL AT MATURITY ON 23 NOVEMBER 2028. THE ISSUER SHALL REDEEM THE BONDS ON SUCH DATE UNLESS OTHERWISE PREVIOUSLY REPURCHASED FOR CANCELLATION.
Interpretation (definition of "Bond/s")	the €9,250,000 secured bonds of a nominal value of €100 per bond redeemable at their nominal value on 23 November 2028 bearing interest at the rate of 4.85% per annum, being issued pursuant to the Prospectus;	the €9,250,000 secured bonds of a nominal value of €100 per bond redeemable at their nominal value on 23 November 2028, bearing interest at the rate of 4.85% per annum, save in respect of the years 2021, 2022 and 2023, in which years the Bonds shall bear no interest (2021), or shall bear interest at the rate of

		2.50% (2022) or 3.00% (2023), such bonds being issued pursuant to the Prospectus;
4.3 (Issue Statistics)	Interest: 4.85% per annum	Interest: 4.85% per annum, save in respect of the years 2021, 2022 and 2023, in which the Bonds shall bear no interest (2021), or shall bear interest at the rate of 2.50% (2022) or 3.00% (2023);
4.5 (Collateral)	[…] The Security Trust Deed entered into between the Issuer, Melite Properties and the Security Trustee sets out the covenants of the Issuer to pay the principal amount under the Bonds on the Redemption Date and interest thereon, the hypothecary rights under the deed of hypothec, the rights under the share pledge agreement and all the rights and benefits under the Security Trust Deed, and provides for covenants on the part of Melite Properties with respect to the acquisition, release and/or liquidation of property rights during the term of the Bonds. In terms of the Security Trust Deed, Melite Properties has undertaken towards the Issuer and Security Trustee not to dispose of any rights over immovable property which are held by it from time to time during the term of the Bonds without the prior written consent of the Issuer and the Security Trustee, subject to a materiality threshold of €2.0 million. […]	[…] The Security Trust Deed entered into between the Issuer, Melite Properties and the Security Trustee sets out the covenants of the Issuer to pay the principal amount under the Bonds on the Redemption Date and interest thereon, the hypothecary rights under the deed of hypothec, the rights under the share pledge agreement and all the rights and benefits under the Security Trust Deed, and provides for covenants on the part of Melite Properties with respect to the acquisition, release and/or liquidation of property rights during the term of the Bonds. In terms of the Security Trust Deed, Melite Properties has undertaken towards the Issuer and Security Trustee not to dispose of any rights over immovable property which are held by it from time to time during the term of the Bonds without the prior written consent of the Issuer and the Security Trustee, subject to a materiality threshold of €3.1 million. […]
5.4 (Interest)	5.4.1 The Bonds shall bear interest from and including 23 November 2018 at the rate of 4.85% per annum on the nominal value thereof, payable annually in arrears on each Interest Payment Date. The first interest payment will be effected on 25 November 2019 (covering the period from 23 November 2018 to 24 November 2019). Any Interest Payment Date which falls on a day other than a Business Day will be	5.4.1 The Bonds shall bear interest from and including 23 November 2018 at the rate of 4.85% per annum (save in respect of the years 2021, 2022 and 2023, in which the Bonds shall bear no interest (2021), or shall bear interest at the rate of 2.50% (2022) or 3.00% (2023)) on the nominal value thereof, payable annually in arrears on each Interest Payment Date (save in respect of the year 2021). The first interest

	carried over to the following day that is a Business Day. In terms of article 2156 of the Civil Code (Cap. 16 of the Laws of Malta), the right of the Bondholders to bring claims for payment of interest and repayment of the principal on the Bonds is barred by the lapse of five years.	payment will be effected on 25 November 2019 (covering the period from 23 November 2018 to 24 November 2019). Any Interest Payment Date which falls on a day other than a Business Day will be carried over to the following day that is a Business Day. In terms of article 2156 of the Civil Code (Cap. 16 of the Laws of Malta), the right of the Bondholders to bring claims for payment of interest and repayment of the principal on the Bonds is barred by the lapse of five years.
5.5 (Yield)	The gross yield, calculated on the basis of the Interest, the Bond Issue Price and the Redemption Value of the Bonds at Redemption Date, is 4.85%.	The gross yield, calculated on the basis of the Interest, the Bond Issue Price and the Redemption Value of the Bonds at Redemption Date, is 4.85%, as adjusted as a result of the revision in Interest from 4.85% to 0.00%, 2.50% and 3.00% in the years 2021, 2022 and 2023 respectively.

Annex 4 – Proposed amendments to the Security Trust Deed

Amendments to Security Trust Deed:

In terms of resolution 3 set out in section 6 of the Bondholders' Circular dated 18 October, 2021, it is proposed that the provisions of the Security Trust Deed dated 7 November, 2018 set out in the column below headed "Current provision" be amended and replaced as set out in the column below headed "Proposed amended provision":

Section no.	**Current provision**	**Proposed amended provision**
Interpretation (definition of "Secured Bonds or Bonds")	the €9,250,000 4.85% secured Bonds 2028 of a nominal value of €100 per Bond payable in full upon subscription and redeemable at the nominal value on the Redemption Date, bearing interest at the rate of 4.85% per annum, as detailed in the Securities Note;	the €9,250,000 4.85% secured Bonds 2028 of a nominal value of €100 per Bond payable in full upon subscription and redeemable at the nominal value on the Redemption Date, bearing interest at the rate of 4.85% per annum, as detailed in the Securities Note, save in respect of the years 2021, 2022 and 2023, in respect of which the Bonds shall bear no interest (2021), or shall bear interest at the rate of 2.50% (2022) or 3.00% (2023);
4(1)	(1) The Issuer hereby irrevocably covenants in favour of the Security Trustee, for the benefit of the Bondholders that: (a) The Bonds shall be redeemed at par (together with interest accrued to the date fixed for redemption) on the Redemption Date, unless they shall have been previously re-purchased and cancelled by the Issuer, or otherwise redeemed in accordance with their terms; and (b) Until the whole of the Bonds shall have been repaid or otherwise redeemed and fully discharged, the Issuer shall pay to the Bondholders interest on the principal amount for the time being outstanding on the Bonds at the rate of 4.85% on 23 November of each year in terms of the provisions of the Prospectus. The	(1) The Issuer hereby irrevocably covenants in favour of the Security Trustee, for the benefit of the Bondholders that: (a) The Bonds shall be redeemed at par (together with interest accrued to the date fixed for redemption) on the Redemption Date, unless they shall have been previously re-purchased and cancelled by the Issuer, or otherwise redeemed in accordance with their terms, provided that the interest deducted in consequence of the resolution passed at a meeting of Bondholders dated 12 November, 2021 shall not be deemed to be accruing up to the date fixed for redemption; and (b) Until the whole of the Bonds shall have been repaid or otherwise redeemed and fully discharged, the

	first such payment shall fall due on the 25 November 2019.	Issuer shall pay to the Bondholders interest on the principal amount for the time being outstanding on the Bonds at the rate of 4.85% on 23 November of each year in terms of the provisions of the Prospectus, save for the years 2021, 2022 and 2023, in which years the Bonds shall bear no interest (2021), or shall bear interest at the rate of 2.50% (2022) or 3.00% (2023). The first such payment shall fall due on the 25 November 2019.
5	(1) The Issuer covenants to the Security Trustee, for the benefit of the Bondholders, that at all times during the continuance of any amounts outstanding under the Bonds: (a) to pay to the Bondholders interest as set out in the Prospectus and in clause 4 of this Security Trust Deed;	(1) The Issuer covenants to the Security Trustee, for the benefit of the Bondholders, that at all times during the continuance of any amounts outstanding under the Bonds: (a) to pay to the Bondholders interest as set out in the Prospectus and in clause 4 of this Security Trust Deed, as amended pursuant to the resolution passed at a meeting of Bondholders dated 12 November, 2021;
5	(2) Melite Properties covenants to the Security Trustee, for the benefit of the Bondholders, that at all times during the continuance of any amounts outstanding under the Bonds, it shall not transfer or dispose of any rights over immovable property which it enjoys, where such disposal exceeds €2,000,000, without the prior written consent of the Issuer and the Security Trustee: PROVIDED THAT the giving of its consent in terms of this clause 5(2) shall not be deemed to constitute the exercising of the Security Trustee's discretion for the purposes of clause 13 of this Security Trust Deed.	(2) Melite Properties covenants to the Security Trustee, for the benefit of the Bondholders, that at all times during the continuance of any amounts outstanding under the Bonds, it shall not transfer or dispose of any rights over immovable property which it enjoys, where such disposal exceeds €3,100,000, without the prior written consent of the Issuer and the Security Trustee: PROVIDED THAT the giving of its consent in terms of this clause 5(2) shall not be deemed to constitute the exercising of the Security Trustee's discretion for the purposes of clause 13 of this Security Trust Deed.

15	(1) Upon the payment or prepayment, on the Redemption Date or otherwise, of the principal amount of the Bonds, payment of all interest thereunder and reimbursement of all expenses incurred by and payment of remuneration due to the Security Trustee under this Security Trust Deed, all obligations and all security interests created by the Bonds, this Security Trust Deed, the Share Pledge Agreement and/or Deed of Hypothec, shall be released and forever discharged, whereupon the Security Trustee shall be discharged from all liabilities and obligations which it has under this Security Trust Deed, the Share Pledge Agreement and the Deed of Hypothec; in determining whether, for the purposes of this Security Trust Deed, the security period has come to an end, there shall be disregarded the liabilities of the Issuer in respect of the expenses of the Issuer in connection with any such release or re-assignment. (2) The Collateral relates, in part, to intangible assets in the form of property rights attaching to lease contracts entered into by Melite Properties in respect of a number of retail outlets in Italy as described in section 4.3.1 of the Registration Document. For the purposes of this Security Trust Deed, Melite Properties undertakes in favour of the Issuer and Security Trustee not to dispose of property rights it holds over such retail outlets from time to time during the term of the Bonds, without the prior approval of the Issuer and the Security Trustee, subject to a materiality threshold of €2,000,000.	(1) Upon the payment or prepayment, on the Redemption Date or otherwise, of the principal amount of the Bonds, payment of all interest thereunder (as reduced in terms of a resolution passed at a meeting of Bondholders dated 12 November, 2021) and reimbursement of all expenses incurred by and payment of remuneration due to the Security Trustee under this Security Trust Deed, all obligations and all security interests created by the Bonds, this Security Trust Deed, the Share Pledge Agreement and/or Deed of Hypothec, shall be released and forever discharged, whereupon the Security Trustee shall be discharged from all liabilities and obligations which it has under this Security Trust Deed, the Share Pledge Agreement and the Deed of Hypothec; in determining whether, for the purposes of this Security Trust Deed, the security period has come to an end, there shall be disregarded the liabilities of the Issuer in respect of the expenses of the Issuer in connection with any such release or re-assignment. (2) The Collateral relates, in part, to intangible assets in the form of property rights attaching to lease contracts entered into by Melite Properties in respect of a number of retail outlets in Italy as described in section 4.3.1 of the Registration Document. For the purposes of this Security Trust Deed, Melite Properties undertakes in favour of the Issuer and Security Trustee not to dispose of property rights it holds over such retail outlets from time to time during the term of the Bonds, without the prior approval of the Issuer and the Security Trustee, subject to a materiality threshold of €3,100,000.