Financial Analysis Summary

27 June 2022

Issuer

Stivala Group Finance p.l.c.

MZ INVESTMENT SERVICES

MZ INVESTMENT SERVICES

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

27 June 2022

Dear Board Members,

Financial Analysis Summary

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

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

(a) Historical financial data for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 has been extracted from the audited financial statements of the two principal operating companies – ST Properties Ltd and ST Hotels Ltd.

(b) Historical financial data for the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021 has been extracted from the audited financial statements of the Company.

(c) The forecast has been extracted from the projected financial information of the Group for the year ending 31 December 2022.

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

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

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(f) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Company and should not be interpreted as a recommendation to invest in any of the Company's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Company's securities.

Yours faithfully,

Evan Mohnani
Senior Financial Advisor

MZ Investment Services Ltd
63, St Rita Street,
Rabat RBT 1523,
Malta
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PART 1 – INFORMATION ABOUT THE GROUP

1. KEY ACTIVITIES

1.1 The Company

The Issuer was set up as the holding company and finance arm of the Group on 21 August 2017 and is the principal vehicle for further expansion of the Group's hospitality business and mixed-use developments.

The ultimate beneficial owners of the Issuer are Martin John Stivala, Ivan Stivala and Michael Stivala, together with their direct descendants and families, in equal proportions.

1.2 The Guarantor

Carmelo Stivala Group Limited (the "**Guarantor**") acts as the Group's property holding company and owns almost all of the Group's immovable property, which property is subsequently leased to and operated by the subsidiaries of the Stivala Group ("**Subsidiaries**"). The majority of the shares in the Guarantor are owned by the Issuer.

2. DIRECTORS AND KEY EMPLOYEES

2.1 The Company

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

Board of Directors

Ivan Stivala	Executive Chairman
Martin John Stivala	Executive Director
Michael Stivala	Executive Director
Francis Gouder	Independent Non-executive Director
Ann Marie Agius	Independent Non-executive Director
Jean Paul Debono	Independent Non-executive Director

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

2.2 The Guarantor

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

Board of Directors

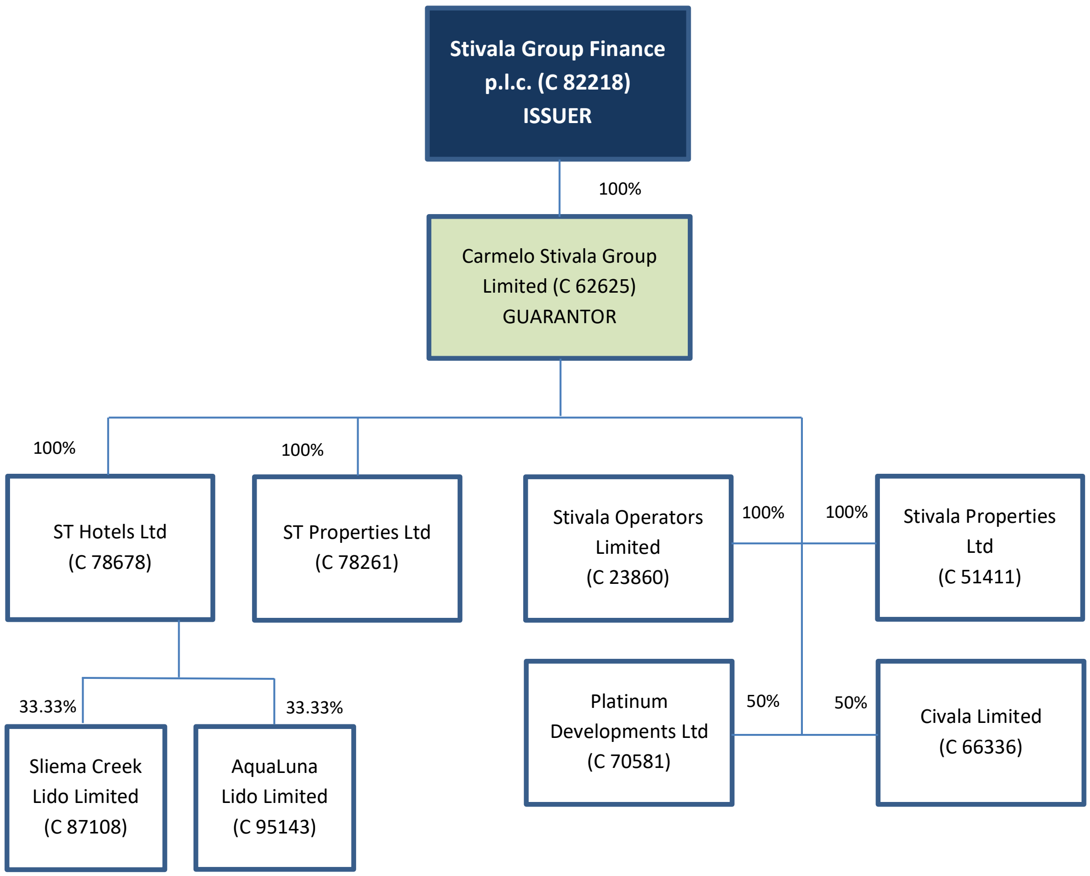
Martin John Stivala	Executive Director
Michael Stivala	Executive Director
Ivan Stivala	Executive Director

2.3 Key Employees of the Group

The key members of the Group's management team, apart from the executive directors, are Kevin Bonnici (Group Financial Controller) and Rebecca Stivala (Group Accounts Manager). The Issuer does not have any employees of its own. As at 31 December 2021, the Group employed 15 staff members in management and administration (2020: 15 employees) and 121 staff members in operational activities (2020: 120 employees).

3. ORGANISATIONAL STRUCTURE

The organisational structure of the Group as at the date of this report is illustrated in the diagram below:



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

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

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

The Group also has four associate companies as follows: (i) Platinum Developments Ltd (C 70581) - owns and leases three residential units and one office on the Sliema Seafront; (ii) Civala Limited (C 66336) – has a long term lease on a 900m^2 plot of land earmarked for the future development of a five-storey car park and overlying office space; and (iii) Sliema Creek Lido Limited (C 87108) and AquaLuna Lido Limited (C 95143) – both involved in the management of a lido opposite the Bayview Hotel in Gzira.

4. BUSINESS OVERVIEW OF THE GROUP

4.1 Principal Activities

The Issuer was established on 21 August 2017 as the holding company and finance arm of the Group.

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

The Group has the following main areas of activity:

- **Ownership of real estate** – comprises the identification of sites or real estate that can be developed for subsequent operation, either as part of its hospitality operations or for residential or commercial letting. The Group directly undertakes the development of projects, thus allowing greater control by the Group over costs and timelines of its property developments;
- **Hospitality operations** – the Group operates properties intended for hospitality purposes consisting of hotels, hostels or apartments for short term accommodation;
- **Long-term letting operations** – comprises the letting over the longer term of commercial properties and residential properties owned by the Group.

Group revenue and earnings are derived primarily from the operation of owned hotels, hostels and short let apartments through ST Hotels Ltd. The balance of revenue is generated by ST Properties Ltd and comprises rental income from commercial and long let residential properties.

4.2 Ownership of Real Estate

The Group owns its immovable properties primarily through the Guarantor, which are managed and operated by the two principal operating subsidiaries of the Group – ST Hotels Ltd and ST Properties Ltd.

The real estate portfolio of the Group is included in the statement of financial position under the headings “Property, plant and equipment” and “Investment property”. On 26 April 2021, Carlo Stivala relinquished his 25% ownership interest in the Stivala Group and in consideration, certain immovable properties owned by Carmelo Stivala Group Limited were transferred to CAST Holdings Limited (a company that is ultimately owned by Carlo Stivala and his descendants). Such assets amounting to €60.0 million were re-classified in the statement of financial position as at 31 December 2020 from “Property, plant and equipment” and “Investment property” to “Assets held for distribution to owner”.

As at 31 December 2021, the carrying value of real estate amounted to €327.1 million (FY2020: €259.2 million), analysed further hereunder.

Stivala Group Finance p.l.c.
Group Assets as at 31 December

Name and location	Description	2021 EUR'000	2020 EUR'000
Bayview Hotel, 143, the strand, Gzira	Hospitality operations	40,000	27,397
ST Balluta Business centre, 196, 197, Main Street, St Julians	Long term letting operations	35,000	35,446
Blubay Hotel, Ponsomby Street, Gzira	Hospitality operations	22,000	12,000
Azur Hotel, Belvedere Street, Gzira	Hospitality operations	20,000	20,094
Sliema Hotel , The Strand , Gzira	Hospitality operations	20,000	16,141
ST Business Centre, 120, The Strand, Gzira	Long term letting operations	20,000	15,000
ST Tower, Testaferrata Street, Ta Xbiex	Property to be developed	20,000	10,000
Montana Hotel, 28/31 Garage + 32, Coleridge Street, Gzira	Property to be developed	20,000	6,000
EC Language school, Triq Marguerite Mangion, St Julians	Long term letting operations	12,000	12,000
153/154, The Strand + 5, Ponsomby Street, Gzira	Hospitality operations	10,000	10,000
Proposed Home Elderly, Reid Street, c/w Cameron Street, Gzira	Property to be developed	10,000	4,030
136/137/138, The Strand, Gzira	Hospitality operations	7,000	5,000
Ponsomby Hotel + School , Ponsomby Street, Gzira	Property to be developed	6,728	6,217
Blubay Hostel, 70/72/84, Reid Street, Gzira	Hospitality operations	6,000	4,013
Avalon Residence, The Strand , Sliema	Long term letting operations	5,500	5,000
134/135, The Strand, Gzira	Hospitality operations	5,250	5,000
Parisio Hotel, Parisio Street, Gzira	Property to be developed	5,000	5,000
Charles Guesthouse & Gardenia Mansions, Msida	Long term letting operations	4,500	3,000
165/166 Focal Residence, The Strand, Gzira	Hospitality operations	4,000	4,000
Valley Towers, Valley Road, Birkirkara	Long term letting operations	4,000	2,550
176/177 Waterline Residence, The Strand, Gzira	Hospitality operations	4,000	2,500
Tower Mansions, Msida	Long term letting operations	3,500	3,500
4/5 Tigne Residence, Pace Street, Gzira	Long term letting operations	3,500	3,000
Blubay, 65/67/69/71/73, Fleet Street, Gzira	Hospitality operations	3,000	3,003
110/112/114, Carlo Manche Street, Gzira	Hospitality operations	3,000	2,700
Orchidea Apts, Tah-Hriereb Street, Msida	Long term letting operations	3,000	2,501
122, The Strand, Gzira	Long term letting operations	3,000	2,000
Other properties		27,073	32,108
		327,051	**259,201**

The fair value of the Group's properties as at 31 December 2021 is based on a valuation assessment by the Directors at year end. This has resulted in the reporting of an uplift in fair value of investment property and property, plant and equipment of €30.0 million and €30.4 million, net of deferred tax, in the statement of profit or loss and other comprehensive income, respectively. The last valuation exercise carried out by independent external valuers on the Group's properties was performed on 31 May 2020.

A brief description of properties in the course of development or held for future development is provided below:

ST Tower, Ta' Xbiex

Development works are currently underway for the construction of a 15-floor commercial building in Testaferrata Street, Ta' Xbiex. On completion, the property will comprise 14 floors of rentable office space and a top floor earmarked for catering purposes. The Group expects to complete the project by the end of 2024 at an estimated cost of €14.5 million.

Montana Hotel, Gzira

The Group has a Planning Authority permit for the development of a 225-room hostel on part of the subject site (PA 0398/14). An application for its extension to include the whole site has been submitted to the Planning Authority (PA 5370/17). The project should be completed within a 12 to 15-month period from commencement of development works. Currently, the Group does not plan to initiate this project before FY2024.

Proposed Home for the Elderly, Gzira

This property consists of a block of apartments and various small houses having an aggregate site area of *circa* 632m^2. The Group plans to redevelop the site into a home for the elderly having 244 beds in accordance with PA6204/17. No date has been established for commencement of this project.

Ponsomby Hotel and School, Gzira

The Group is presently developing a hotel and school over a site area measuring *circa* 400m^2. This project is scheduled to be completed by Q1 2023 at an estimated cost of *circa* €7.9 million. The proposed property will comprise a school as to the initial 4 floors and an 82-room hotel from the 5th floor to the 10th floor. The roof level will include a pool and decking area. The afore-mentioned school is set to form part of an Italian-based higher education institution specialising in osteopathy and physiotherapy.

Parisio Hotel, Gzira

This property is situated within the residential area of Sliema where a building height of 4 floors without semi-basement with a maximum height of 20.8 metres is permitted according to the North Harbours Local Plan and Development Control Design Policy, Guidance and Standards 2015 (DC15). Presently, the site has been cleared with all buildings demolished, except for a house at 19, Parisio Street, Sliema that is still occupied. The property is earmarked for the development of a hotel. The formal Planning Authority application has been submitted.

Novotel Hotel (redevelopment of the Blubay Suites & Apartments)

The Group has building permits in hand for the redevelopment of the 54-room Blubay Block located in Ponsomby Street, Gzira. Works are scheduled to commence in Q4 2022 and will extend for a period of *circa* 30 months at a cost of approximately €15 million. The plan is to develop an 11-floor property having 292 rooms, along with underground parking and ancillary facilities such as an indoor pool and fitness area, as well as a pool and deck area at roof level. Furthermore, the Group has entered into a franchise agreement for the purposes of operating the proposed 4-star hotel under the “Novotel” brand name.

Movenpick hotel (redevelopment of the Sliema Hotel)

The Group is planning to demolish the 70-room Sliema Hotel and develop a 165-room 5-star hotel at an estimated cost of €10.5 million. Furthermore, the Group has entered into a franchise agreement to operate the said hotel under the “Movenpick” brand name. Closure of the Sliema Hotel will take place after the new Novotel Hotel is completed and fully operational.

PROPERTY HELD-FOR-SALE *(classified as current asset in the statement of financial position)*

As at 31 December 2021, property held-for-sale amounted to €2.2 million and comprise two development projects situated in Belvedere Street, Gzira and Sqaq Dun Andrea, Msida.

The Gzira property is in a complete state and includes 12 residential units of which 1 unit was sold in FY2021. To date, 5 residential units are subject to promise of sale agreements.

The Msida property is in shell form and currently finishing works are in progress. The afore-mentioned project consists of 54 residential units spread over 4 adjacent blocks. As at the date of this report, 35 residential units are subject to promise of sale agreements.

4.3 Hospitality Operations

Hospitality operations are performed by ST Hotels Ltd. The financial information about ST Hotels Ltd is included in the audited financial statements of the said company for the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021.

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

ST Hotels Ltd
Statement of Total Comprehensive Income
for the year ended 31 December

	2019 Actual €'000	2020 Actual €'000	2021 Actual €'000
Revenue	14,351	5,504	8,642
Cost of sales	(6,147)	(3,550)	(3,390)
Gross profit	**8,204**	**1,954**	**5,252**
Other net operating costs	(1,808)	(896)	(1,354)
EBITDA	**6,396**	**1,058**	**3,898**
Depreciation & amortisation	(4,647)	(5,724)	(5,917)
Operating profit (loss)	**1,749**	**(4,666)**	**(2,019)**
Net finance costs	(2,169)	(2,217)	(2,327)
Profit/(loss) before tax	**(420)**	**(6,883)**	**(4,346)**
Taxation	495	3,721	2,432
Profit/(loss) for the year	**75**	**(3,162)**	**(1,914)**
Total comprehensive income (expense)	**75**	**(3,162)**	**(1,914)**
Gross profit margin *(Gross profit/revenue)*	57%	36%	61%
Net profit margin *(Profit after tax/revenue)*	1%	-57%	-22%

In April **2019**, St Hotels Ltd commenced operating the 177-room 3-star Azur Hotel situated in Belvedere Street, Gzira, which contributed to the increase of €3.4 million (+72%) in revenue generated from the hotel segment to €8.1 million (FY2018: €4.7 million). Other revenue (including hostels, short let apartments and other income) remained stable on a y-o-y basis at €6.3 million. As such, total revenue in FY2019 increased by €3.4 million (+31%), from €11.0 million in FY2018 to €14.4 million.

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

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

In **FY2020**, the Company's revenue was materially impacted by the COVID-19 pandemic and amounted to €5.5 million. Compared to the prior year, the y-o-y decrease in revenue amounted to €8.8 million or -62%. Further analysis shows that revenue generated by hotels declined by 76% (y-o-y), while other income decreased by 43% (y-o-y). Despite this decline, the Company still managed to register a positive EBITDA of €1.1 million (FY2019: €6.4 million) mainly on account of the cost cutting exercise undertaken by management as well as Government's support through the wage subsidy scheme.

After accounting for depreciation & amortisation and net finance costs of €7.9 million (in aggregate), the Company reported a loss before tax of €6.9 million compared to a loss of €420,000 in the prior year. A tax credit of €3.7 million enabled the Company to reduce its end-of-year loss and thereby reported total comprehensive expense of €3.2 million (FY2019: income of €75,000).

FY2021 was a more positive year compared to the prior year, but revenue was still 40% lower than that achieved in FY2019 (pre-COVID 19). Due to reduced operations as a consequence of the pandemic, the Group took the opportunity to close the 152-room Bayview Hotel during Q1 2021 for refurbishment purposes. In the reviewed year, the Company generated €8.6 million in revenue, an increase of €3.1 million (+57%) over FY2020. The improved y-o-y performance resulted in a reduction of the loss for the year, from €3.2 million in FY2020 to €1.9 million in FY2021.

4.4 Property Rentals

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

Financial information about ST Properties Ltd is included in the audited financial statements of the said company for the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021.

Set out below is the statement of total comprehensive income extracted from the above-mentioned audited financial statements for the financial years indicated hereunder:

ST Properties Ltd **Statement of Total Comprehensive Income** **for the year ended 31 December**	**2019** **Actual** **€'000**	**2020** **Actual** **€'000**	**2021** **Actual** **€'000**
Revenue	6,457	6,121	6,224
Commercial	*2,941*	*3,560*	*4,426*
Residential	*3,516*	*2,561*	*1,798*
Cost of sales	(675)	(595)	(625)
Gross profit	**5,782**	**5,526**	**5,599**
Other net operating (costs)/income	661	569	610
Profit before tax	**6,443**	**6,095**	**6,209**
Taxation	(967)	(907)	(923)
Profit for the year	**5,476**	**5,188**	**5,286**
Total comprehensive income	**5,476**	**5,188**	**5,286**
Gross profit margin *(Gross profit/revenue)*	90%	90%	90%
Net profit margin *(Profit after tax/revenue)*	85%	85%	85%

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

The results of **FY2020** were adversely impacted by COVID-19 but not to the same extent as the impact on the hospitality operations of the Group. Rental income for the year amounted to €6.1 million, a decrease of €336,000 (-5%) when compared to FY2019. The Company reported mixed results where rents generated from commercial properties increased by 21% (y-o-y) while residential property rental income decreased by 27% (y-o-y). Overall, the Company's profit for the year decreased by €288,000, from €5.5 million in FY2019 to €5.2 million in FY2020.

In **FY2021**, the Company reported a y-o-y increase in rents from commercial properties of €0.9 million (+24%) from €3.6 million in FY2020 to €4.4 million. During the said year, the Company successfully leased all 8 floors of the newly developed ST Balluta Business Centre in Sliema. On the other hand, long-term residential leases were slightly lower compared to a year earlier and amounted to €1.8 million (FY2020: €2.6 million). Overall, reported revenue was higher on a comparable basis by 2% and amounted to €6.2 million (FY2020: €6.1 million). Gross profit margin was maintained at 90%.

The Company registered a profit for the year of €5.3 million compared to €5.2 million in the prior year.

5. MARKET OVERVIEW

5.1 Economic Update[1]

The economy of Malta is set to continue expanding, by 4.2% in 2022 and by 4.0% in 2023 while withstanding the impact of the increase in by commodity prices and Russian invasion of Ukraine. The main factors supporting growth are the robust domestic demand and growth in exports of services, contributed by strong recovery in tourism. The general government balance is projected to remain in deficit, however decreasing in 2022 and 2023, following winding-down of pandemic related policy support on the background of economic growth.

The pressure from the COVID-19 pandemic related restrictions subsided in 2021, creating conditions for a very strong economic recovery of 9.4%, thanks to improved business and consumer sentiment, faster than expected rebound of international tourism and a strong growth in investment and services exports.

In 2022, affected by disruptions related to the Russian invasion of Ukraine, real GDP growth is forecast to reach 4.2%, which is substantially less than expected in winter, although Malta has very low direct exposure to trade with Russia and Ukraine. Growth in 2022 is set to be driven by domestic consumption, investment, and a small positive contribution from net exports. Export of tourism services is expected to continue gaining ground on the back of easing pandemic-restrictions. Robust government expenditure, in particular via public investment, will continue to support the economy. In 2023, growth is forecast to decrease to a still strong 4.0%, reflecting a general slowdown in performance among trading partners.

With both exports and imports growing, the current account balance is expected to remain positive. The limited downside risks deriving from the June 2021 decision of the Financial Action Task Force (the international standard-setting body on anti-money laundering/countering the financing of terrorism) to include Malta in the list of jurisdictions under increased monitoring have further receded following the FATF initial determination, in February 2022, that Malta has substantially completed its action plan. On 17 June 2022, the Financial Action Task Force (“FATF”) officially announced the removal of Malta from its list of Jurisdictions under Increased Monitoring, informally known as the 'grey list'.

[1] Economic Forecast – Spring 2022 (European Commission Institutional Paper 173 May ’22).

Malta was able to cushion the impact of the pandemic on the labour market thanks to fiscal support. Employment is estimated to have grown by 1.6% in 2021, while the wage support measures remained in place. Employment is expected to continue to increase over the forecast horizon. This positive development in the labour market is congruent with labour shortages being reported by firms. Malta's unemployment rate, at 3.5% in 2021, is set to remain broadly stable in 2022 and 2023.

HICP[2] inflation remained low in 2021 at 0.7%, thanks to energy prices being kept low by government intervention and hedging contracts for gas. Going forward, while Malta's economy is highly energy-intensive, the share of household expenditures on energy is low compared to other Member States and the authorities have expressed a commitment to continue to limit energy prices growth. The higher inflation in the first quarter of 2022 shows that the pressure from increasing international energy and commodity prices is starting to affect Malta via transport costs and imported goods. As a result, inflation is set to rise to 4.5% in 2022. As these factors are expected to persist into 2023, inflation is expected to remain elevated at 2.6%.

The government deficit is estimated to have decreased to 8.0% of GDP in 2021. This still high deficit level is mainly explained by public expenditure related to pandemic-related measures which were maintained in 2021, including the wage support scheme, the utility and rent subsidies for businesses, and healthcare-related expenditures. Pandemic-related economic support measures are expected to be phased out in 2022 and 2023, while several measures in response to the high energy prices were recently introduced.

The tax revenues resumed growth in 2021 and are expected to continue to increase in 2022 and 2023, following the positive economic growth dynamics. The revenues from social contributions also increased in 2021 and are expected to continue increasing over the forecast horizon, supported by the good performance of the labour market.

The deficit is projected to decrease to 5.6% of GDP in 2022 and further to 4.6% in 2023. The government debt-to-GDP ratio is projected to increase marginally to 58.5% in 2022 and reach 59.5% in 2023 as the negative primary balance is only partially compensated by the nominal GDP growth.

5.2 Hospitality[3]

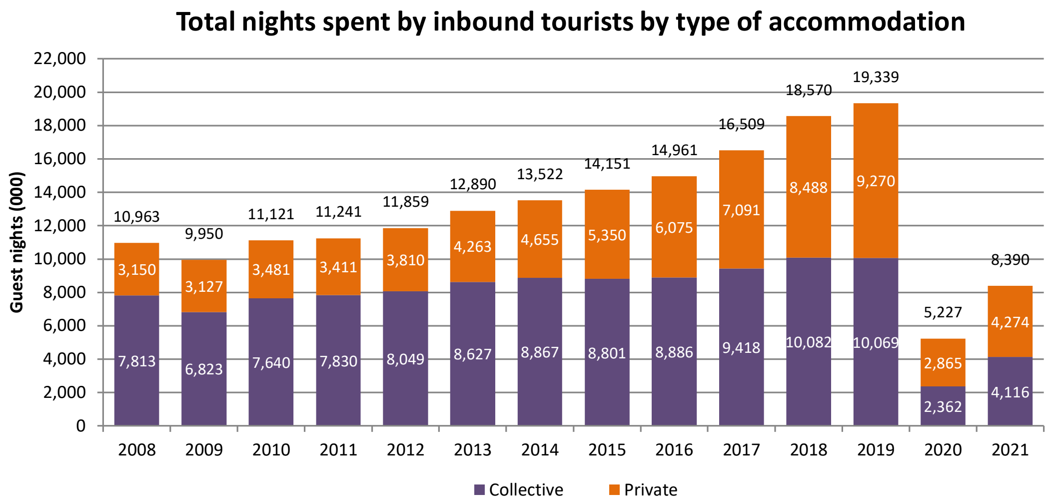
Although COVID-19 related travel restrictions remained in place, 2021 registered a marked improvement in the number of inbound tourists, nights stayed and tourist expenditure in Malta relative to those recorded in the corresponding period of 2020. Nonetheless, activity indicators for the sector generally remain well below 2019 levels.

In 2021, the number of inbound tourists increased by 47% over 2020, reaching 968,136 (2019: 2.8 million inbound tourists). In absolute terms, tourists visiting Malta for leisure purposes accounted for most of the year-on-year increase in arrivals although the number of visitors with business and other

[2] The Harmonised Indices of Consumer Prices (HICP) measure the changes over time in the prices of consumer goods and services acquired by households.

[3] National Statistics Office Malta – News Release 019/2022 and 033/2022

motives also increased. Meanwhile, the total number of guest nights that tourists spent in Malta during 2021 increased to around 8.4 million, from 5.2 million a year earlier (+62%) (2019: 19.3 million guest nights). Guest nights at collective accommodation made up 51% of the aggregate (2020: 55%), while rented accommodation (other than collective accommodation) held a 49% share (2020: 45%).

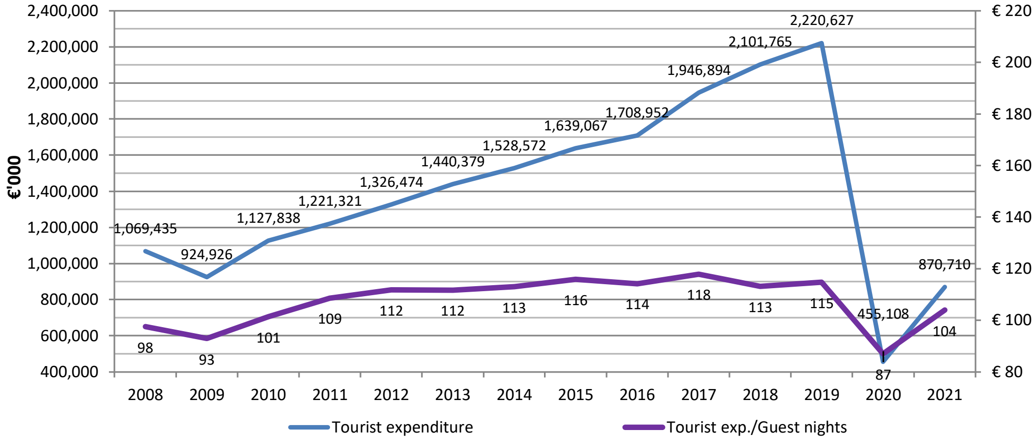


Source: National Statistics Office Malta

The total occupancy rate in collective accommodation establishments in 2021 increased to 33.1% from 25.4% in 2020 (2019: 65.7%). The 5-star category reported the largest increase – of 11.3 percentage points – followed by a rise of 8.8 percentage points in the 3-star category. Meanwhile, the smallest increase – of 1.2 percentage points – was recorded in the 2-star category.

Tourist expenditure in Malta almost doubled in 2021 to €870.7 million relative to the prior year. The increase relative to 2020 was driven by higher other expenditure (being expenditure other than package and non-package expenditure) and non-package expenditure (comprising air/sea fares and accommodation), although spending on package holidays also increased significantly. Following this increase, tourist expenditure in Malta was 61% below its level two years earlier.

Total expenditure by inbound tourists



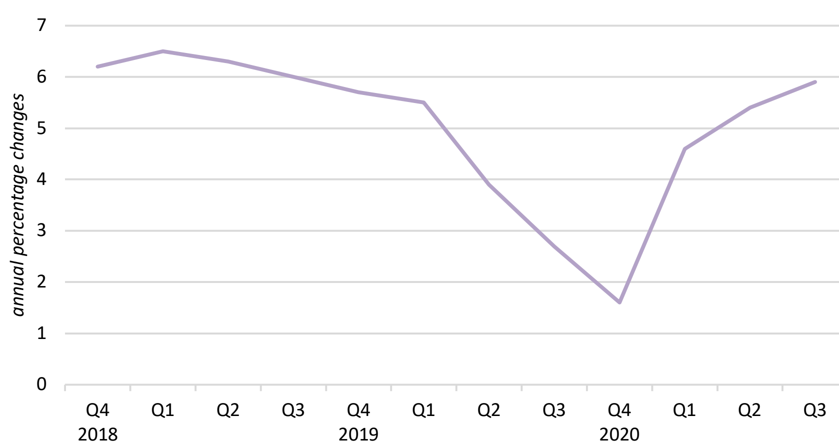
Source: National Statistics Office Malta

Expenditure per capita increased to €899 from €691 in 2020, while average length of stay also increased from 7.9 nights in 2020 to 8.7 nights in 2021.

5.3 Property

The Property Price Index (PPI) – which is based on actual transactions involving apartments, maisonettes and terraced houses – continued to increase in annual terms. The annual rate of change reached 5.9% in the third quarter of 2021, up from 5.4% in the previous quarter (see chart below). Nevertheless, house price inflation in Malta remained below that in the euro area where prices increased at an annual rate of 8.8%. Notwithstanding the acceleration in the third quarter of 2021, house price inflation remains close to that recorded in the years before the pandemic.

Movements in Residential Property Prices

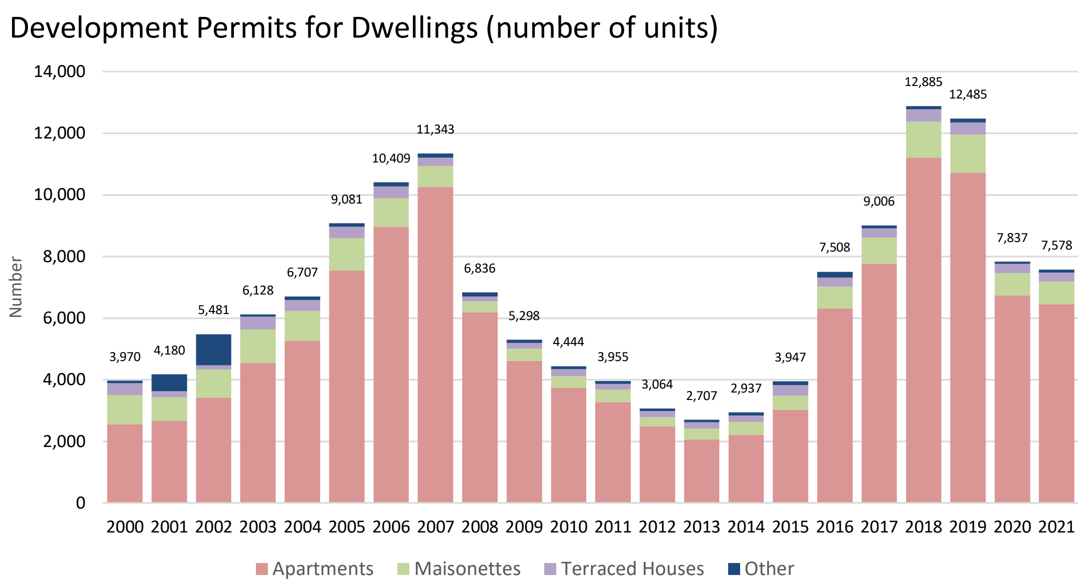


Source: Eurostat

From a shorter-term perspective, residential property prices seem to have returned to a growth trend following the sharp slowdown during the initial stages of the pandemic. Residential property prices continue to be supported by numerous factors including the low-interest rate environment that makes property more attractive as an investment as well as the Government's schemes related to the property market. Property prices were also supported by the enhancement of government support in response to the pandemic such as lower property tax rate and stamp duty to eligible transfers of immovable property. In particular, the property tax and stamp duty on the first €400,000 of the value of the transfer were reduced to 5.0% and 1.5% respectively. These measures were initially intended for final transfers made before 1 April 2021 but were later extended. Moreover, Budget 2021 extended or introduced more favourable terms on several schemes supporting the property market that were in place before the pandemic.[4]

In 2021, the number of final deeds of sale relating to residential property amounted to 14,349 compared to 11,057 deeds in 2020 (+30%). The value of deeds completed in 2021 amounted to €3,120.3 million, an increase of 47% when compared to the prior year (2020: €2,125.7 million).[5]

The number of permits issued in 2021 for the construction of residential dwellings amounted to 4,956 permits, compared to 4,938 permits in the prior year, for the development of 7,578 residential units (2020: 7,837 residential units). As shown in the below chart, the number of units in 2021 (7,578) reflects a decrease of 41% from the all-time high of 12,885 units in 2018.



Source: Central Bank of Malta

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4 Central Bank of Malta Quarterly Review – 2022 Vol. 55 No. 1

5 National Statistics Office Malta – News Release 006/2022

Market data relating to commercial property in Malta (which includes industrial, logistics, warehousing, retail, hospitality and a predominant portion in the office asset class) is not available and thus makes it more difficult to gauge the health of this sector.

A trend accelerated by the pandemic is the rise of e-commerce across consumers. Not only does more online shopping challenge traditional brick and mortar retailers, but it raises the demand for warehousing and distribution centres.

With regard to the office sector, its future performance is highly uncertain. Debate is ongoing on the longevity of the pandemic-driven work-from-home (WFH) phenomenon. While WFH provides flexibility, convenience, no commuting, and a reduced wardrobe budget, there are obvious downsides: the difficulty in building teams, innovating, mentoring, and creating and sustaining culture. The longer people are isolated away from the office environment, the less they will develop relationships with their co-workers and feel connected to their companies. At some point, likely sooner than later, businesses will discover that full-time WFH arrangements simply cannot work and retaining talent will become an even greater challenge.

It is likely that most businesses will require their employees to come to the office for teamwork, company meetings, training and other collaborative activities with the remainder of the time retaining the flexibility of WFH if desired by the employee. That means office space will be configured for more group interactive and therefore companies will need less space. As such, tenants will be thinking harder about space needs and configuration going forward, and many companies may take the opportunity to upgrade to smaller, higher quality office space.

The hospitality industry is expected to fully recover in 2024, with business and conference travel gaining momentum so long as COVID variants stop emerging. The biggest issue the sector is dealing with at the moment is a labour shortage and the need to pay higher wages to attract talent. Due to the expected sector recovery, both equity and debt capital is set to continue to flow to the hospitality industry.

PART 2 – PERFORMANCE REVIEW

6. FINANCIAL INFORMATION

The financial information relating to the Group is extracted from the audited consolidated financial statements of the Issuer for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

The projected consolidated financial information for FY2022 relates to events in the future and are based on assumptions which the Issuer believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

Stivala Group Finance p.l.c. Consolidated Statement of Total Comprehensive Income for the year ended 31 December	2019 Actual €'000	2020 Actual €'000	2021 Actual €'000	2022 Projection €'000
Revenue	22,141	11,748	15,065	27,584
Cost of sales	(6,475)	(3,918)	(3,713)	(6,806)
Gross profit	**15,666**	**7,830**	**11,352**	**20,778**
Net operating costs	(1,555)	(578)	(903)	(1,859)
EBITDA	**14,111**	**7,252**	**10,449**	**18,919**
Depreciation & amortisation	(3,605)	(5,995)	(3,708)	(2,927)
Provision for expected credit losses (ECL)	-	-	(7,920)	-
Operating profit (loss)	**10,506**	**1,257**	**(1,179)**	**15,992**
Movement in revaluation of property	-	29,021	29,968	-
Share in profit (loss) of associates	-	354	(48)	-
Loss on distribution to shareholder	-	-	(21,131)	-
Net finance costs	(2,871)	(3,160)	(3,215)	(3,330)
Profit before tax	**7,635**	**27,472**	**4,395**	**12,662**
Taxation	(1,532)	(480)	7,992	(2,325)
Profit for the year	**6,103**	**26,992**	**12,387**	**10,337**
Other comprehensive income:				
Movement in revaluation of property, net of tax	1,177	81,338	30,355	-
Total comprehensive income	**7,280**	**108,330**	**42,742**	**10,337**

Stivala Group Finance p.l.c. EBITDA (Earnings before interest, tax, depreciation for the year ended 31 December	2019 Actual €'000	2020 Actual €'000	2021 Actual €'000	2022 Projection €'000
EBITDA has been calculated as follows:				
Operating profit (loss)	10,506	1,257	(1,179)	15,992
Add back:				
Depreciation & amortisation	3,605	5,995	3,708	2,927
Provision for expected credit losses (ECL)	-	-	7,920	-
EBITDA	**14,111**	**7,252**	**10,449**	**18,919**

Key Accounting Ratios	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Projection
Gross profit margin *(Gross profit/revenue)*	71%	67%	75%	75%
Operating profit margin *(EBITDA/revenue)*	64%	62%	69%	69%
Interest cover (times) *(EBITDA/net finance cost)*	4.92	2.29	3.25	5.68
Net profit margin *(Profit after tax/revenue)*	28%	230%	82%	37%
Earnings per share (€) *(Profit after tax/number of shares)*	20.34	89.97	48.58	40.54
Return on equity *(Profit after tax/shareholders' equity)*	5%	12%	5%	4%
Return on capital employed *(EBITDA/total assets less current liabilities)*	7%	2%	3%	5%
Return on assets *(Profit after tax/total assets)*	3%	8%	3%	3%

Source: MZ Investment Services Ltd

The operating results presented hereinabove primarily reflect the performance of the Group's operating subsidiaries - ST Hotels Ltd and ST Properties Ltd - which are described in further detail in sections 4.3 and 4.4 of this report.

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

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

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

In FY2019, the Group generated revenue amounting to €22.1 million, an increase of €2.5 million (+13%) when compared to FY2018. This increase in revenue is a reflection of a full year's operating income derived from a larger property portfolio and as such the expansion occurring in all operational sectors of the Group (hospitality, commercial leasing and residential rental sectors). Furthermore, during the year, the Group sold 10 residential units and 4 garages situated at 33, Juliani Heights, Triq Zammit Clapp, St Julians for an aggregate consideration of €2.8 million. As a consequence, the Group's operating profit increased by €2.7 million (+35%) y-o-y to €10.5 million in FY2019. The Group reported a profit after tax in FY2019 amounting to €6.1 million (FY2018: €115.6 million).

Revenue in **FY2020** decreased by €10.4 million (y-o-y) to €11.7 million as a result of the complete shutdown of the hospitality operations from mid-March 2020 to 30 June 2020, and the curtailment of hotel and short-let operations from July to December 2020. On the other hand, rental income from commercial premises and long-let apartments remained broadly stable, although concessions and, or deferments of monthly rental payments were granted to a limited number of tenants during the shutdown period.

In consequence, EBITDA decreased by 49% from €14.1 million in FY2019 to €7.3 million but remained positive on account of the cost cutting exercise undertaken by management as well as Government's support through the wage subsidy scheme. Due to an uplift in property, plant and equipment of €81.3 million (net of deferred tax), depreciation & amortisation increased by 66% from €3.6 million in FY2019 to €6.0 million in FY2020.

Further to accounting for an increase of €29.0 million in fair value of investment property, the Group reported a profit for the year of €27.0 million compared to €6.1 million in FY2019. As a result of the above-mentioned asset revaluation of €81.3 million, total comprehensive income for the year amounted to €108.3 million (FY2019: €7.3 million).

The adverse results of the Group in FY2020 compared to FY2019 are reflected in various key performance indicators as follows: gross profit margin was lower by 4 percentage points to 67%, while operating profit margin decreased from 64% in FY2019 to 62%. Interest cover also weakened from 4.92 times to 2.29 times. Other accounting ratios such as net profit margin and return on equity cannot be used as indicators for FY2020 due to exceptional items in the statement of total comprehensive income (movement in revaluation of investment property and property, plant and equipment).

Revenue in **FY2021** amounted to €15.1 million, an increase of €3.3 million (+28%) from the prior year. The majority of the said increase was generated from the hospitality sector as the Group's properties reported a notable y-o-y increase in occupancy levels particularly during the latter half of the year. Furthermore, the Group's gross profit margin improved from 67% in FY2020 to 75% in FY2021 and thereby resulted in a 45% (+ €3.6 million) increase in gross profit to €11.4 million (FY2020: €7.8 million).

In FY2021, the Group provided for expected credit losses on loans to other related undertakings of €7.9 million and in consequence reported an operating loss of €1.2 million compared to an operating profit of €1.3 million in FY2020.

The Group registered a loss of €21.1 million on distribution of property to Carlo Stivala following his divestiture in April 2021, which was offset by the revaluation of property of €30.0 million. As such, the Group's profit before tax amounted to €4.4 million in FY2021 compared to €27.5 million a year earlier.

Interest cover improved during the year from 2.29 times in FY2020 to 3.25 times.

Total comprehensive income for the year amounted to €42.7 million (FY2020: €108.3 million) after taking into account further uplifts in property values amounting to €30.4 million.

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

Revenue in **FY2022** is projected to increase by €12.5 million (+83%) y-o-y to €27.6 million as further explained hereinafter. The Group's hospitality segment is expected to perform better compared to the prior year as the economy continues to recover from the pandemic. This segment is projected to generate *circa* 43% of total revenue. Rental income is expected to increase by €2.4 million from €6.2 million in FY2021 to €8.6 million. Furthermore, forecast revenue includes an amount of €5.6 million that is expected to be generated from sales of residential units (described in section 4.2 of this report).

In consequence, EBITDA is projected to increase by €8.5 million (+81%) from €10.4 million in FY2021 to €18.9 million. The Group's operating profit margin is expected to remain unchanged at 69% on a comparable basis, but interest cover is expected to improve from 3.25 times in FY2021 to 5.68 times in FY2022.

Depreciation & amortisation is expected to decrease by €0.8 million to €2.9 million, while net finance costs are forecast to remain broadly unchanged at €3.3 million.

Overall, the Group is projected to report total comprehensive income of €10.3 million compared to €42.7 million in FY2021.

Stivala Group Finance p.l.c. **Consolidated Statement of Cash Flows** **for the year ended 31 December**	**2019** **Actual** **€'000**	**2020** **Actual** **€'000**	**2021** **Actual** **€'000**	**2022** **Projection** **€'000**
Net cash from operating activities	10,473	8,553	12,020	14,937
Net cash from investing activities	(13,605)	(12,303)	(8,789)	(9,523)
Net cash from financing activities	5,914	1,954	(3,181)	(1,222)
Net movement in cash and cash equivalents	**2,782**	**(1,796)**	**50**	**4,192**
Expected credit loss (ECL) on cash in banks	(3)	3	(4)	5
Cash and cash equivalents at beginning of year	(2,372)	407	(1,386)	(1,340)
Cash and cash equivalents at end of year	**407**	**(1,386)**	**(1,340)**	**2,857**

The consolidated cash flow statement shows that in FY2021, the Group generated cash inflows from operating activities of €12.0 million compared to €8.6 million in FY2020. The material variance from one year to another is mainly attributable to an increase in operating profit coupled with favourable working capital movements. In the forecast year (FY2022), the Group expects to generate net cash of €14.9 million from operating activities on account of adverse changes in working capital.

Net cash used in investing activities amounted to €8.8 million in FY2021 (FY2020: €12.3 million) and largely related to the expansion of the Group's property portfolio through acquisitions and development. In FY2022, expenditure relating to the various projects of the Group, new property acquisitions and payments to acquire property, plant and equipment is expected to amount to €9.5 million (in aggregate).

Net cash outflows from financing activities amounted to €3.2 million in FY2021 compared to inflows of €2.0 million in FY2020. In FY2021, advances from bank loans were lower by €2.8 million on a comparable basis, while interest payments increased from €2.9 million in FY2020 to €5.0 million in FY2021. In the forecast year, net bank loan drawdowns are estimated to amount to €2.2 million while interest payments are expected to amount to €3.4 million.

Stivala Group Finance p.l.c. Consolidated Statement of Financial Position as at 31 December	2019 Actual €'000	2020 Actual €'000	2021 Actual €'000	2022 Projection €'000
ASSETS				
Non-current assets				
Intangible assets	68	27	6	6
Right-of-use asset	517	816	607	604
Investment property	116,469	34,338	178,713	184,826
Property, plant & equipment	84,538	230,620	152,491	152,624
Investment in associates	-	355	308	505
Deferred taxation	-	4,959	10,574	10,574
Other non-current assets	1	-	-	-
	201,593	271,115	342,699	349,139
Current assets				
Inventory, trade and other receivables	7,315	6,661	9,873	7,507
Property held-for-sale	-	-	2,179	1,675
Assets held for distribution to owner	-	59,948	-	-
Other financial assets	15,494	15,753	8,004	9,481
Cash and cash equivalents	882	592	200	2,857
	23,691	82,954	20,256	21,520
Total assets	**225,284**	**354,069**	**362,955**	**370,659**
EQUITY				
Capital and reserves				
Share capital	300	300	255	255
Revaluation and other reserves	89,124	205,498	229,843	231,793
Retained earnings	33,683	25,639	5,294	15,631
	123,107	**231,437**	**235,392**	**247,679**
LIABILITIES				
Non-current liabilities				
Long-term borrowings & debt securities	75,140	79,614	80,290	83,370
Lease liabilities	397	646	395	400
Other non-current liabilities	15,110	25,881	25,514	27,690
	90,647	106,141	106,199	111,460
Current liabilities				
Bank overdraft	475	1,978	1,540	-
Borrowings	1,227	1,766	3,329	1,416
Lease liabilities	128	195	233	263
Trade and other payables	7,542	9,571	12,807	4,165
Other current liabilities	2,158	2,981	3,455	5,676
	11,530	16,491	21,364	11,520
	102,177	**122,632**	**127,563**	**122,980**
Total equity and liabilities	**225,284**	**354,069**	**362,955**	**370,659**

Key Accounting Ratios	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Projection
Net debt to EBITDA (years) *(Net debt/EBITDA)*	5.42	11.53	8.19	4.37
Liquidity ratio (times) *(Current assets/current liabilities)*	2.05	5.03	0.95	1.87
Gearing ratio *(Total net debt/net debt and shareholders' equity)*	38%	27%	27%	25%
Gearing ratio 2 (times) *(Total net debt/shareholders' equity)*	0.62	0.36	0.36	0.33

Source: MZ Investment Services Ltd

In the consolidated statement of financial position, the Group's total assets as at 31 December 2021 amounted to €363.0 million (FY2020: €354.1 million), predominantly composed of investment property and property, plant & equipment. The y-o-y increase of €8.5 million mainly comprised an increase of €8.7 million in property (within non-current and current assets), €5.6 million in deferred taxation, and €3.2 million in inventory, trade and other receivables on account of an increase in business activities. On the other hand, other financial assets decreased by €7.7 million on a comparable basis.

Uplifts amounting to €63.0 million in fair value of the Group's properties was mostly offset by assets distributed to owner amounting to €59.9 million.

Non-current liabilities as at 31 December 2021 amounted to €106.2 million (FY2020: €106.1 million), comprising debt securities of €59.7 million, bank loans of €20.6 million and other non-current liabilities (primarily deferred taxation) of €25.5 million. No material variances were noted when compared to the prior year.

Current liabilities amounted to €21.4 million (FY2020: €16.5 million) and include trade and other payable, current portion of bank, other borrowings and lease liabilities, overdraft facilities and other liabilities. The y-o-y increase of €4.9 million primarily emanated from an increase in trade and other payables and accruals due to an increase in hospitality activities (+€1.7 million), an increase in short-term borrowings (+€1.1 million) and deferred rental income amounting to (+€1.5 million)

The gearing ratio of the Group remained stable on a y-o-y basis at 27%. An alternative to assessing leverage is the net debt to EBITDA ratio, which strengthened from 11.53 years in FY2020 to 8.19 years pursuant to an improvement in EBITDA.

Total assets as at 31 December **2022** are expected to amount to €370.7 million, an increase of €7.7 million from the comparable period which is principally reflective of the planned capital expenditure (net of depreciation charge) for the forecast year.

Total liabilities are projected to decrease by €4.6 million mainly on account of a decrease in trade and other payables of €8.6 million which is expected to be partly offset by an increase of €4.4 million in other current and non-current liabilities.

The gearing ratio of the Group is anticipated to decrease by 2 percentage points from 27% in FY2021 to 25% in FY2022, while the liquidity ratio is expected to improve from 0.95 times in FY2021 to 1.87 times.

7. VARIANCE ANALYSIS

The following financial information relates to the variance analysis between the projected financial information for the year ended 31 December 2021 included in the prior year's Financial Analysis Summary dated 25 June 2021 and the audited consolidated financial statements for the year ended 31 December 2021.

Stivala Group Finance p.l.c. **Consolidated Statement of Total Comprehensive Income** **for the year ended 31 December 2021**	**Actual** **€'000**	**Projection** **€'000**	**Variance** **€'000**	
Revenue	15,065	14,595	470	
Cost of sales	(3,713)	(4,042)	329	
Gross profit	**11,352**	**10,553**	**799**	
Net operating costs	(903)	(597)	(306)	
EBITDA	**10,449**	**9,956**	**493**	
Depreciation & amortisation	(3,708)	(6,011)	2,303	(1)
Provision for expected credit losses (ECL)	(7,920)	-	(7,920)	(2)
Operating profit	**(1,179)**	**3,945**	**(5,124)**	
Movement in revaluation of property	29,968	-	29,968	(3)
Share in profit (loss) of associates	(48)	-	(48)	
Loss on distribution to shareholder	(21,131)	(21,131)	-	
Net finance costs	(3,215)	(3,194)	(21)	
Profit (loss) before tax	**4,395**	**(20,380)**	**24,775**	
Taxation	7,992	(978)	8,970	(4)
Profit (loss) for the year	**12,387**	**(21,358)**	**33,745**	
Other comprehensive income:				
Movement in revaluation of property, net of tax	30,355	12,973	17,382	(5)
Total comprehensive income (expense)	**42,742**	**(8,385)**	**51,127**	

The material variances between the actual and projected statement of total comprehensive income are as follows:

(1) The depreciation & amortisation charge for the year was lower than expected by €2.3 million, due to a reversal of accumulated depreciation on buildings of an equivalent amount following the revaluation exercise not reflected in the projections.

(2) In FY2021, the Group provided for expected credit losses on loans to other related undertakings of €7.9 million which was not reflected in the projections.

(3) Being an uplift in the carrying values of property which was not anticipated at the time of preparing the forecast financials.

(4) Higher than expected deferred tax credits was the principal reason for the positive variance in taxation of €9.0 million.

(5) Being an uplift in the carrying values of property which was not anticipated when the forecast financials were prepared and which was much higher than the projected reversal of deferred taxation of €13.0 million on account of the distribution to shareholder.

Stivala Group Finance p.l.c. **Consolidated Statement of Cash Flows** **for the year ended 31 December 2021**	**Actual** **€'000**	**Projection** **€'000**	**Variance** **€'000**
Net cash from operating activities	13,214	7,738	5,476
Net cash from investing activities	(8,789)	(6,738)	(2,051)
Net cash from financing activities	(3,181)	(1,057)	(2,124)
Net movement in cash and cash equivalents	**1,244**	**(57)**	**1,301**
Expected credit loss	(3)	4	(7)
Cash and cash equivalents at beginning of year	(1,386)	(1,386)	-
Cash and cash equivalents at end of year	**(145)**	**(1,439)**	**1,294**

Actual net movement in cash and cash equivalents was higher than projected by €1.3 million. This resulted from a €5.5 million positive variance in net cash from operating activities mainly on account of favourable working capital movements, which was mitigated by net cash outflows in investing and financing activities amounting to €4.2 million.

Cash outflows to acquire property, plant and equipment and investment property (investing activities) were higher than expected by €2.1 million. In financing activities, the adverse variance of €3.2 million resulted from lower than projected advances from banks as well as higher than expected interest payments.

Stivala Group Finance p.l.c.
Consolidated Statement of Financial Position
as at 31 December 2021

	Actual	Projection	Variance	
	€'000	**€'000**	**€'000**	
ASSETS				
Non-current assets				
Intangible assets	6	-	6	
Right-of-use asset	607	621	(14)	
Investment property	175,032	35,027	140,005	(1)
Property, plant & equipment	156,173	238,219	(82,046)	(1)
Investment in associates	295	355	(60)	
Deferred taxation	6,320	-	6,320	
	338,433	274,222	64,211	
Current assets				
Inventory, trade and other receivables	9,774	7,946	1,828	
Property held-for-sale	2,179	-	2,179	(2)
Other financial assets	15,868	13,245	2,623	
Cash and cash equivalents	1,394	179	1,215	
	29,215	21,370	7,845	
Total assets	**367,648**	**295,592**	**72,056**	
EQUITY				
Capital and reserves				
Share capital	255	255	-	
Revaluation and other reserves	229,843	171,670	58,173	(1)
Retained earnings	7,731	18,468	(10,737)	(3)
	237,829	**190,393**	**47,436**	
LIABILITIES				
Non-current liabilities				
Long-term borrowings & debt securities	80,290	81,553	(1,263)	
Lease liabilities	395	383	12	
Other non-current liabilities	25,514	9,595	15,919	
	106,199	91,531	14,668	
Current liabilities				
Bank overdraft	1,539	1,618	(79)	
Borrowings	3,329	1,416	1,913	
Lease liabilities	233	263	(30)	
Trade and other payables	14,565	7,768	6,797	(4)
Other current liabilities	3,954	2,603	1,351	
	23,620	13,668	9,952	
	129,819	**105,199**	**24,620**	
Total equity and liabilities	**367,648**	**295,592**	**72,056**	

The material variances between the actual and projected statement of financial position are as follows:

(1) The carrying values of investment property and property, plant and equipment were revised upwards by €63.0 million, which adjustment was not anticipated at the time of preparation of the projections. Furthermore, certain properties were reclassified from property, plant and equipment to investment property.
(2) Property held-for-sale was reclassified from non-current assets to current assets.
(3) The adverse variance mainly reflects the transfer to revaluation reserve on account of fair value gain on investment property.
(4) Trade and other payables were higher than expected by €6.8 million, mainly due to higher trade payables and deferred rental income.

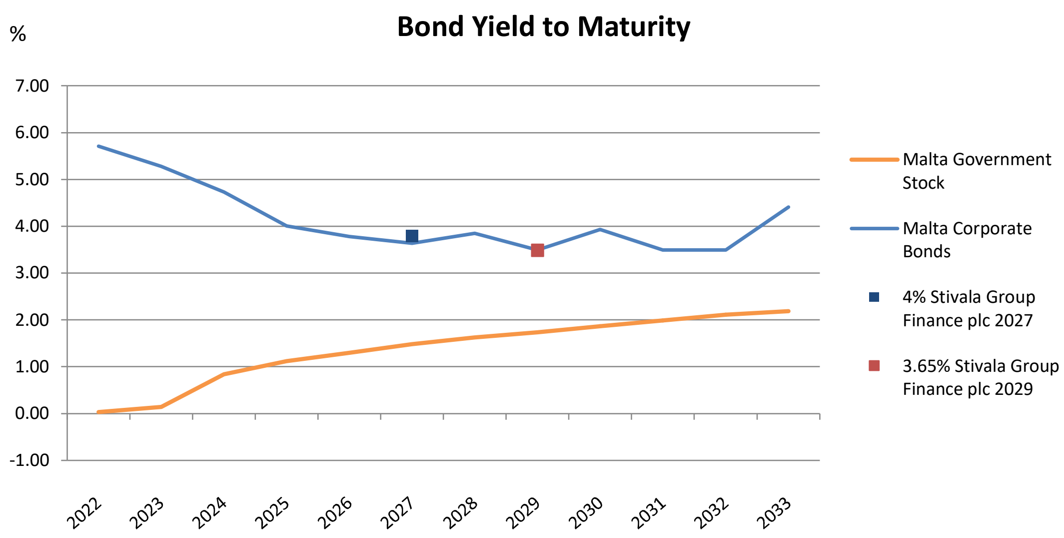
PART 3 – COMPARABLES

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

Comparative Analysis	**Nominal Value** (€)	**Yield to Maturity (%)**	**Interest Cover (times)**	**Total Assets** (€'000)	**Net Asset Value** (€'000)	**Gearing Ratio** (%)
6.00% Pendergardens Developments plc Secured € 2022 Series	19,756,700	5.71	1.79	60,578	29,491	36.39
4.25% GAP Group plc Secured € 2023	8,349,900	5.28	14.81	112,173	21,575	60.31
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	5.28	0.67	37,298	6,677	75.91
5.80% International Hotel Investments plc 2023	10,000,000	4.68	1.06	1,695,229	838,216	40.59
5.5% Mediterranean Investments Holding plc € 2023	20,000,000	5.48	2.01	310,941	188,651	27.06
6.00% AX Investments Plc € 2024	40,000,000	4.18	1.69	374,099	237,143	25.10
6.00% International Hotel Investments plc € 2024	35,000,000	4.84	1.06	1,695,229	838,216	40.59
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	4.73	3.30	102,348	52,929	46.65
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	3.68	2.60	123,752	48,512	53.05
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.23	4.58	149,687	52,831	49.89
4.25% Best Deal Properties Holding plc Secured € 2024	9,183,200	4.20	-	24,561	6,893	62.61
3.70% GAP Group plc Secured € 2023-2025 Series 1	21,000,000	3.54	14.81	112,173	21,575	60.31
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	5.15	1.06	1,695,229	838,216	40.59
5.10% 6PM Holdings plc Unsecured € 2025	13,000,000	5.09	52.47	162,889	74,159	14.82
4.50% Hili Properties plc Unsecured € 2025	37,000,000	4.01	1.41	208,696	110,881	32.31
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	3.78	4.51	58,951	12,557	68.49
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	4.25	- 0.51	1,717,057	828,470	42.64
4.00% International Hotel Investments plc Secured € 2026	55,000,000	3.86	1.06	1,695,229	838,216	40.59
5.00% Dizz Finance plc Unsecured € 2026	8,000,000	5.12	0.45	72,112	4,763	91.27
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.38	11.70	317,675	60,118	74.24
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	3.99	1.06	1,695,229	838,216	40.59
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	3.01	1.69	374,099	237,143	25.10
3.90% GAP Group plc Secured € 2024-2026	21,000,000	3.54	14.81	112,173	21,575	60.31
4.35% SD Finance plc Unsecured € 2027	65,000,000	4.23	0.88	328,464	131,504	30.32
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.64	3.63	193,529	109,284	28.55
4.00% Stivala Group Finance plc Secured € 2027	**45,000,000**	**3.79**	**3.25**	**362,955**	**235,392**	**26.66**
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	3.85	3.44	624,222	106,811	78.42
3.65% Stivala Group Finance plc Secured € 2029	**15,000,000**	**3.49**	**3.25**	**362,955**	**235,392**	**26.66**
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	3.89	3.44	624,222	106,811	78.42
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.52	1.69	374,099	237,143	25.10
3.65% International Hotel Investments plc Unsecured € 2031	80,000,000	3.72	1.06	1,695,229	838,216	40.59
3.50% AX Real Estate plc Unsec Bds 2032	40,000,000	3.50	-	238,228	78,698	63.41

31-May-22

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



Source: Malta Stock Exchange, Central Bank of Malta, MZ Investment Services Ltd 31 May 2022

To date, there are no corporate bonds which have a redemption date beyond 2033. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

The 2027 bonds are trading at a yield of 3.79%, which is *circa* 15 basis points higher than other corporate bonds maturing in the same year. The premium over FY2027 Malta Government Stock is 231 basis points.

The 2029 bonds are trading at a yield of 3.49%, which is at par when compared to other corporate bonds maturing in 2029. The premium over FY2029 Malta Government Stock is 175 basis points.

PART 4 – EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including room reservations, food & beverage, rental income and other revenue streams.
Cost of sales	Direct costs include cost of food, beverages, consumables, labour expenses and all other direct expenses.
Gross profit	Gross profit is the difference between revenue and direct costs. It refers to the profit made by the Group before deducting administrative costs, depreciation & amortisation, finance costs, impairment provisions, share of results from associate and affiliate companies and other operating costs.
Administrative costs	Administrative costs include all operating expenses other than direct costs and include general & administration expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Share of results of associates	The Guarantor owns minority stakes in a number of companies (less than 50% plus one share of a company's share capital). The results of such companies are not consolidated with the subsidiaries of the db Group, but the Guarantor's share of profit is shown in the profit and loss account under the heading 'share of results of associates'.
Profit after tax	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
Key Performance Indicators	
Occupancy level	Occupancy level is the percentage of available rooms that were sold during a given period of time. It is calculated by dividing the number of rooms sold by total number of rooms available.
Revenue per occupied room (RevPOR)	RevPOR is calculated by adding all income generated (room accommodation, food & beverage and other income) and dividing it by the number of occupied rooms. A hotel uses this indicator as a performance measure with other hotels in the same category or market to determine how well the hotel property is yielding.

Revenue per available room (RevPAR)	RevPAR is calculated by adding all income generated (room accommodation, food & beverage and other income) and dividing it by the number of available rooms. A hotel uses this indicator as a performance measure with other hotels in the same category or market to determine how well the hotel property is yielding.
Gross operating profit per available room (GOPAR)	GOPAR is the total revenue of the hotel less expenses incurred earning that revenue, divided by the available rooms. This indicator is another performance measure used in the hotel industry.
Revenue generating index (RGI)	A revenue generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) revenue per occupied room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1.
Gross operating profit generating index (GOPGI)	A gross operating profit generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) gross operating profit per available room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1.
Profitability Ratios	
Gross profit margin	Gross profit margin is the difference between revenue and direct costs expressed as a percentage of total revenue.
EBITDA margin	EBITDA margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Efficiency Ratios	
Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.

Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities (room revenue, food & beverage, hotel services, rental income etc) of the Group.
Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Group.
Balance Sheet	
Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group amortises the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was acquired. Such assets include intangible assets (including goodwill on acquisition), investments in associates, investment property, and property, plant & equipment.
Current assets	Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, inventory (food, beverages, consumables, etc), cash and bank balances.
Current liabilities	All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt, including current portion of bank loans.
Non-current liabilities	The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings and bonds.
Total equity	Total equity includes share capital, reserves & other equity components, retained earnings and non-controlling interest.
Financial Strength Ratios	
Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts

	over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
Net debt to EBITDA	The net debt to EBITDA ratio is a measurement of leverage, calculated as a company's interest bearing liabilities minus cash or cash equivalents, divided by its EBITDA. This ratio shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
Net assets per share	Is calculated by dividing the total net asset value of the company by the number of shares outstanding.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity. Alternatively, the gearing ratio can be calculated by dividing a company's net debt by shareholders' equity.