



MELITE

## COMPANY ANNOUNCEMENT

Melite Finance p.l.c.

### Update relative to upcoming Bondholders' meeting

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Date of Announcement	6 November, 2021
Reference	30/2021
In terms of Chapter 5 of the Listing Rules	

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The following is a company announcement issued by the Board of Directors of Melite Finance plc (the “**Company**”) in connection with the previously announced bondholders’ meeting (vide company announcement MTE28).

#### QUOTE

Reference is made to a letter dated 26<sup>th</sup> October, 2021 issued by Alter Domus Trustee Services (Malta) Limited in its capacity as Security Trustee in respect of an issue of €9,250,000 4.85% secured bonds 2028 by Melite Finance plc (the “**Bonds**”), which letter is understood by the Company to have been mailed to all holders of Bonds (the “**Bondholders**”) entitled to attend and vote at the forthcoming bondholders’ meeting due to be held on the 12<sup>th</sup> November, 2021 (the “**Bondholders’ Meeting**”). Reference is also made to certain articles published in the local media featuring a number of inaccuracies and misconceptions which the Company feels compelled to address. The purpose of this announcement is for the Company to set out its position on certain statements contained in the said letter issued by the Security Trustee (the “**Letter**”) and the said articles in the media. Furthermore, the Company has been requested by the board of directors of its majority shareholder, Melite Retail Ltd (C-74224), to publish the enclosed letter.

#### Letter by the Security Trustee dated 26<sup>th</sup> October, 2021

A copy of the Letter was shared with the Board of Directors of the Company after its dispatch to Bondholders on the 27<sup>th</sup> October, 2021, which incidentally was the date scheduled for the dispatch, by the Company to the Bondholders, of the Bondholders’ circular, admission document, proxy form and registration form relative to the Bondholders’ Meeting.

Whilst the Letter provides an account of the letters exchanged between the Company and Security Trustee, no mention is made of the multiple meetings (online) held between the Security Trustee and its advisors on the one hand, and representatives of the Company and its management on the other, with a view to keeping the Security Trustee duly informed of developments relating, amongst others, to plans for the calling of a Bondholders’ meeting which, as is clear from the series of company announcements published by the Company since



June 2020, had to be rescheduled multiple times in light of the developments arising from time to time. The Company would like to clarify that it maintained regular contact with the Security Trustee over the past 20 months, mindful of the Company's obligations towards the Security Trustee and the Bondholders.

In addition, with reference to the recommendations made by the Security Trustee during the course of discussions with the Company, the Company would like to clarify that a significant number of such recommendations made by the Security Trustee over the course of discussions, including at the stage of reviewing the contents of the Bondholders' Circular prior to finalisation and publication thereof, were adopted by the Company. In the case of those recommendations which the Company felt could not or should not be upheld, the Security Trustee was provided with clear explanations of the reasons for such position being adopted, after careful consideration at board level and further to consultation and extensive dialogue with the shareholders of the Company's parent company (referred to in the Bondholders' circular and hereunder as the "**Financing Owners**") which, in differing degrees, have provided support to the Company since the outbreak of the COVID-19 pandemic, which had the devastating effects on the Company and its subsidiary Melite Properties srl explained in detail in the Bondholders' circular issued by the Company.

In addition to the above, the Company notes that the Letter incorrectly states that the suspension of trading of the Bonds was still in force as at the date of dispatch of the Letter. As indicated in the company announcement published by the Company on 19<sup>th</sup> October, 2021 (MTE29), the suspension of trading in the Bonds was lifted by the Malta Financial Services Authority with effect from the said date, immediately following publication of the interim financial statements of the Company for the financial period ended 30 June, 2021.

### **Articles in the media**

The Company would also like to take the opportunity to clarify certain inaccuracies and misconceptions represented in a number of articles published in certain sections of the media, most recently an article published on Malta Today on 2<sup>nd</sup> November, 2021. Should the Board consider it necessary and appropriate to do so, the Company will exercise its right of reply in respect of such articles. For the purposes of this announcement, the Company will limit itself to the statements referred to below:

- contrary to what is suggested in certain articles, the Financing Owners had not guaranteed the Bonds in case of default. As explicitly stated in the prospectus published in November 2018 and as explained in the Bondholders' circular, the Bonds are secured by the underlying assets, namely the leaseholds held in Italy, through a pledge of shares in Melite Properties srl and a first ranking general hypothec over all of the Company's immovable and movable assets, both present and future, in favour of the Security Trustee. The Company has sought to preserve the said underlying assets to the extent possible in the prevailing circumstances. The Financing Owners provided financial support as detailed in section 3.1 of the Bondholders' circular. Until such time as all interest (including any interest waived should the proposal to be tabled at the Bondholders' meeting be upheld) and all capital is paid or



repaid to the Bondholders, no distribution will be made to the direct or indirect shareholders of the Company (including the Financing Owners);

- contrary to what was stated in the abovementioned article published on 2<sup>nd</sup> November, 2021, the Company did not “*reserve the right to extend the reductions of the interest over the remaining term of the bonds*”. No reduction in interest beyond the year 2023 is contemplated at this stage, and should it be required, it would require a further Bondholders’ meeting to consider and, if thought fit, approve the proposal;
- as at the date hereof, the Company’s subsidiary Melite Properties srl retains title to 19 stores, of which 18 are leased out to third party tenants. Melite Properties is presently generating a positive contribution on its rentals, which is set to increase as COVID discounts are reduced by end 2021 and removed almost entirely by end 2022, returning to pre-COVID rent levels. The value of rescissions to date amounts to €1.9 million, thus within the €2 million threshold allowed in terms of the Security Trust Deed relative to the abovementioned collateral held by the Security Trustee. If this part of the proposed COVID-19 restructuring plan were to be approved, whilst the Company would continue to endeavour to retain all its remaining leases, the increase of the said threshold to €3.1 million would enable the Company to resort to the rescission of one or more stores should further lockdowns and state restrictions in Italy once again impact the operation adversely and warrant immediate action for the general wellbeing of the business and, in turn, the Bondholders;
- as to the financial position of the Company, the Board of Directors of the Company considers that the proposed reduction in interest (should the relative resolution be upheld by Bondholders), coupled with the support already given and committed by the Financing Owners, allow for a reasonable expectation that the Company can overcome the cash flow difficulties it is currently facing and continue its operation beyond expiry of the term of the Bonds, by which time it is hoped that it would be in a position to compensate Bondholders for any forfeited interest. On the other hand, as explained in the Bondholder’ circular and recently published interim financial statements for the financial period ended 30<sup>th</sup> June, 2021, “*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.*” Furthermore, with respect to the value of the underlying assets, “*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*



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*lower than the current valuations of the leases as at 30 June 2021 set out in Annex 2 [of the Bondholders' circular]."*

**UNQUOTE**

By order of the Board of Directors of Melite Finance p.l.c.

**Malcolm Falzon**

Company Secretary



6 November, 2021

The Board of Directors  
Melite Finance plc  
Level 3, Valletta Buildings,  
South Street,  
Valletta VLT 1103,  
Malta

## **Communication to Melite Finance plc Bondholders from Melite Retail Ltd**

Dear Sirs,

Melite Retail Ltd, in its capacity as the majority shareholder of Melite Finance plc, would like to clarify a number of inaccuracies carried in the press and other media and hereby requests the Board of Directors of Melite Finance plc to communicate the contents of this letter to its bondholders.

Some of these articles are certainly not written with the best interests of the bondholders at heart, namely to see the current Melite Finance Group property portfolio, with a current key-money market value of circa €9m, being preserved. Indeed, through painstaking efforts over the past twenty months and notwithstanding the adverse economic circumstances caused by the COVID pandemic, 18 out of 19 retail outlets are tenanted and the current gross margins being generated by the Group from rental income are expected to be of circa €600k per annum in 2022 and circa €800k per annum in 2023 and thereafter, taking the Group's rental income back up to pre-pandemic levels.

The preservation of this value will accrue principally to the benefit of bondholders. Indeed, the current Melite Finance proposal is very clear in stating that until such time as all coupon and capital repayments are effected to the bondholders, no distribution will be made to the shareholder.

Forcing the company to pay the full coupon to the bondholders now, in November 2021, will set off a chain of events that will likely cause most or all of this property value and cash generation to be lost. Whatever course of action is supported by the bondholders, it appears sufficiently clear that the company's existing portfolio of stores must be preserved for its current cash generation and market value to be maintained.

Most of the articles written in local media give the impression that the bond has been secured and/or guaranteed by the shareholder and/or the beneficial owners of Melite Finance. This is simply not true. Indeed, the Prospectus issued by Melite Finance is explicitly clear in stating that the bond is secured by the assets of the Group alone.

We feel that it would be reasonable to expect that financial intermediaries involved in selling the bond would also have made this consideration explicitly clear to prospective investors, emphasising that the bond is not secured by the shareholder and/or the beneficial owners, but by the underlying assets.



Until the onset of the COVID-19 pandemic in Europe in March 2020, the retail real estate market in Italy has been proven to be solid for decades, enduring several economic cycles, and following trends whereby demand outstripped supply for exclusive and desirable locations. The success of these locations was independent of the retailer occupying the premises at any given time and transitions to new tenancies did not present any difficulty. However, COVID-19 had an unprecedented and unforeseen devastating impact on the retail sector indiscriminately, and for many months supply outstripped demand as stores were vacated not only in Italy but across Europe and much of the world. This is a fundamental reality that cannot be overlooked.

Contrary to what is being misleadingly alleged in the media, even though Melite Retail Ltd, as the shareholder of Melite Finance plc, and/or beneficial owners are under no obligation to support the Melite Finance Group, substantial financial support was, in fact, committed by the beneficial owners to the group in 2020 and 2021 – a total of €1.1m in 2020 and a further €1m in 2021. These commitments were made by the ultimate shareholders with a view towards temporarily alleviating the imminent financial distress caused to Melite Finance as a result of the unpredictable effects of the pandemic. As a direct result of this support, bondholders have been paid a full coupon in November 2020 despite the company being in the thick of the pandemic. At this stage, Melite Finance is requesting the bondholders to consider forgoing the full coupon this year and accepting a reduced coupon in 2022 and 2023. We understand that the value of these forgone coupons is intended to be repaid by Melite Finance before any distribution whatsoever is paid to the shareholder.

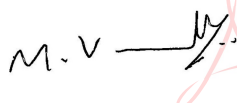
Bondholder support at this critical juncture, along with the support and commitment that has been provided by the shareholder and beneficial owners to date, will enable the company to work towards overcoming the impact of the adverse economic conditions caused by the pandemic. It is only with this alignment and support that the Group can carry on the work undertaken over the past 20 months, to gradually survive the crisis.

As the shareholder and owner of Melite Finance plc, we are all but resigned to lose not just our investment but the additional €2 million+ that we have injected over the past months. Hence our motivation was, and remains, principally that of ensuring the integrity of the bond, in the interest of the bondholders.

Should bondholders choose to assert their right to the payment of a full coupon this year, it is clear that Melite Finance plc will find itself in financial difficulty, with the likely result that the leaseholds will need to be sold at fire- sale prices. This would be devastating as the stores still have a market value close to €9m and the business is now back on an even keel after massive efforts by management on the ground in Italy throughout the pandemic and various lockdowns.

We appeal to bondholders to carefully consider the proposals put forward by Melite Finance plc and avoid the potential loss of very significant value from the underlying assets securing the bond.

BY ORDER OF THE BOARD

 Digitally signed by Mark VASSALLO  
(Signature)  
DN:  
serialNumber=AF66E81D28C6567BA9E  
3, givenName=Mark, sn=VASSALLO,  
cn=Mark VASSALLO (Signature), c=MT  
Date: 2021.11.06 19:15:21 +01'00'

Mark A VASSALLO  
Company Secretary  
Melite Retail Ltd.