BORTEX GROUP FINANCE PLC

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Co Reg No: C82346

COMPANY ANNOUNCEMENT

The following is a Company Announcement by Bortex Group Finance plc (C82346) (hereinafter the 'Company') of 32, Hughes Hallet Street, Sliema, pursuant to Chapter 5 of the Listing Authority Listing Rules:

Quote

Bortex Group Finance plc announces that the Financial Analysis Summary dated 30th June 2020 prepared by Calamatta Cuschieri, is attached herewith and can be accessed on http://bortexgroupholdings.com/investor-relations/

Unquote

By order of the Board.

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Christine Demicoli
Company Secretary

30th June 2020

FINANCIAL ANALYSIS SUMMARY
Bortex Group Finance p.l.c.
30th June 2020

Calamatta Cuschieri
YOUR PARTNER IN FINANCIAL SERVICES

The Directors
Bortex Group Finance p.l.c.
32, Hughes Hallet Street,
Sliema, SLM 3142, Malta

30th June 2020

Dear Sirs,

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

The purpose of the financial analysis is that of summarising key financial data appertaining to Bortex Group Finance p.l.c. (the "**Issuer**") and Bortex Group Holdings Co Ltd (the "**Guarantor**"), where the latter is the parent company of the "**Group**". The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the three years ended 2017, 2018 and 2019 have been extracted from the Issuer and Guarantor's audited statutory financial statements for the three years in question.

(b) The forecast data for the current financial year that is the year ending 31 October 2020, has been provided by management.

(c) Our commentary on the Issuer and Guarantor's results and financial position is based on the explanations set out by the Issuer in the Prospectus and Listing Authority Policies.

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

(e) The principal relevant market players listed in Part 3 of the document have been identified by management. Relevant financial data in respect of competitors has been extracted from public sources such as the web sites of the companies concerned or financial statements filed with the Registrar of Companies.

The Analysis is meant to assist investors in the Issuer'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 Issuer and should not be interpreted as a recommendation to invest in any of the Issuer'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 Issuer's securities.

Yours sincerely,

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Nick Calamatta
Director

Table of Contents

Part 1 - Information about the Group

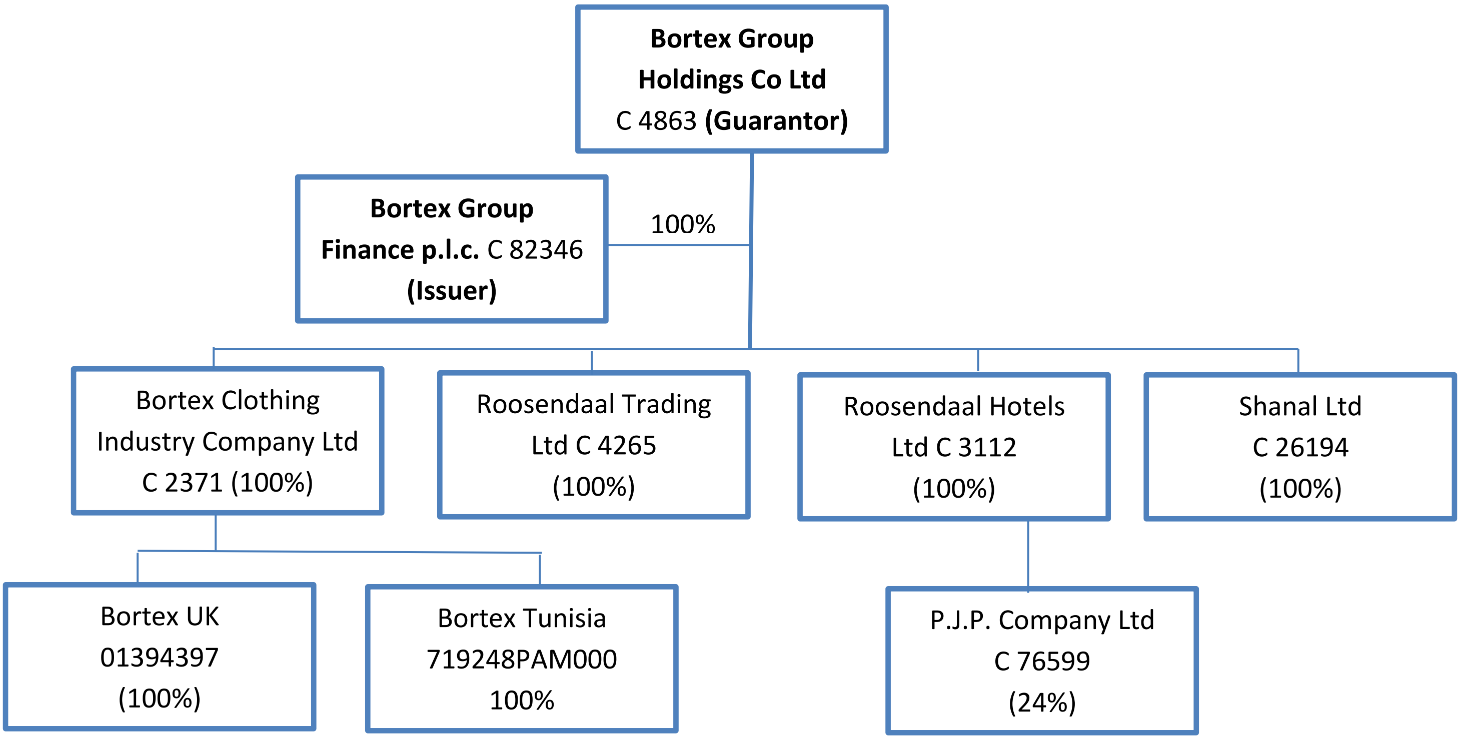
1.1 Issuer and Guarantor's key activities and structure

The Issuer, Bortex Group Finance plc, company registration number C 82346, is a limited liability company registered in Malta on 30th August 2017. The Issuer is, except for one share which is held by Mr Peter Borg and another share held by Ms Karen Bugeja, a wholly owned subsidiary of the Guarantor, which latter entity is the parent company of the Group. The Issuer, which was set up and established to act as a finance company, has as at the date hereof an authorised and issued share capital of €250,000 divided into 250,000 ordinary shares of €1 each, all fully paid up.

The Guarantor, Bortex Group Holdings Company Limited, is a private limited liability company incorporated and registered in Malta with company registration number C 4863. It was formerly known as Borchild Limited until 26th September 2017. The Guarantor, which is the parent company of the Group, is principally engaged, through several subsidiaries that operate in various jurisdictions, in the business of manufacturing garments for its own private label, Gagliardi, and other private labels, marketing and retailing garments; and developing high quality property developments, as well as owning and managing hotels and residential properties in Malta. The Group is also active in the Maltese real estate market.

The authorised and issued share capital of the Guarantor is €46,587.46 divided into 20,000 ordinary shares having a nominal value of €2.329373 each. The Group is ultimately owned as to 50% by Mr Peter Borg and as to 50% by Ms Karen Bugeja.

The Group's summarised structure is as follows:



1.2 Directors and key employees

Board of Directors - Issuer

As at the date of this Analysis, the Issuer is constituted by the following persons:

Name	Designation
Mr. Peter Borg	Executive Director, rotating Chairperson
Ms. Karen Bugeja	Executive Director, rotating Chairperson
Ms. Christine Demicoli	Executive Director & Company Secretary
Mr. Mario C. Grech	Independent, Non-Executive Director
Mr. Emanuel Ellul	Independent, Non-Executive Director
Mr. Joseph Cachia	Independent, Non-Executive Director

The business address of all of the Directors is the registered office of the Issuer.

Board of Directors - Guarantor

As at the date of this Analysis, the Guarantor is constituted by the following persons:

Name	Designation
Mr. Peter Borg	Executive Director, rotating Chairperson
Ms. Karen Bugeja	Executive Director, rotating Chairperson
Ms. Christine Demicoli	Executive Director & Company Secretary
Ms. Alexandra Borg	Executive Director
Mr. Sam Borg	Executive Director
Mr. David Debono	Executive Director

The business address of all of the Directors is the registered office of the Issuer.

The executive directors of the Issuer and the Guarantor, on the strength of their respective knowledge and experience in the applicable business interests of the Group to which they contribute directly, occupy the senior management and key executive positions across the Group. As of 31 October 2019, the average number of persons employed with the Group amounted to 639 employees.

1.3 Major assets owned by the Group

The Issuer does not have any substantial assets and is essentially a special purpose vehicle set up to act as a financing company.

The Group's operations are, and have been for a number of years, divided into two principal segments, garment manufacturing and retailing on the one hand, and property development and hotel operations on the other. Although the core business of the Group knows its origins in the garment manufacturing sector and the eventual retailing of those garments, it has also established itself in the hospitality sector, and more recently has moved into the boutique hotel sector, through the refurbishment of a historical property in Valletta, which welcomed its first clients in May 2018.

Bortex Clothing Industry Company Ltd, a direct subsidiary of the Guarantor based in Malta, and its two wholly owned subsidiaries Bortex UK and Bortex Tunisia, carry out the design and manufacture of a vast range of formal tailoring. Roosendaal Trading Limited, also a direct subsidiary of the Guarantor, is then involved in the sale and distribution of formal tailoring, outerwear, casual clothing, footwear and accessories through the operation of a number of retail outlets. The business forming part of the Group's hospitality segment is carried out by Roosendaal Hotels Limited, another direct subsidiary of the Guarantor, which owns and manages the operations of Hotel 1926 (formerly Plevna Hotel) situated in Sliema, Malta. Shanal Limited was retained as a Group entity to serve as the property company of the Group.

- **Garment manufacture and retail**

Bortex is among Malta's longest established names in formal men's tailoring. Bortex Clothing Industry Company Ltd was set up over fifty years ago by Maltese entrepreneur Sunny Borg in October of 1964, to produce jeans and similar items of clothing. The venture went from strength to strength, until in 1971 it entered into partnership with the renowned men's fashion manufacturer, Van Gils of Holland, to produce high quality tailoring. Van Gils shares were bought by the British retail group Next plc in 1987 enabling Bortex to spread its product profile into children's and ladies' wear.

In 1991, the Next plc shares in Bortex Clothing Industry Company Ltd were wholly bought up by the Borg family – resulting in the company becoming 100% owned by Sunny Borg and his family.

Over the years, the Group has diversified into other product areas to include the retail of a whole men's wear proposition including shirts, accessories and footwear as well as providing its own brands.

Its own label, Gagliardi, was launched in 2010 and its principal markets apart from Malta include the UK, Ireland, Russia, Poland, Serbia and Scandinavia. The retailing of the Gagliardi line is achieved through a mixture of franchising arrangements, own-stores models as well as mixed concessions. In recent years, the Group has also launched its own e-commerce platform through which its Gagliardi line is sold online, the operations of which are based in Malta.

Manufacturing for private label clients still forms a substantial portion of the Group's garment manufacturing operations, with clients based chiefly in Sweden, Switzerland and the United Kingdom. The Group's operations in this sector have been streamlined in order to cater for higher-end and higher-value products rather than mass-produced but lower-value items. Although competition in this sector remains high, the Group enjoys an enviable track record and can boast several long-standing relationships with established brands.

The Group now manufactures mainly overseas, through Bortex Tunisia which is a fully-owned by the Guarantor, retaining Malta as its headquarters. Design, marketing and other knowledge based activities are carried out in Malta. Shipments from Bortex factories in Tunisia transit in Malta on their way to some of Europe's better-end department stores, chain store groups and fashion houses.

The Group, last year, introduced a new concept of 'Made-to-Measure', whereby clients can order tailor made suits according to their preferences. Although this is a new concept in Malta, management informed us that it is catching up and that a niche market does exists.

- **Property development and hospitality**

The Group has owned and managed a small, yet strategic, property portfolio for several decades. With the exception of a warehouse situated in Zebbug, Malta, as part of the garment operations, the properties are owned and operated by Roosendaal Hotels Limited and Roosendaal Trading Limited. As the name implies, the former is involved in the hotelier industry and currently owns and manages Hotel 1926 in Tigne', Sliema.

During 2018, the hotel was closed for major overhaul that lead to its rebranding as Hotel 1926 from its former name Plevna Hotel. Construction works of all floors are now complete with the opening of the first 38-rooms (1st to 3rd floor) in November 2018. Finishing works are also now complete, with the Hotel increasing the number of available rooms gradually until it reached its full capacity of 172 rooms in August 2019. The hotel offers the highest standards of lean luxury by employing state-of-the-art guest management software and technologies. It is complemented with a beach lido concession on the Qui-si-Sana foreshore, which concession is for an indefinite term tied to the operation of the hotel. Earlier this year, the Group also commenced works on a conference room, however this has been temporarily suspended due to the implications of the current stressed economic sphere. Management expects the aforementioned works to continue later on this year. Further information in relation to the current conditions brought about by the COVID-19 pandemic is found in section 1.4.

The Group is also involved in the construction and the eventual sale of a block of newly-developed luxury apartments, named 'TEN', and consisting of eighteen apartments and two penthouses over seven floors. This project has been developed and currently it is being marketed for sale. Further information in relation to the development of this project is found in section 1.4.

The Group, through Roosendaal Hotels Limited, holds 24% of the issued share capital of P.J.P. Company Limited (P.J.P.), with the remaining shareholding held by Ms Karen Bugeja (38%) and P.Borg & Son Holdings Limited (38%). It was originally intended that P.J.P. acquire a residential property, however in order to apply for financing the above mentioned parties assigned their rights to Roosendaal Hotels Limited. Consequently, apart from its share capital, P.J.P. does not carry out any trading activities. The property, which is situated in St. Paul's Street, Valletta, was renovated during 2018, with the boutique hotel opening its doors in May 2018. Palazzo Jean Parisot Suites, which has 7 operational suites, is situated in the heart of the city and includes a rooftop terrace. FY19 was the first full year's operation for this hotel and further information is found in section 1.4.

- **Retail store management**

Bortex Clothing Industry Company Ltd, a direct subsidiary of the Guarantor based in Malta, and its two wholly owned subsidiaries Bortex UK and Bortex Tunisia, carry out the design and manufacture of a vast range of formal tailoring. Roosendaal Trading Limited, also a direct subsidiary of the Guarantor, is responsible for the operation of the Group's retail outlets for its garment sector in Malta.

The range of stores managed by said company are chiefly multi-brand stores, in which the Group's Gagliardi brand is sold alongside other brands such as Gant, Lacoste and Ralph Lauren, with which the Group has secured distribution arrangements. Roosendaal Trading Limited also operates one monobrand store, stocking and selling the Gagliardi line exclusively – this store is situated within The MIDI complex in Sliema, Malta. Moreover, The Group has opened another monobrand store in March 2019 within The Point complex, exclusively retailing the Ralph Lauren brand.

The following table provides a list of the principal assets and operations owned by the respective Group companies:

Owning Company	Name Of Property	Location	Description	% Ownership
Roosendaal Hotels Limited	Hotel 1926	Sliema, Malta	Hotel management & operation	100%
Roosendaal Hotels Limited	TEN apartments	Sliema, Malta	Investment property	100%
Roosendaal Hotels Limited	Palazzo Jean Parisot Boutique Suites	Valletta, Malta	Hotel management & operation	100%
Roosendaal Trading Limited	Bortex Retail Outlet, Mosta	Mosta, Malta	Retail Outlet	100%
Roosendaal Trading Limited	Bortex Retail Outlet, Tower Road, Sliema	Sliema, Malta	Retail Outlet	100%
Roosendaal Trading Limited	Bortex Retail Outlet, Mriehel	Mriehel, Malta	Retail Outlet	100%
Bortex Clothing Industry Company Ltd	Bortex Warehouse, Zebbug	Zebbug, Malta	Warehouse	100%

1.4 Operational Developments

The most recent principal investments of the Group are described hereunder:

- **Impact of COVID-19 on the Group's business**

Bortex Group has been closely monitoring the developments resulting from the outbreak of the COVID-19 pandemic and the impact on both the local and global economy, with specific reference to the retail and hospitality industries.

The pandemic is impacting several industries around the globe, and unfortunately, both industries in which the Group operates have been severely impacted by this outbreak. Therefore, the outlook of the Group for 2020 is highly impacted by the COVID-19 outbreak. Albeit, the recent strategic decision taken by the Group to invest in the local real estate market is proving beneficial, and is minimising the negative consequences impinged on the Group by this virus.

Like most industries across the world, the Group has found itself in a situation where it has to adapt quickly and is also taking corrective actions as may be required, to mitigate as far as possible the negative impact of this event.

Retail

Following the implementation of confinement measures by both local and international governments, the Group's retail stores had to close their doors in mid-March. As a result of this, the Group carried out a restructuring exercise, which resulted in a leaner and more efficient structure. During this period, management focused on online sales, in addition to, the manufacturing of masks and scrubs for the local health department. Additionally, the Group also benefitted from the local government's COVID-19 financial aid package, which amongst others included €800 monthly per employee, as well as, financing through the Malta Development Bank's Guarantee Scheme.

As the virus spread started to be contained both locally and internationally, economies started to re-open their doors, with the Group's local stores re-opening on 4th May. As of the date of this Analysis, all other international stores are also open. In view of the unprecedented situation brought about by this pandemic, the two stores in Sweden and the store in Stamford have been shut down.

The manufacturing plant in Tunisia closed during the lockdown enforced by the country's government, however the factory has now re-opened and is operating in line with planned production for 2020.

Hospitality

As stated above, the hospitality sector was severely impacted by this pandemic. The Government, in early March, first introduced travel restrictions from a number of countries, in addition to, a mandatory quarantine on arriving travellers from all countries. The Government, then proceeded to suspend all passenger flights as from 21 March 2020. This obliterated the local tourism and transport market, which is estimated to contribute almost 30 per cent to Malta's economy[1]. As a result, both Hotel 1926 and Palazzo Jean Parisot have been closed since then, albeit both hotels opened for local visitors as from 22 May 2020.

Following the easing of measures, the Government has recently announced that Malta will open its airport to passenger flights on 1 July. Initially travel was restricted to 19 countries, however as from 15 July the airport will re-open without restrictions. It is envisaged that both hotels will start generating some business once the airport is opened, with much reduced occupancies and rates than the ones previously budgeted.

Real Estate

The Group confirmed that despite the outbreak, the construction works on the TEN project continued, with finishing related works completed during Q1 2020. The restrictive measures engaged by various business involved in the real estate industry resulted in a lengthier process to conclude contracts, however management confirmed that both buyers and sellers were still willing to transact. A detailed update on the sale of the TEN project is found further below.

Cash flows projections

The Group has prepared cash flow forecasts to measure the impact of the reduction in the Group's revenue and of the several cost-cutting measures that are being taken to minimise the effect of the crisis.

[1] Understanding the Economic Contribution of Tourism in Malta: A Literature Review - Ministry for Finance

Cash flow forecasts were prepared for the upcoming two financial years on the basis of a number of assumptions/facts, which was deemed by management to be as realistic as possible with the information and data in hand at the time. These assumptions include:

- the Group has been granted a moratorium on the payment of interest and principal of its existing bank loans;
- The Group has also applied for financing under the MDB Guarantee scheme, repayable over six years inclusive of one year moratorium.

The cash flow forecasts prepared by the Group indicate that sufficient cash will be generated throughout this financial year and the Group should be in a position to meet its financial commitments, including the bond interest due on 1st December.

▪ Development of TEN Apartments in Sliema, Malta

The Group has re-developed a plot of land it owns in Hughes Hallet Street, Sliema, Malta into a 9-storey building with commercial development at the ground floor area and residential units on the rest of the floors. The block of luxury apartments is named 'TEN'. The development includes a reception area and commercial spaces at the ground floor level, 18 residential apartments and 2 penthouses with an average area of $140m^2$ and $170m^2$, respectively, as well as 58 underground car parking spaces (previously the building was expected to have 69 spaces, however due to minor changes in the design plans, car spaces now stand at 58).

Works on the project commenced in 2016 and have been intentionally slowed down in 2018 as a safety measure for the workers working on the adjacent hotel project. Works have resumed in January 2019 and the Group started finishing related works in June 2019, with all works finalised by Q1 2020, a slight delay when compared with the planned timeline, which was October 2019. At the time of writing, the Group has secured the sale of 15 apartments (7 of which concluded) and 27 car spaces (10 of which concluded) by way of promise of sale, which amounts to €6.2m sales (net of commissions).

▪ Palazzo Jean Parisot Suites in Valletta, Malta

The Palazzo Jean Parisot opened its doors on May 2018. Consequently, FY19 was the first full year of operation for this hotel. In FY19, the Hotel generated a total revenue of €268,000, with an occupancy of 71% and an ADR of €148. The performance of Palazzo Jean Parisot is not material to the Group.

As described above, this boutique hotel closed its doors in March. The Hotel has now opened its doors for local visitors, and is expected to generate more business as from July as Malta welcomes its first tourists for this summer.

In view of the current unprecedented situation, management expects the occupancy to fall to 31.6% in FY20, with an ADR of €132. This translates to a total revenue of €107k and a RAV/PAR of €42 in FY20. The projections for Palazzo Jean Parisot are based on the same assumptions as detailed in section 1.4.1 of this Analysis.

- **International retail expansion strategy, particularly via the opening of Gagliardi retail outlets overseas**

The Group's intentions have been, and still are, to continue with the expansion of its Gagliardi brand in overseas territories via owned as well as franchised retail outlets. In fact, the Group opened 3 new stores in Sweden and Serbia during 2018. Additionally, last year the Group opened its first new store in Poland. Previously, management expected to open 2 additional stores during 2019, including the brand's expansion to Cyprus. The Group has decided to delay the expansion of the other stores until management identifies the right opportunities for the Gagliardi brand.

Following the outbreak of the Coronavirus, management halted all expansion capex until the current unprecedented situation stabilises. In fact the two stores in Sweden and the store in Stamford have been shut down as a result of this. Once management is in a better position to identify strategic locations for growth, the Group intends to continue its Gagliardi expansion strategy.

- **New Ralph Lauren Store and local retail stores**

During 2019, the Group opened a new store within The Point Complex, stocking and selling exclusively the Ralph Lauren brand. As announced in last year's FAS, during 2018 the Group relocated its store at the Plaza Shopping Complex in Sliema to a more prominent location within the same complex. Additionally, the Group carried out a complete refurbishment of its store in Valletta.

- **Development of a mixed-use complex in Mriehel, Malta**

During 2018, the Group has successfully completed the development of its Mriehel complex, which was constructed on a plot of land stretching over an area of approximately 438m^2 overlooking the Mriehel bypass that the Group had previously acquired. The mixed-use commercial complex comprises of 5 floors, with a retail outlet on the 1st and 2nd floor, and office space that is entirely leased to third parties on the 3rd to 5th levels as at the date of this Analysis. The complex also includes three levels of underground car parking. The retail store is being utilised by the Group as a clearance outlet.

- **Redevelopment of the Group's existing retail outlet in Mosta, Malta**

The Group owns a 2-storey building in Constitution Street, Mosta, Malta, which is currently being used as one of the Group's retail outlets and is built on a site area of 181m^2, which it intends to develop into a mixed-use commercial building. The plan is for the proposed development to have 4 commercial levels, a basement for storage and ancillary uses. Part of the ground floor and top level will be used as a catering outlet from which the Group expects to generate rental income. The remaining parts of the development will be used as a commercial outlet for the Group's retail purposes. The Group previously planned to commence the renovation works in January 2019, but subsequently decided to postpone its plans due to other ongoing projects. Additionally, given the negative repercussions brought about by this outbreak, management has decided to continue postponing this project until it is commercially viable to start the development.

Save for the above projects, the Group is not party to any other principal investments and the Group intends to continue to finance the projects above with the proceeds of the bond issue that was completed in December 2017, with the remaining capital expenditure being funded by bank finance and own funds.

1.4.1 Hotel 1926

Hotel 1926 is the newly rebranded 4-star hotel that replaced the previous 3-star Plevna Hotel, which was managed and operated by the Group. The hotel consists of a luxury spa, restaurant and a private beach club 200 metres from the hotel on the Qui-si-Sana seafront, as well as a roof terrace. Hotel 1926 operates sustainably through smart design technology, including access control, energy management and SuitePad technology, therefore, eliminating the need for plastic and paper.

The Hotel is located in a quiet residential area off Qui-si-Sana seafront in Sliema, Malta. During the construction phase, an opportunity to re-design certain elements of the project arose and subsequently the newly refurbished hotel has a total of 172-rooms (2 of which are currently being used for internal operations) compared to the 140-rooms as per original plans and published prospectus. The private beach club has opened on 1 July 2018 as planned, and operated successfully during the summer months of both 2018 and 2019.

The Hotel reached its full capacity in August 2019, however, in view of the COVID-19 pandemic, Hotel 1926 had to close its doors in March. The beach club, which operates only during the summer months, was minimally impacted by the pandemic as it opened at the end of May (last year it opened at the beginning of May). The Hotel has also opened its doors, although this is limited only to local visitors, but management expects to generate more business as from July as Malta welcomes its first tourists for this summer.

Operational Performance

The following table sets out the highlights of Hotel 1926 operating performance for the years indicated therein:

Hotel 1926	2018A	2019A	2020F
Revenue gross of commissions (€'000)	n/a	3,085	1,320
Gross operating profit (€'000)	n/a	1,529	270
Gross operating profit margin (%)	n/a	50%	20%
Occupancy level	n/a	87.1%	30.2%
Average daily rate (ADR) (€)	n/a	99.6	70.9
Revenue per available room (Rev/PAR) (€)	n/a	86.8	21.4
Benchmark performance[2]			
Occupancy level (%)	n/a	81.9%	n/a
Average daily rate (ADR) (€)	n/a	75.9	n/a
Revenue per available room (Rev/PAR) (€)	n/a	62.2	n/a

Source: Management

[2] MHRA Hotel Survey by Deloitte – Key Highlights: Q4 2019 & YTD

The hotel commenced operations in November 2018, accordingly the hotel did not operate during the year ending 31 October 2018.

In FY19, Hotel 1926 reported €3.1m in revenue and generated €1.5m in gross operating profit. This translates to a gross profit margin of 50%. The Hotel's revenue and gross profit fell short of projections by circa €0.9m due to the full rooms compliment to Hotel 1926 coming available in August instead of the previously expected timeline, being May 2019. This consequently also impacted the Hotel's gross profit margin as the Group still incurred operational costs during the aforementioned delay.

It is pertinent to note that the performance reported in FY19 does not capture the full capacity of the hotel, as the full rooms were made available in August 2019. Despite this, the Hotel's performance exceeded the local benchmark both in terms of occupancy and ADR. Management attributes this to two main reasons: (i) the benchmark takes the average rate of all 4-star hotels in Malta, whereas Hotel 1926 is situated in a prime location thus benefits from higher tariffs and (ii) the Hotel is newly refurbished and offers higher standards when compared to other 4-star hotels, including smart design technology and sustainable tourism.

During the first four months (Nov 2019 to Feb 2020) of FY20, Hotel 1926 registered improved performance and if it had not been for the COVID-19 outbreak, the Hotel would have recorded a good year. However, as described in further detail above, this pandemic has caused unprecedented events worldwide, with the hospitality industry being one of the most severely impacted by this virus.

Accordingly, management expects revenue for Hotel 1926 to drop to €1.3m, with the gross profit decreasing to €0.3m. As a consequence, the gross profit margin is expected to fall to 20%. This performance is in line with the expected performance of the local hospitality industry, although given the fluidity of the situation benchmark performance for FY20 is not available.

The Group's hospitality projections for FY2020 capture the actual trading results for the 5-month period (1 November 2019 to 31 March 2020) and the financial projections for the remaining 7-month period (1 April to 31 October 2020). The projections have been compiled on the basis of the following assumptions:

- Both of the Group's hotels re-opened their doors in June for local visitors and as from July management expects to generate more business as Malta welcomes its first tourists for this summer;
- The hotels did not generate any revenue for the 3-month period April to June as a result of the lockdown measurers employed by the Government;
- Management expects both hotels to remain operational during the remaining period of this financial year, which ends on 31 October 2020;
- Projections for FY20 are based on information known up to the date of this Analysis (as explained in detail above) and are dependent on no further material deterioration of the current situation.

The projections as presented in this analysis assume that the carrying values of the property owned by the Group will not be revalued upwards or impaired and consequently, no adjustment has been made as to the value of assets which can materially affect the Group's financial position.

Part 2 – Historical Performance and Forecasts

The Issuer was incorporated on 30th August 2017 and, accordingly, the first financial year has a trading record for a 14-month period of operations. The Issuer's historical financial information is set out below. Furthermore, the Issuer itself does not have any substantial assets and is essentially a special purpose vehicle set up to act as a financing company solely for the needs of the Group, and, as such, its assets are intended to consist primarily of loans issued to Group companies. For the purpose of this document, the focus is on a review of the performance of the Guarantor, which constitutes the entire group of companies. The Group's historical financial information for the three financial years ended 30th October 2017, 2018 and 2019, as audited by PricewaterhouseCoopers, is set out below. Forecasts for FY2020 are based on management's projections.

2.1 Issuer's Income Statement

Income Statement for the years ended October	30/08/2017 31/10/2018 A	2019A	2020F
	€000s	€000s	€000s
Finance income	515	562	537
Finance cost	(459)	(500)	(501)
Net finance costs	**56**	**62**	**36**
Administrative expenses	(36)	(48)	(28)
Profit before tax	**20**	**14**	**8**
Taxation	-	(5)	(3)
Profit after tax	**20**	**9**	**5**

Ratio Analysis	2018A	2019A	2020F
Gross Profit Margin (Net finance costs / Finance income)	10.9%	11.0%	6.7%
Net Margin (Profit for the year / Finance Income)	3.9%	1.6%	0.9%

Bortex Finance p.l.c registered a profit of €9k for FY19, which represents the spread of the interest received from loans granted to Group companies over the interest paid on the bond issue, less administrative expenses. The Issuer results for FY19 were in line with previous projections, except for finance income which was €95k lower due to an unplanned decrease in the intra Group interest rate which occurred during FY19. Additionally, administrative expenses were €5k lower due to lower directors' emoluments than previously anticipated. Consequently, the Issuer registered a lower profitability than previously expected, however the Issuer still ended the year with a surplus.

The Issuer is projecting finance income to amount to €537k in FY20, which is slightly lower than FY19 due to the full year effect of the lower intra Group interest rate as mentioned above. Finance cost is expected to amount to €501k, which reflects the 3.75% coupon incurred on the outstanding €12.75m bond issue, coupled with the bond amortised costs. Administrative expenses are expected to amount to €28k, slightly lower than FY19, with the Issuer expected to generate a marginal €5k profit for FY20. The Issuer has limited trading activity given that it was solely set up to act as a finance vehicle.

2.2 Issuer's Financial Position

Statement of Financial Position as at October	2018A	2019A	2020F
	€000s	€000s	€000s
Assets			
Non-current assets			
Loans and receivables	12,497	12,497	12,497
Current assets			
Loans receivable	-	150	-
Receivables	515	515	537
Cash and cash equivalents	218	120	272
	733	**785**	**809**
Total assets	**13,230**	**13,282**	**13,306**
Equity and liabilities			
Capital and reserves			
Share capital	250	250	250
Retained earnings	20	29	34
Total equity	**270**	**279**	**284**
Non-current liabilities			
Amortised bond issue	12,518	12,540	12,562
Current liabilities			
Current Tax liabilities	-	5	-
Payables	442	458	460
Total liabilities	**12,960**	**13,003**	**13,022**
Total equity and liabilities	**13,230**	**13,282**	**13,306**

Total assets in FY19 amounted to €13.3m, which mainly consisted of €12.5m loans and receivables to fellow subsidiaries carried until the maturity of these loans in line with the eventual redemption of the bond issue in FY2027. Assets were in line with previous projections, except for a short term loan of €150k granted to a fellow subsidiary, which was offset by a decrease of €142k in receivables.

Total liabilities in FY19 amounted to €13.0m, which mainly reflects the €12.5m amortised bond issue, which is expected to increase marginally over the life of the bond as issue costs are amortised. Total equity remained constant to FY18, except for a €9k increase in retained earnings reflecting FY19 profits. FY19 results were in line with previous expectations, except for a €59k variance in retained earnings due the realisation of lower profits when compared to projections as explained further above.

In FY20, the Issuer expects the financial position to remain fairly stable, where total assets are forecasted to remain at €13.3m. During FY20 the Issuer expects to receive the short term loan of €150k granted to a fellow subsidiary, accordingly loans receivable are forecasted to decrease, with Cash and cash equivalents increasing to €0.3m. Total liabilities will also remain at €13.0m, with equity increasing marginally due to the forecasted profit for FY20 as explained above.

2.3 Issuer's Cash Flows Statement

Cash Flows Statement for the years ended October	2018A	2019A	2020F
	€000s	€000s	€000s
Cash flows from operating activities			
Cash generated from operations	(32)	(34)	(52)
Interest paid	-	(476)	(478)
Interest received		562	537
Taxation paid	-	-	(5)
Net cash flows used in / (generated from) operating activities	**(32)**	**52**	**2**
Cash flows from investing activities			
Movement in related parties balances	(12,497)	(150)	150
Net cash flows used in investing activities	**(12,497)**	**(150)**	**150**
Cash flows from financing activities			
Proceeds from the issuance of ordinary shares	250	-	-
Proceeds from the issuance of bonds	12,750	-	-
Payments for bond issue costs	(253)	-	-
Net cash flows generated from financing activities	**12,747**	**-**	**-**
Movement in cash and cash equivalents	**218**	**(98)**	**152**
Cash and cash equivalents at start of year	-	218	120
Cash and cash equivalents at end of year	**218**	**120**	**272**

The cash flows statement reflects the limited trading activity of the Issuer, whereby in FY19 the Issuer recorded €52k cash generated from operating activities and €150k cash used in investing activities. The latter reflects the short term loan granted to a fellow subsidiary as mentioned above. The Issuer's cash generation improved in FY19 over FY18, however due to the increase in advances to related parties, the Issuer closed FY19 with a negative movement of €98k in cash and cash equivalents.

The Issuer's cash flows performance in FY19 was marginally below expectations and this was mainly due to the unplanned advances to related parties, which amounted to €150k. To note that in the 2019 forecasts, interest received was aggregated with cash generated from operations, while in the audited figures for FY19 this was shown separately. In aggregate, when arriving at the cash flows from operating activities there was a positive movement of €68k. The Issuer expects its cash flows position to remain fairly stable in FY20, where the only movements will be in cash flows from operating activities, which are expected to amount to €2k, and €150k from cash flows from investing activities. Accordingly, cash as at FY20 is expected to amount to €272k.

2.4 Group's Income Statement

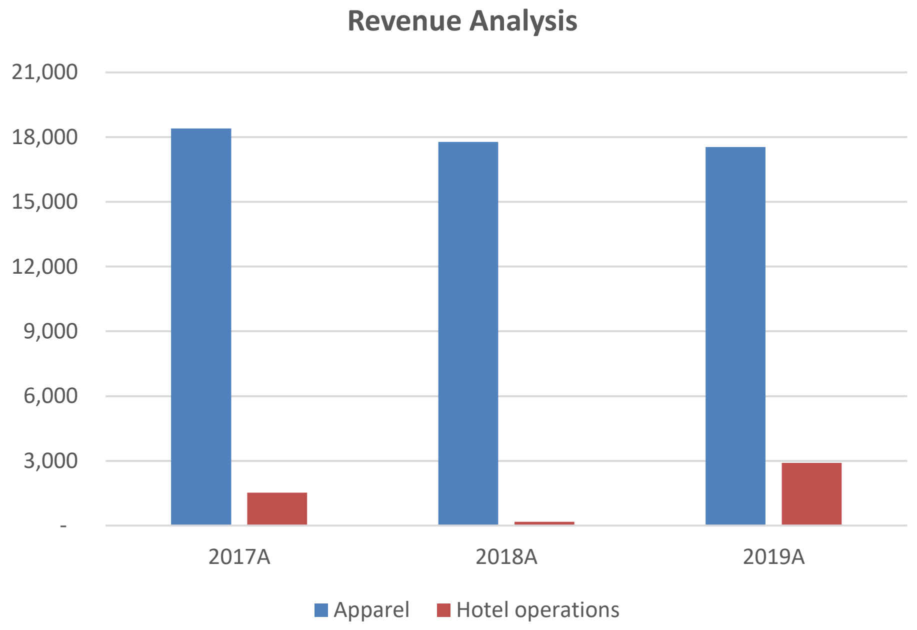
Income Statement for the years ended October	2017A	2018A	2019A	2020F
	€000s	**€000s**	**€000s**	**€000s**
Revenue	19,920	17,954	20,442	15,706
Cost of sales	(13,061)	(11,183)	(12,148)	(13,410)
Gross profit	**6,859**	**6,771**	**8,294**	**2,296**
Administrative expenses (excl. Depreciation)	(1,936)	(1,404)	(1,306)	(1,090)
Selling expenses	(4,318)	(4,707)	(4,910)	(1,185)
Other operating expenses/(income)	(7)	43	250	43
EBITDA	**598**	**703**	**2,328**	**64**
Reported EBITDA	**598**	**703**	**2,328**	**64**
Normalisation adjustments	**597**	**273**	**-**	**-**
Normalised EBITDA	**1,195**	**976**	**2,328**	**64**
Profit from the sale of apartments	-	-	-	3,372
Depreciation and amortisation	(801)	(775)	(1,110)	(1,251)
EBIT	**(203)**	**(72)**	**1,218**	**2,185**
Investment and other income	32	90	7	-
Finance income	52	52	52	-
Finance costs	(259)	(232)	(612)	(793)
Share of profit from associate	-	-	-	-
Profit before tax	**(378)**	**(162)**	**665**	**1,392**
Income tax	1,490	(78)	(120)	(558)
Profit after tax	**1,112**	**(240)**	**545**	**834**

Ratio Analysis	2017A	2018A	2019A	2020F
Profitability				
Growth in Revenue (YoY Revenue Growth)	-3.4%	-9.9%	13.9%	-23.2%
Gross Profit Margin (Gross Profit / Revenue)	34.4%	37.7%	40.6%	14.6%
EBITDA Margin (EBITDA / Revenue)	3.0%	3.9%	11.4%	0.4%
Operating (EBIT) Margin (EBIT / Revenue)	-1.0%	-0.4%	6.0%	13.9%
Net Margin (Profit for the year / Revenue)	5.6%	-1.3%	2.7%	5.3%
Return on Common Equity (Net Income / Total Equity)	3.9%	-0.8%	2.0%	2.9%
Return on Assets (Net Income / Total Assets)[3]	2.7%	-0.5%	1.0%	1.4%

1. **Revenue –** Prior to FY19, the Group's revenue was declining primarily due to a continued shift from the high volume manufacture of garments for private labels towards the manufacture and retailing of Gagliardi garments through the Group's retail outlets. However, as previously expected this trend reversed during FY19 and the Group's revenue increased by 13.9% over last year. This increase in revenue reflects the contribution of Hotel 1926, following its complete overhaul and rebranding from its prior name Plevna Hotel. FY19 variance analysis to last year's projections is discussed in detail below in section 2.4.1.

[3] Return on assets was previously worked out on the total assets as at year-end, however this was amended to reflect the average of total assets over two years financial performance.

Segment Revenue	2017A	2018A	2019A
	€000s	€000s	€000s
Apparel	18,397	17,784	17,540
Hotel operations	1,523	170	2,902
	19,920	17,954	20,442



Source: Audited Financial Statements

- **Revenue Analysis – Apparel Segment**

The Group's strategic decision to focus on rolling-out their exclusive Gagliardi brand started paying off in FY19, although Brexit uncertainties continued to influence the manufacturing division's order book which resulted in revenue from the apparel segment to decrease marginally by 1.4%. Efforts to restore the private label order book levels and improve retail margins both locally and overseas had begun to bear fruit and results for Q1 of FY20 for both manufacturing and retail were broadly in line with budgets.

With the onset of the COVID-19 crisis in early March, retail and manufacturing revenues came to an almost complete halt as a result of the closure of all retail outlets in Malta as well as overseas, as well as the factory in Tunisia. During the closure period the Group converted its local manufacturing facility to the production of masks and medical apparel, ramped up its online efforts and also embarked on a restructuring plan decreasing its total overheads by 20%.

Operations started again gradually in early May 2020 and sales have been picking up slowly. In FY20, the Group is forecasting a drop in retail sales of approximately 46% and a drop in manufacturing sales of 21% from pre-COVID budgets. In fact, management is forecasting the apparel segment to generate €14.3m, which represents a drop of 18.6% when compared to FY19.

The projections have been compiled on the basis of the following assumptions:

- Majority of the Group's retail stores re-opened their doors in May and will remain operational during the rest of the financial year;
- During April, retail and manufacturing revenues came to an almost complete halt as a result of the closure of all retail outlets in Malta and internationally, as well as the factory in Tunisia;
- Projections for FY20 are based on information known up to the date of this Analysis and are dependent on no further material deterioration of the current situation.

- **Revenue Analysis – Hospitality Segment**

The Group's hospitality revenue is mainly generated from Hotel 1926, as the operations of Palazzo Jean Parisot Boutique Suites are not material to the Group. As further explained in section 1.4.1, the full rooms compliment to Hotel 1926 came available in August instead of the previously expected timeline, being May 2019. Despite this, the Hotel generated €3.1m revenue during FY19. As per section 1.4, the Palazzo Jean Parisot Boutique Suites generated circa €0.3m in revenue.

FY20, was the first year where Hotel 1926 was to operate in its full capacity from the beginning of the financial year, and as expected, the year started on an excellent footing, with revenues exceeding budget by €179k for Q1 2020 (Nov 19 to Jan 20). In fact, the business in the first months of the current financial year, pre-COVID, was indicating that the budgets would not only be met but surpassed. As described above COVID-19 has overturned this scenario as the Group had to close the hotels following Government measures, firstly with the imposition of quarantine on travellers, followed by the closure of the airport.

In June, the Hotels re-opened their doors, although this was limited only to local visitors, but management expects business to improve as from July with Malta expected to welcome its first tourists for this summer. In consideration of the above, the Group is forecasting the Hospitality segment to generate €1.4m, which represents a drop of 50.8% when compared to FY19. Further information on the Group's projections for the Hospitality segment is found in section 1.4 of this Analysis.

The projections have been compiled on the basis of the following assumptions:

- Both of the Group's hotels re-opened their doors in June for local visitors and as from July management expects to generate more business as Malta welcomes its first tourists for this summer;
- The hotels did not generate any revenue for the 3-month period April to June as a result of the lockdown measurers employed by the Government;
- Management expects both hotels to remain operational during the remaining period of this financial year, which ends on 31 October 2020;
- Projections for FY20 are based on information known up to the date of this Analysis and are dependent on no further material deterioration of the current situation.

2. **EBITDA** - In FY19, earnings before depreciation, interest and taxation increased significantly to €2.3m compared to €0.7m in FY18, with the EBITDA margin improving to 11.4% from 3.9%. This improved performance is a result of the contribution of Hotel 1926, which commenced partial operations last year.

The COVID-19 outbreak, as further described above, is expected to materially impact the Group during FY20. As shown above management expects both administrative expenses and selling expenses to decrease in FY20 when compared to FY19. Albeit, given that a portion of hospitality costs are fixed and not linked to revenue, cost of sales are expected to be slightly higher in FY20. Based on the matters above, the Group expects EBITDA to fall to €64k in FY20.

3. **Net Profit/ (Loss) –** FY19 was a positive year for Bortex, where the Group reported a profit before tax of €0.7m (FY18: loss of €0.2m). The Group benefitted from prior years unabsorbed capital allowances and tax losses, thus it did not incur any income tax, except for deferred tax movements. Accordingly, the Group incurred a lower tax charge on FY19, and reported €0.5m profit after tax (FY18: loss after tax €0.2m.

   The COVID-19 outbreak, as further described above, is expected to materially impact the Group's operations during FY20. In fact, the Group will incur higher finance costs due to the additional financing acquired to mitigate the deficiencies in the cash flow projections brought about by the impact of this pandemic.

   Nevertheless, the project on TEN apartments was not interrupted and based on secured promise of sale agreements, the Group expects to generate €6.2m from this project in FY20, translating into a profit before tax of €3.4m. As a result, it is expected that the Group will generate a total profit after tax of €0.8m. Further information on the progress of the TEN Apartments is found in section 1.4 of this Analysis.

- **Group's Performance Outlook**

The impacts of COVID-19 are far-reaching and continue to ripple throughout the world and hospitality is among the hardest hit due to fears of community spread through travel and group environments. Notwithstanding this, the Group is forecasting an aggregate EBITDA of €64K, from the manufacturing, retail and hospitality operations, and an overall profit after tax of €834K, after including the net income from the real estate. These projected results were based on what management believes to be conservative scenarios.

In order to mitigate the deficiencies in the cash flow projections brought about by the impact of COVID-19, the Group has been granted a moratorium on the payment of interest and principal of its existing bank loan~~s~~ and it has applied for financing under the MDB Guarantee scheme, repayable over six years inclusive of one year moratorium. The forecasts and cash flow projections described earlier were the basis of the application for the required financing, which financing will be in place before the end of the financial year.

On the basis of the matters described above, the Group confirms that, although this year's results are going to be adversely effected, this will not impact the going concern of both the Issuer and the Guarantor. The above projections indicate that sufficient cash will be generated throughout the next twelve months and the Group should be in a position to meet its financial commitments, including the bond interest due on 1st December.

2.4.1 Variance Analysis

Income Statement	Oct-2019F	Oct-2019A	Variance
	€000s	€000s	€000s
Revenue	23,771	20,442	(3,329)
Cost of sales	(13,907)	(12,148)	1,759
Gross profit	**9,864**	**8,294**	**(1,570)**
Administrative expenses (excl. Depreciation and amortisation)	(1,872)	(1,306)	566
Selling expenses	(4,252)	(4,910)	(658)
Other operating expenses/(income)	383	250	(133)
EBITDA	**4,123**	**2,328**	**(1,795)**
Profit from the sale of apartments	2,525	-	(2,525)
Depreciation and amortisation	(1,230)	(1,110)	120
EBIT	**5,418**	**1,218**	**(4,200)**
Investment and other income	-	7	7
Finance income	126	52	(74)
Finance costs	(694)	(612)	82
Share of profit from associate	12	-	(12)
Profit before tax	**4,862**	**665**	**(4,197)**
Income tax	(1,657)	(120)	1,537
Profit after tax	**3,205**	**545**	**(2,660)**

- **Variance Analysis Commentary**

The Group's revenue fell short of expectations, albeit the variance has been partially mitigated by the cost savings decisions taken by the Group in the apparel segment during FY2019. Thus, the €3.3m fall in revenue was compensated by the €1.8m direct costs savings, resulting in gross profit variance to decrease to €1.6m.

The loss in revenue is attributable to two factors: (a) Hotel 1926's gross revenue fell short of projections by circa €0.9m due to the full rooms compliment to the Hotel coming available in August instead of the previously expected timeline, being May 2019 (b) the Group experienced a decline in the apparel segment, with the loss in revenue from private label not yet matched by the increase in sales from the international roll-out of the Group's exclusive Gagliardi Brand (Retail division). The private label (manufacturing) has continued to be influenced by the uncertainties surrounding Brexit. This consequently led to the Group's EBITDA falling short of projections by €1.8m.

The Group previously expected to finalise related finishing works of the TEN apartments in October 2019, which would have resulted in the Group recognising the revenue from the sale of a number of apartments in TEN in FY2019. However, finishing related works were delayed for reasons beyond the Group's control and were finalised by Q1 2020. As at this Analysis, the Group has secured the sale of 15 apartments (7 of which concluded) and 27 car spaces (10 of which concluded) by way of promise of sale, which amounts to €6.2m sales (net of commissions). Based on the concluded agreements, the Group will start recording profit from the sale of apartments in FY2020.

The delay in finalising the TEN apartments contributed to a shortfall in EBIT from projections by €2.5m. This shortfall was partially eased by a lower depreciation charge, commensurate with the delay of finalising Hotel 1926.

Investment and finance related income/costs were in line with expectations, consequently profit before tax fell also short of expectations by €4.2m. The Group's profit after tax was €2.7m lower than expectations, as the Group benefitted from deferred tax movements, which resulted in income tax to be lower than projections by €1.5m.

2.5 Group's Financial Position

Statement of Financial Position as at October	2017A	2018A	2019A	2020F
	€000s	€000s	€000s	€000s
Assets				
Total non-current assets	**20,983**	**28,614**	**34,492**	**33,241**
Current assets				
Inventories	15,281	17,692	20,024	14,112
Trade and other receivables	4,177	4,882	4,613	7,935
Current tax assets	20	29	24	24
Term placements	8	8	8	8
Cash and cash equivalents	1,519	1,375	1,115	1,024
	21,005	**23,986**	**25,784**	**23,103**
Total assets	**41,988**	**52,600**	**60,276**	**56,344**
Equity and liabilities				
Capital and reserves				
Share capital	47	47	47	47
Revaluation reserve	6,872	6,428	5,868	5,868
Other reserves	507	507	507	507
Retained earnings	21,688	20,898	21,437	22,314
Non-controlling interest	-	-	43	-
Total equity	**29,114**	**27,880**	**27,902**	**28,736**
Non-current liabilities				
Deferred taxation	1,157	1,180	1,847	1,847
Borrowings	2,456	16,284	18,063	17,268
	3,613	**17,464**	**19,910**	**19,115**
Current liabilities				
Borrowings	6,104	3,379	4,350	4,600
Trade and other payables	3,147	3,877	8,096	3,893
Current tax liabilities	10	-	18	-
	9,261	**7,256**	**12,464**	**8,493**
Total liabilities	**12,874**	**24,720**	**32,374**	**27,608**
Total equity and liabilities	**41,988**	**52,600**	**60,276**	**56,344**

Ratio Analysis	2017A	2018A	2019A	2020F
Financial Strength				
Gearing 1 (Net Debt / Total Equity)	24.2%	65.6%	76.3%	72.5%
Gearing 2 (Total Liabilities / Total Assets)	30.7%	47.0%	53.7%	44.5%
Net Debt / EBITDA	11.8x	26.0x	9.1x	325.7x
Current Ratio (Current Assets / Current Liabilities)	2.3x	3.3x	2.1x	2.7x
Quick Ratio (Current Assets - Inventory / Current Liabilities)	0.6x	0.9x	0.5x	1.1x
Interest Coverage (EBITDA / Cash interest paid)	2.3x	4.3x	2.6x	0.1x

In FY19 total assets increased to €60.3m from €52.6m in FY18, mainly as a result of the high capital expenditure on the newly refurbished Hotel 1926. Additionally, the increase in assets was as a result of the increase in inventories (circa €2m), which mainly relates to the increase in the expenditure on the TEN Apartments, stocks for the new hotel and increase in goods held for resale.

In FY19, total liabilities increased by €7.7m to €32.3m. This mainly was a result of increase in borrowings circa €3m and increase in trade payables circa €4.2m, the latter mainly relates to the payments received in advance from buyers of the TEN Apartments. Total equity remained fairly stable at €27.9m as the profit after tax of €0.5m was almost netted off by negative deferred tax liability in the other comprehensive income.

As explained in section 2.4.1, the Group previously expected to realise part of the profits on TEN Apartments during FY19, but due to circumstances beyond control of management, this was delayed to FY20. Consequently, current assets in FY19 exceeded previous projections. Additionally, the Group capex was larger than anticipated, accordingly non-current assets also exceeded previous estimates. Due to the additional capex, the Group obtained further financing which obviously, was not included in last year's projections. Additionally, previous projections failed to include the payments received in advance from buyers of the TEN Apartments under trade and other payables, which resulted in actual results to differ from expectations. Previous forecasts anticipated a higher profitability (the variance of which is detailed in section 2.4.1) which resulted in total equity to be lower than previous projections.

The Group expects total assets to decrease to €56.3m in FY20. Mainly this reflects the decrease in inventories as the profit on the TEN Apartments is realised, coupled with the depreciation charge on non-current assets. The Group expects to have a cash balance of €1.0m in FY20. During 2020, the materialisation of contracts of sale of TEN apartments will help restore liquidity, therefore total liabilities are expected to decrease to €27.6m in FY20. The increase in total equity represents the forecasted profit for FY20.

2.6 Group's Cash flows Statement

Cash Flows Statement for the years ended October	2017A	2018A	2019A	2020F
	€000s	€000s	€000s	€000s
Cash flows from operating activities				
Cash generated from operations	1,990	(1,949)	3,949	(2,201)
Net cash outflows/inflows from the property development project	(525)	(653)	369	4,391
Investment income	32	90	7	-
Interest received	52	52	52	-
Interest paid	(259)	(163)	(909)	(748)
Net Tax refund/(paid)	457	403	9	(577)
Net cash flows generated from operating activities	**1,747**	**(2,220)**	**3,477**	**865**
Cash flows from investing activities				
Purchase of property, plant and equipment	(2,014)	(9,107)	(6,523)	(190)
Proceeds from disposal of property, plant and equipment	-	9	6	-
Proceeds from disposal of investment property	-	930	-	-
Repayments of advances to related parties	(1)	1	-	(678)
Purchase of available for sale financial assets	-	(33)	-	-
Net cash flows generated from/(used in) investing activities	**(2,015)**	**(8,200)**	**(6,517)**	**(868)**
Cash flows from financing activities				
Proceeds from non-controlling interest arising upon incorporation of subsidiary	-	-	50	-
Proceeds from the issuance of bonds	-	12,750	-	-
Payments for bond issue costs	-	(253)	-	-
Proceeds from bank borrowings	900	3,120	4,072	1,388
Repayments of bank borrowings	(209)	(2,849)	(1,743)	(2,574)
Movement of loans from shareholders	(24)	(19)	(19)	262
Dividends paid	-	(784)	-	-
Net cash flows generated from / (used in) financing activities	**667**	**11,965**	**2,360**	**(924)**
Movement in cash and cash equivalents	**399**	**1,545**	**(680)**	**(927)**
Cash and cash equivalents at start of year	(4,024)	(3,494)	(1,973)	(2,649)
Effects of currency translation on cash and cash equivalents	131	(24)	4	-
Cash and cash equivalents at end of year	**(3,494)**	**(1,973)**	**(2,649)**	**(3,576)**

Ratio Analysis	2017A	2018A	2019A	2020F
Cash Flow				
Free Cash Flow (Net cash from operations - Capex)	€(267)	€(11,327)	€(3,046)	€675

In FY19, the Group reported a net movement in cash and cash equivalents of €0.7m, which is the net result of €3.5m cash flows from operating activities, €2.4m cash flows from financing activities less €6.5m cash used in investing activities. Mainly the latter reflect the capex on the refurbishment of Hotel 1926.

As explained in section 2.4.1, previous forecasts anticipated a better financial performance in FY19, which resulted in cash flows generated from operating activities to be lower than expectations. Additionally, the Group capex was larger than anticipated, accordingly cash flows used in investing activities were higher than previous projections. As a result of the additional capex, the Group obtained further financing, consequently cash flows generated from financing activities were higher than previous forecasts.

In FY20, the net movement in cash is expected to be negative at €0.9m. This is mainly due to the negative repercussions of the COVID-19 pandemic. Furthermore, given that the Group will crystallise on the sale of the TEN Apartments, management expects to use the proceeds to repay bank loans, thus cash flows used in financing activities is projected to amount to €0.9m. Cash flows from operating activities are forecasted to be netted off by the cash flows that will be utilised in investing activities.

Part 3 – Key market and competitor data

3.1 General Market Conditions[4]

In May 2020, the Central Bank of Malta's Business Conditions' Index (BCI) fell slightly when compared with the previous month, suggesting that economic conditions remain significantly below their long-term average. By contrast, the European Commission's Economic Sentiment Indicator (ESI) rose somewhat from the very low reading registered in April. The largest increase in confidence during the month was recorded in the construction sector, although sentiment improved in all other sectors except among retailers. In April, the volume of retail trade contracted in annual terms. Similarly, annual growth in industrial production turned negative. The number of registered unemployed and the unemployment rate edged up, although the latter remained relatively low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) eased to 1.1% in April, from 1.2% in March, while inflation based on the Retail Price Index (RPI) fell to 0.8%, from 1.0% in March. Meanwhile, Maltese residents' deposits grew by an annual rate of 7.7% over the year to April, while annual growth in credit to Maltese residents accelerated by 7.5%. In April, the deficit on the cash-based Consolidated Fund widened significantly compared with a year earlier, reflecting a significant rise in government expenditure and a large drop in revenue in view of COVID-19.

- **Economic Outlook[5]**

The Central Bank of Malta (CBM) expects economic growth to be severely affected by this pandemic and the containment measures imposed by governments worldwide to stem the spread of the virus. Given the high uncertainty surrounding the evolution of the pandemic, the Bank is presenting two scenarios, a baseline and a more severe scenario. In the baseline scenario, which accounts for a situation in which containment measures are at least partially successful, GDP is projected to contract by 4.8% in 2020, and grow by around 5.8% and 4.2% in the following two years. Despite the projected recovery, the level of economic activity is expected to be around 6% lower than that expected prior to the outbreak of COVID-19.

While in the severe scenario, the Bank assumes that the health protocols would have to be enhanced and extended to contain a second wave of infections. Should this occur, the CBM estimate that GDP could contract by 8.3% this year, and rebound by 6.8% and 3.8% in 2021 and 2022. In this case, the level of GDP would only reach 2019 levels by the end of 2022. Moreover, the unemployment rate would rise further, and inflation would be slightly weaker.

- **Retail[6]**

During March, the Maltese Government announced several containment measures, including the closure of the airport and hence any travel-related activities; the closure of educational institutions and non-essential services, including retail; and social distancing measures. Since the beginning of

[4] CBM – Economic Update 6/2020;
[5] CBM Economic Projections 2020-2020 (2020:2);
[6] CBM – Economic Update 5/2020

May, some of the restrictions on non-essential services (retail stores re-opened on 4 May) have been gradually relaxed, but social distancing measures remain in place.

In May 2020, confidence within the retail sector fell to -43.2, from -31.7 in the previous month. The recent fall in sentiment was mainly driven by retailers' assessment of business activity in previous months, and to a lesser extent, by their expectations of business activity over the next three months. These developments offset the fall in share of respondents reporting above normal stock levels. Additional survey data indicate that price expectations turned more positive.

It expected that confidence within the retail sector will gradually start to recover as people start returning back to normality, with the Government recently lifting the public health emergency declared at the height of the COVID-19 pandemic (effective as from 1 July). This is expected to continue boosting economic activity and strengthen the recovery process of the local retail industry. Albeit, downside risks for a swift recovery are still present, whereby a revitalisation of the virus and delays to obtain a vaccine can prove a number of challenges both locally and internationally.

- **Tourism**[7]

The tourism industry in Malta has been progressively growing over the years, benefiting from a surge in tourism with records broken year-on-year. This trend is summarised in the below table, illustrating the number of tourist arrivals over the last three years.

	2017	2018	2019	Change 2019/18
Inbound tourists	2,273,837	2,598,690	2,753,239	5.9%
Tourist guest nights	16,509,141	18,569,716	19,338,860	4.1%
Average length of stay	7.3	7.1	7.0	-1.4%
Tourist expenditure (€'000s)	1,946,894	2,101,765	2,220,627	5.7%
Tourist expenditure per capita (€)	856	809	807	-0.2%

Unfortunately, the tourism sector both locally and internationally, has been severely impacted by the COVID-19 outbreak. As from early March, Malta started to introduce several confinement measures, with the eventual suspension of all passenger flights as from 21 Mar. This obliterated the local tourism market, in fact in March alone, inbound tourists fell by 56.5% on a comparative basis.

However, since the outbreak, Governments around Europe, including Malta, has started to ease restrictions, including the opening of airports and ports to countries that are deemed as safe destinations. Given that Europe does not experience a second spike in COVID-19 cases, it is expected that restrictions on travel will continue to be gradually eased over the summer and the rest of the year. This is expected to start the recovery process for the European tourism sector.

[7] Inbound Tourism December 2019 and March 2020 (NSO) and European Tourism – Trends & Prospects Q1/2020

3.2 Comparative Analysis

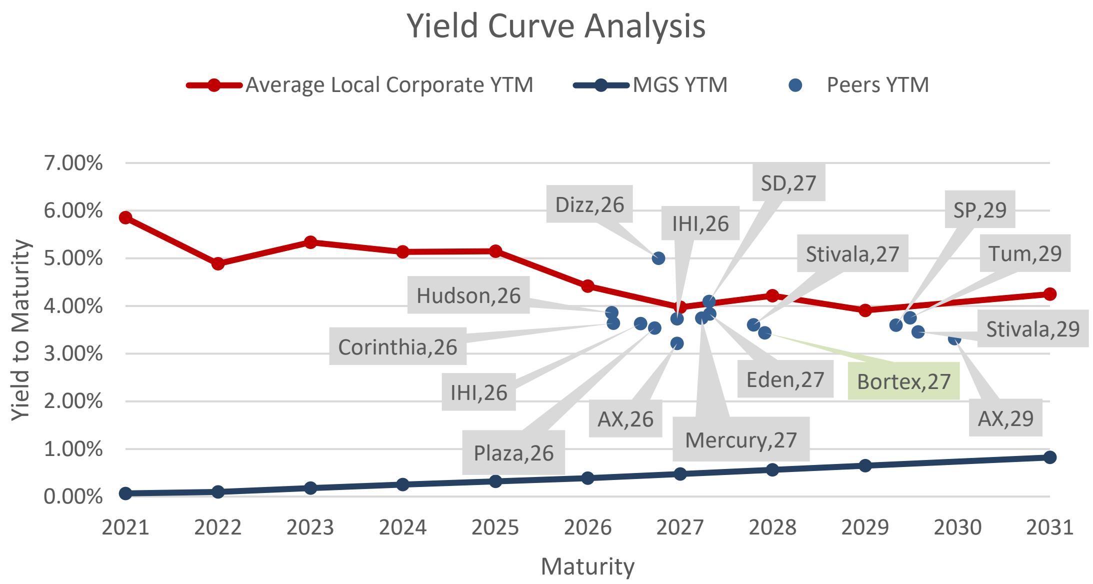
The purpose of the table below compares the debt issuance of the group to other debt instruments. One must note that given the material differences in profiles and industries, the risks associated with the Group's business and that of other issuers is therefore also different.

Security	Nom Value	Yield to Maturity	Interest coverage (EBITDA)	Total Assets	Total Equity	Total Liabilities / Total Assets	Net Debt / Total Equity	Net Debt / EBITDA	Current Ratio	Return on Common Equity	Net Margin	Revenue Growth (YoY)	Last Closing Price *
	€000's	(%)	(times)	(€'millions)	(€'millions)	(%)	(%)	(times)	(times)	(%)	(%)	(%)	
5.8% International Hotel Investments plc 2021	20,000	4.71%	3.2x	1,617.9	877.6	45.8%	58.7%	7.6x	1.1x	1.0%	3.3%	5.7%	101.50
5.8% International Hotel Investments plc 2023	10,000	5.79%	3.2x	1,617.9	877.6	45.8%	58.7%	7.6x	1.1x	1.0%	3.3%	5.7%	100.00
6% AX Investments Plc € 2024	40,000	4.83%	5.5x	342.4	226.1	34.0%	23.2%	3.2x	0.9x	2.2%	9.4%	-8.1%	103.85
4.4% Von der Heyden Group Finance plc Unsecured € 2024	25,000	3.55%	1.1x	147.8	44.3	70.1%	197.2%	36.6x	0.7x	-4.9%	-8.5%	8.6%	102.90
6% International Hotel Investments plc € 2024 (xd)	35,000	5.38%	3.2x	1,617.9	877.6	45.8%	58.7%	7.6x	1.1x	1.0%	3.3%	5.7%	102.10
5.75% International Hotel Investments plc Unsecured € 2025 (xd)	45,000	5.27%	3.2x	1,617.9	877.6	45.8%	58.7%	7.6x	1.1x	1.0%	3.3%	5.7%	102.00
4.35% Hudson Malta plc Unsecured € 2026	12,000	3.86%	5.0x	56.6	9.4	83.4%	255.4%	5.0x	1.4x	0.0%	0.9%	22.8%	102.50
4.25% Corinthia Finance plc Unsecured € 2026	40,000	3.64%	2.7x	1,784.7	908.9	49.1%	67.6%	8.7x	1.0x	2.2%	6.5%	3.9%	103.15
4% International Hotel Investments plc Secured € 2026	55,000	3.63%	3.2x	1,617.9	877.6	45.8%	58.7%	7.6x	1.1x	1.0%	3.3%	5.7%	102.00
3.9% Plaza Centres plc Unsecured € 2026	8,500	3.54%	5.2x	48.8	31.5	35.5%	35.7%	3.9x	7.7x	4.6%	38.3%	8.6%	102.00
5% Dizz Finance plc Unsecured € 2026	8,000	5.00%	8.8x	316.6	132.6	58.1%	47.0%	3.0x	1.0x	10.9%	19.1%	11.7%	99.99
4% International Hotel Investments plc Unsecured € 2026	60,000	3.73%	3.2x	1,617.9	877.6	45.8%	58.7%	7.6x	1.1x	1.0%	3.3%	5.7%	101.50
3.25% AX Group plc Unsec Bds 2026 Series I	15,000	3.21%	5.5x	342.4	226.1	34.0%	23.2%	3.2x	0.9x	2.2%	9.4%	-8.1%	100.20
3.75% Mercury Projects Finance plc Secured € 2027	11,500	3.75%	7.7x	38.0	0.8	97.9%	663.5%	4.8x	0.6x	101.2%	12.3%	261.0%	100.01
4.35% SD Finance plc Unsecured € 2027	65,000	4.09%	6.1x	229.9	63.8	72.3%	101.1%	3.1x	0.7x	11.7%	15.1%	7.8%	101.50
4% Eden Finance plc Unsecured € 2027	40,000	3.83%	6.6x	199.3	113.1	43.2%	40.9%	3.4x	1.1x	11.7%	28.1%	9.7%	101.00
4% Stivala Group Finance plc Secured € 2027	45,000	3.60%	4.0x	225.3	123.1	45.4%	68.3%	7.4x	0.7x	5.0%	26.0%	19.5%	102.49
3.75% Bortex Group Finance plc Unsecured € 2027	12,750	3.44%	2.6x	60.3	27.9	53.7%	76.3%	9.1x	2.1x	2.0%	2.7%	13.9%	102.00
4% SP Finance plc Secured EUR Bonds 2029	12,000	3.60%	6.4x	20.9	16.0	23.6%	15.0%	2.7x	0.5x	2.5%	28.0%	6.9%	102.99
3.75% TUM Finance plc Secured € 2029	20,000	3.75%	2.1x	60.1	32.1	46.6%	53.0%	11.1x	4.5x	41.9%	773.6%	n/a	100.00
3.65% Stivala Group Finance plc Secured € 2029	15,000	3.45%	4.0x	225.3	123.1	45.4%	68.3%	7.4x	0.7x	5.0%	26.0%	19.5%	101.50
3.75% AX Group plc Unsec Bds 2029 Series II	10,000	3.31%	5.5x	342.4	226.1	34.0%	23.2%	3.2x	0.9x	2.2%	9.4%	-8.1%	103.50
4.25% Mercury Projects Finance plc Secured € 2031	11,000	4.02%	7.7x	38.0	0.8	97.9%	663.5%	4.8x	0.6x	101.2%	12.3%	261.0%	102.00
Average**	**27,534**	**4.07%**	**4.7x**	**642.1**	**342.9**	**52.0%**	**122.6%**	**7.1x**	**1.4x**	**13.9%**	**46.6%**	**31.0%**	

Source: Latest Available Audited Financial Statements

* Last price as at 23/06/2020

** Average figures do not capture the financial analysis of the Group



Source: Malta Stock Exchange, Central Bank of Malta and Calamatta Cuschieri Workings

The above graph illustrates the average yearly yield of all local issuers as well as the corresponding yield of MGSs (Y-axis) vs the maturity of both Issuers and MGSs (X-axis), in their respective maturity bucket, to which the spread premiums can be noted.

The graph plots the entire MGS yield curve, thus taking into consideration the yield of comparable issuers. The graph illustrates on a stand-alone basis, the yield of comparable issuers having a maturity between 6-9 years respectively (Peers YTM).

As can be witnessed in the comparative analysis, the Group's leverage is below the average of its comparable issuers on the Malta Stock Exchange at a gearing (net debt / equity) of 76.3% compared to an average of 122.6% for the industry. Albeit, the total liabilities / total assets gearing is marginally higher at 53.7%, compared to an average of 52.0%.

As at 23 June 2020, the average spread over the Malta Government Stocks (MGS) for comparable issuers with maturity range of 6-9 years was 327 basis points. The 3.75% Bortex 2027 bond is currently trading at a YTM of 344 basis points, meaning a spread of 295 basis points over the equivalent MGS. This means that this bond is trading at a marginal discount of 32 basis points in comparison to the market.

Part 4 - Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
Costs	Costs are expenses incurred by the Group/Company in the production of its revenue.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Group/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
Gross Profit Margin	Gross profit as a percentage of total revenue.
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by the average total assets (average assets of two years financial performance).
Cash Flow Statement	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Group/Company less any interest incurred on debt.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Group/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Group/Company.
Capex	Represents the capital expenditure incurred by the Group/Company in a financial year.
Free Cash Flows (FCF)	The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Assets	What the Group/Company owns which can de further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.

Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Group/Company owes which can de further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Current Liabilities	Obligations which are due within one financial year.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity 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 current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio Gearing Ratio Level 1 Gearing Ratio Level 2	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Total Equity. Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to refinance its debt by looking at the EBITDA.
Other Definitions	
Yield to Maturity (YTM)	YTM is the rate of return expected on a bond which is held till maturity. It is essentially the internal rate of return on a bond and it equates the present value of bond future cash flows to its current market price.
Occupancy Level	The occupancy level is expressed as a percentage and indicates the number of rooms occupied to the total number of available rooms in a given time period.
Average Daily Rate (ADR)	Average Daily Rate (ADR) is a performance metric used in the hotel industry and it represents the average rental income per paid occupied room in a given time period.
Revenue per Available Room (Rev/PAR)	Revenue per available room (RevPAR) is a performance metric used in the hotel industry. It is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate or by dividing a hotel's total room revenue by the total number of available rooms in the period being measured.