RIZZO FARRUGIA
YOUR INVESTMENT CONSULTANTS

Rizzo, Farrugia & Co (Stockbrokers) Ltd.
Airways House, Third Floor, High Street, Sliema SLM 1549, Malta
T. +356 2258 3000 F. +356 2258 3001
E. info@rizzofarrugia.com W. www.rizzofarrugia.com

The Board of Directors
Tumas Investments plc
Level 3,
Portomaso Business Tower,
Portomaso
St. Julian's STJ4011

26 June 2018

Dear Sirs,

Tumas Investments plc – Financial Analysis Summary Update 2018 (the **"Analysis"**)

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

The purpose of the Analysis is that of summarising key financial data appertaining to Tumas Investments plc (the "**Company**" or "**TI**") and Spinola Development Company Limited (the "**Guarantor**", or "**SDC**"). 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 31 December 2015 to 2017 extracted from both the Company and the Guarantor's audited statutory financial statements for the three years in question;

(b) The forecast data for the financial year ending 31 December 2018 has been extracted from the forecast financial information provided by the management of the Company and the Guarantor;

(c) Our commentary on the results of the Company and Guarantor and on the respective financial positions has been based on the explanations set out by the Company and Guarantor in their audited financial statements and assisted by management thereof;

(d) The ratios quoted in the Analysis have been computed by us, applying the definitions set out beneath each ratio; and

(e) Relevant financial data has been extracted from public sources such as the web sites of the companies concerned or financial statements filed with the Registry of Companies.

The Analysis is meant to assist potential investors by summarising the more important financial data of the Company and the Guarantor. The Analysis does not contain all data that is relevant to potential investors and is meant to complement, information published or issued by the Company and/or Guarantor. The Analysis does not constitute an endorsement by our firm of the securities of the Company and should not be interpreted as a recommendation to invest. We shall not accept any liability for any loss or damage arising out of the use of the Analysis and no representation or warranty is provided in respect of the reliability of the information contained in the Prospectus. As with all investments, potential investors are encouraged to seek professional advice before investing.

Yours sincerely,

Vincent E Rizzo
Director

TUMAS INVESTMENTS P.L.C.

FINANCIAL ANALYSIS SUMMARY

UPDATE 2018

26 June 2018

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IMPORTANT INFORMATION

PURPOSE OF THE DOCUMENT

The purpose of this document is to present a financial analysis summary of Tumas Investments plc in line with the requirements of the Malta Financial Services Authority (MFSA) Listing Policies dated 5th March 2013. The Analysis will seek to update the financial analysis summary published on 29 May 2017 with the information on financial year (FY) 2017 and present financial forecasts for FY2018 for each of the Company and the Guarantor.

SOURCES OF INFORMATION

The information that is presented has been collated from a number of sources, including the company's website (*www.tumas.com*) and financial and management reports of the Company and the Guarantor, including the annual reports.

Historical financial information is being presented in thousands of Euro, unless otherwise stated, and has been rounded to the nearest thousand. The rounding could potentially alter the figures quoted to those presented in full in the annual reports of the Company or the Guarantor.

FORECASTS

The forecasts presented in this Analysis have been prepared by the directors of the Company and Guarantor, who undertake full responsibility for the assumptions on which these forecasts have been based.

Definitions

F&B	Food and beverages
Halland Developments Company Limited or **HDCL**	A subsidiary of Spinola Development Company Limited which owns the freehold title of the Halland site and adjoining land.
Halland site	The site in Ibragg (formerly Halland Aparthotel) earmarked for development.
Laguna Project	An extension to the Portomaso Complex on its east side which will include the building of 44 residential units.
PA	The Planning Authority (previously known as MEPA).
Portomaso Complex or **Portomaso** or **Complex**	The Complex located in St Julian's set on a site owned by SDC comprising the Hilton Malta and its convention centre, the Portomaso Business Tower, residential apartments, a car park, a marina and commercial outlets.
Portomaso Leasing Company Limited or **PLCL**	A subsidiary of Spinola Development Company Limited which manages the leasing of the long-term commercial and office components the Portomaso Complex.
Premium Real Estate Investments Limited or **PREIL**	A subsidiary of Spinola Development Company Limited entrusted with acquiring property for investment purposes.
Prospectus	The Prospectus issued by Tumas Investments plc dated 29 May 2017.
Spinola Development Company Limited or **Guarantor** or **SDC**	A company incorporated in Malta bearing registration number C331. SDC is a wholly-owned subsidiary of the Tumas Group Company Limited and acts as a guarantor to TI bond issues currently listed on the Malta Stock Exchange.
Tumas Group Company Limited or **Tumas Group** or **Group**	A group of companies involved in various sectors including hospitality, leisure, tourism, property, automotive and port operations.
Tumas Investments plc or **Company** or **Issuer** or **TI**	A company incorporated in Malta bearing registration number C27296.

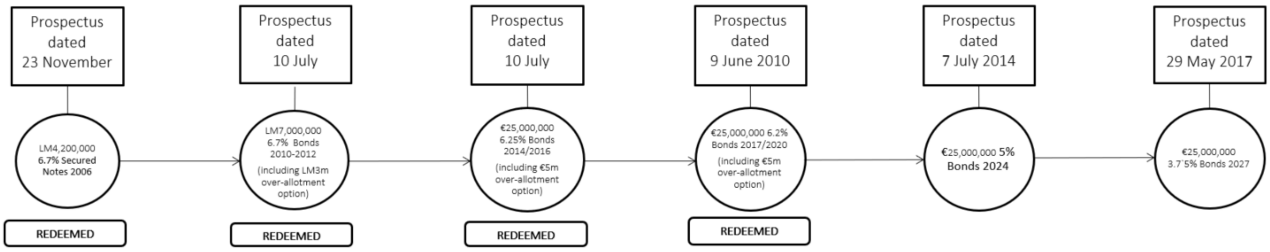
PART A THE ISSUER AND GUARANTOR

1. BACKGROUND AND HISTORY

1.1 TUMAS INVESTMENTS PLC – THE ISSUER

Tumas Investments plc is a public limited liability company incorporated in Malta on 17 November 2000 to act as the financing arm of SDC. Given the Company's nature of activities, i.e. raising finance for on-lending to SDC, there is an inherent dependence on SDC's cash flows and operations.

Since 2000, the Issuer has tapped the local bond market six times:



The first three bonds, issued in 2000, 2002 and 2009 respectively, have to date been redeemed. Meanwhile, the Issuer has today, two outstanding bonds, namely the €25.0 million 5% bonds maturing in 2024 and the €25.0 million 3.75% bonds maturing in 2027.

1.2 SPINOLA DEVELOPMENT COMPANY LTD – THE GUARANTOR

SDC was set up as a limited liability company in Malta on 10 May 1966 and was acquired by the Tumas Group in 1986 through Spinola Investments Limited. The business of SDC has, to date, comprised primarily of the development, management and operation of the Portomaso Complex situated in St Julian's. SDC owns three subsidiaries, namely PLCL, HDCL and PREIL, all of which are incorporated in Malta.

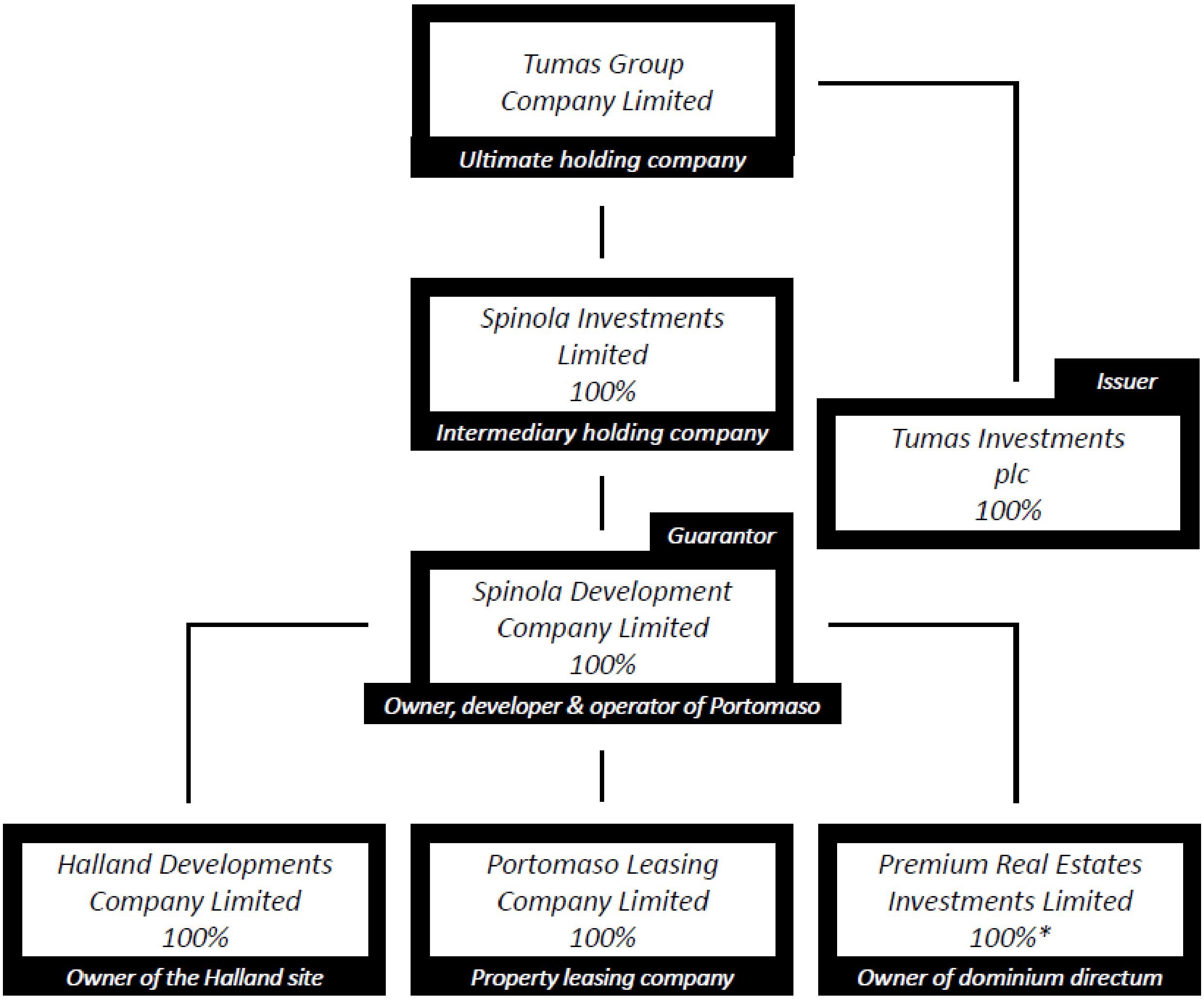
In 1994, the then Malta Hilton Hotel was completely demolished, making way for the development of the Portomaso Complex. The land title was acquired by SDC from the Government of Malta and today the Guarantor benefits from freehold title of the site. For the purpose of management and administration of Portomaso, in 2004 SDC set up PLCL to focus primarily on the leasing of long-term commercial and office components of the Complex.

In 2009, HDCL was set up with the main objective being that of acquiring the freehold title of the Halland site and the adjoining land from St Andrews Hotels Limited – a sister company within the Tumas Group.

PREIL was incorporated in 2011 with the principal objective of acquiring property for investment purposes. The only major transaction that this company has entered into since its formation was that related to the acquisition of the *dominium directum* on a portion of Portomaso properties from SDC in 2012. PREIL is 99% owned by SDC, with the remaining 1% held by Spinola Investments Limited.

1.3 THE ISSUER AND GUARANTOR WITHIN THE TUMAS GROUP

Both TI and SDC are wholly-owned subsidiaries of Tumas Group Company Limited – one of the largest and most diversified private business groups in Malta. The Group, which is ultimately owned by members of the Fenech family, is primarily active in property development and leasing, hospitality, leisure and gaming and energy. The Issuer and the Guarantor's positions within the Group are as depicted below:



**Refers to the effective control that SDC has on Premium Real Estates Investments Limited.*

2. Directors and Senior Management

2.1 Directors

Directors of the Issuer

The directors of the Company who held office during the financial year ended 31 December 2016 were:

Mr. Raymond Fenech	Executive Director & Chairman
Mr. Yorgen Fenech	Executive Director
Mr. Raymond Sladden	Executive Director & Company Secretary
Dr. Michael Grech	Non-Executive Director
Mr. Kevin Catania	Independent, Non-Executive Director
Mr. John Zarb	Independent, Non-Executive Director

Directors of the Guarantor

The directors of SDC who held office during the financial year ended 31 December 2017 and still hold office as at the date of this Analysisare:

Mr. Raymond Fenech	Executive Director & Chairman
Mr. Emmanuel Fenech	Executive Director
Mr. Yorgen Fenech	Executive Director

2.2 Senior Management

Senior Management of the Issuer

No employees are directly engaged by the Issuer as it entirely relies on the employees of the Guarantor and of the Tumas Group for its management and administration.

Senior Management of the Guarantor

The senior management of the Guarantor are the following:

Mr. Raymond Sladden	Tumas Group Finance Director
Mr. Maurice Tabone	Sales and Marketing Director of SDC
Mr. Matthew Mullan	General Manager of Hilton Malta
Mr. Gerald Debono	Tumas Group Architect
Mr. Kevin Spiteri	Tumas Group Engineer

3. Operations and Major Assets

3.1 The Issuer

As the financing arm of SDC, the Issuer's operations are inherently limited to that of raising finance for capital projects and advancing such funds to SDC. The borrowings of the Issuer are on-lent to SDC and are regulated through loan agreements that mirror the characteristics of the borrowings taken by TI plus an additional interest margin intended to cover the costs of the Company.

Major Assets - Issuer

The assets of the Issuer are predominantly made up of the loans receivable from SDC, which altogether amount to over 90% of the Issuer's asset base. The table below summarises the value of total assets and loans receivable from SDC for the financial years ended 31 December 2015, 2016 and 2017.

Year	Total Assets *€'000*	Loans Receivable from SDC *€'000*	Loans Receivable from SDC as a % of Total Assets
2015	52,366	49,380	94.3%
2016	52,725	49,380	93.7%
2017	51,511	50,000	93.1%

Material Contracts - Issuer

The agreements summarized below are currently in force between TI and SDC and are in relation to the two outstanding bonds of the Issuer.

Date of Agreement / Addendum Agreement	Amount	Maturity	Purpose	Interest Rate % p.a.	Financed by TI through
31 July 2014	€24,718,514	31 July 2024	Refinancing of existing borrowings	5.1	Bond Proceeds
6 September 2017	€281,486	31 July 2024	Refinancing of existing borrowings	5.1	Bond Proceeds
10 July 2017	€24,765,154	10 July 2027	Refinancing of existing borrowings	3.85	Bond Proceeds
6 September 2017	€234,846	10 July 2027	Refinancing of existing borrowings	3.85	Bond Proceeds

3.2 THE GUARANTOR

The principal activities of the Guarantor are the development and operation of the Portomaso Complex and adjacent areas situated in St. Julians. The Complex includes the Hilton Malta hotel and its convention centre, the Portomaso Business Tower, residential apartments, a marina, a car park and a number of commercial and catering outlets.

The Complex was launched by SDC in 1996 and to-date remains one of the largest, single private real estate developments undertaken in the Maltese Islands. The Complex is a waterfront development spread over an area of approximately 128,000 square metres, comprising a variety of elements blended together in one development. The Complex enjoys a very central position on Malta's north eastern shore and is situated in the heart of St. Julian's, Malta's popular commercial and leisure district. Portomaso is constructed around a sheltered excavated marina that extends the natural waterfront of the site and serves to enhance the environment of all the constituent components. These comprise the Hilton Malta hotel (including the conference centre), residential apartments, the business tower, commercial areas, catering outlets, extensive underground car parking facilities and the marina itself. More recently, the Guarantor commenced the development of a site adjacent to the Portomaso residential apartments which is referred to as the Laguna project. Furthermore, in early 2017, SDC commenced construction works on a new office block adjacent to the Portomaso business tower, which is expected to be commissioned within the next 12 months.

Portomaso is one of Malta's 17 Special Designated Areas (SDA) which allow both EU and non-EU nationals to purchase property within such areas on the same acquisition rights as Maltese citizens, thus without having to obtain an Acquisition of Immovable Property (AIP) permit which normally applies to other non-SDA areas.

As such, the operations of SDC are sub-divided into four segments:

A. The hotel and its ancillary operations;

B. Property development;

C. Rental operations; and

D. Complex management operations.

MAJOR ASSETS - GUARANTOR

The below are considered to be the major assets of the Guarantor.

A. THE HOTEL AND ITS ANCILLARY OPERATIONS

This segment comprises the Hilton Malta, the conference centre and ancillary operations including underground car park, the marina and Level Twenty-Two (a wine lounge on the twenty-second floor of the Portomaso Tower). As at the end of FY2017, the Guarantor's PPE had a carrying value of €103.9million.

i) Hilton Malta

The Hilton Malta is a five-star 413-room hotel, with modern conference facilities, a health centre, themed restaurants, a large indoor pool and a number of outside pools and beach clubs. SDC has an operating agreement with Hilton International for the operation of the hotel using the Hilton brand, whereby Hilton International markets and manages the hotel and its adjacent conference centre as an integral part of its world-wide chain. This agreement, which had an initial term of 15 years was renewed for a further 20 years in 2013, effective from 1 January 2012.

In 2014, SDC embarked on a major refurbishment of the Hilton Malta hotel and its common areas at an approximate capital expenditure of €15 million. Besides giving a fresh new look to all of the hotel's deluxe bedrooms (excluding the rooms added as part of the 2008 extension – see below), the refurbishment works involved the creation of new terraces, the renovation of bars and restaurants within the hotel, the replacement of lifts, and the upgrading of the soft furnishings in the common areas of the hotel. The refurbishment project reached its peak in early 2016 when the hotel was closed for a consecutive period of 10 weeks between February and April 2016. The final phases of this refurbishment are expected to be finished off throughout this year, and will include an upgrade of the 2008 extension hotel rooms, the presidential suite, areas operated by Livingwell and the Quarterdeck bar. This capital expenditure is expected to be in the region of €2.8 million. Annual capex at the hotel is of circa €1.5 million applied towards the continuous updating of the furniture and fixtures.

This operating segment is supported by a number of ancillary operations including an extensive public car park, the marina and Twenty-Two wine lounge.

ii) Portomaso Car Park

SDC operates underground public car parking facilities of *circa* 1,130 car spaces with residents and tenants of the Business Tower having reserved areas for their exclusive use. This structure is ancillary to the hotel and contributes to this segment's returns albeit to a much smaller scale. The use of this car park is expected to peak once the Laguna extension and the office block referred to above are completed, hence increasing the footfall within the complex.

During FY2017, SDC invested in a new car park ticketing system and updated its terms of use of the facilities, including its rates.

iii) Portomaso Marina

The Portomaso marina has been in operation since 1999 and has a total capacity of approximately 130 berths. The marina comprises three areas, these being the North Basin, for smaller craft and water sports operations; the South Basin, which accommodates up to 45 sailing yachts; and the West Basin, which accommodates up to 60 motor cruisers. It offers a number of ancillary services to its tenants including mooring assistance which is constantly provided on the quayside; security around the whole perimeter; water and electricity facilities and pump out facilities for waste-water and used oil.

iv) Twenty-Two Wine Lounge

Twenty-Two is a wine lounge located on the twenty-second floor of the Portomaso Business Tower. It opened its doors during the summer of 2006, providing evening entertainment attracting an elite and exclusive customer base.

B. PROPERTY DEVELOPMENT

SDC has to date completed the development of 455 apartments within the Portomaso complex. The company delivered 3 apartments and another 2 apartments which were previously available in stock, however on a promise of sale agreement. As at the end of December 2017 there were no apartments outside the Laguna Project available for sale.

In 2015, SDC commenced the extension of the Complex which entails the development of a parcel of land spread over an area of approximately 7,550 square metres on the east shore of the site on which the Complex stands. This development is referred to as the Laguna Project and involved the construction of 44 premium residential units on the eastern shore of the site. During 2017, SDC reported the delivery of the first unit from this project – a penthouse. SDC expects delivery of at least half of the remaining units which are already subject to a promise of sale agreement to happen during FY2018. In fact, out of the 44 exclusive apartments, 39 apartments are currently subject to promise of sale agreements, one delivered and four apartments are held for sale. In total, the 44 apartments have an expected sales value (when fully finished) in excess of €50 million.The development costs of this extension have been principally funded from the Guarantor's own cash flows and, in part, by way of banking facilities raised by the Guarantor.

During FY2018, SDC is expected to construct an additional stock of around 12 new apartments together with some commercial space, partly on land acquired by SDC some years ago. Most of the costs incurred for the construction of these units are expected to impact cash flows in FY2018 and charged to inventory accordingly.

C. RENTAL OPERATIONS

SDC, through its subsidiary PLCL, leases out areas within the Business Tower (*circa* 3,313 square metres) and other commercial and office areas within the Complex (*circa* 10,938 square metres). At present, all the units available for rent within the entire Portomaso Complex are leased out.

Occupancy within the Portomaso business tower and within the various commercial elements comprising the complex increased substantially as the project matured and in the past few years SDC's rentable areas enjoyed full occupancy. Portomaso remains an extremely popular destination to the common benefit of all its stakeholders.

Last year, SDC commenced the construction of a new office block over the existing Portomaso cafeteria area, adjacent to the business tower. The new building will add approximately 5,300 square metres of internal floor space together with ample ground floor external areas. On 10 May 2018, SDC became party to two public deeds further to which it granted by title of emphytheusis the block of offices spread across eleven floors. SDC has undertaken to complete and finish the office floors which, at the date of this report, is at an advanced shell form as agreed to in the said deeds. Full completion, is targeted towards the end of next year in line with plans agreed to with the grantee of the emphytheusis. The project has been funded through a combination of banking facilities raised for this purpose and the Guarantor's own cash flows.

D. COMPLEX MANAGEMENT OPERATIONS

SDC has retained responsibility for the management and administration of the Portomaso Complex, including, the maintenance, cleaning, security and utilities within the common areas of the project and within each block of apartments, and across the exterior landscaping that characterises the whole of the Complex. SDC apportions the expenses incurred in the management of the Complex and recharges the relative costs to the residential owners / tenants, the Hilton Malta and the office and commercial areas. Moreover, SDC receives a management fee as remuneration for its services towards this activity from the various occupants within the Portomaso Complex.

MATERIAL CONTRACTS - GUARANTOR

The following are considered to be material contracts that the Guarantor has in place.

A. HOTEL MANAGEMENT AGREEMENT WITH HILTON INTERNATIONAL

As mentioned earlier, SDC has a management agreement with Hilton International, the latter being responsible for the marketing and management of the hotel, as well as the adjacent conference centre, under the world-renowned Hilton brand. The operating agreement is based on standard industry norms and provides for a remuneration package that is based on performance. This agreement, which had an initial term of 15 years was renewed for a further 20 years in 2013, effective from 1 January 2012.

B. LEASE AGREEMENTS

In the main, SDC's lease agreements with office and commercial tenants have a term of between 1 and 5 years. The lease agreements provide for renewal terms and periodic inflationary increments. The table below shows the total amount of operating lease commitments of the past three years.

	Actual FY2015 *€'000*	Actual FY2016 *€'000*	Actual FY2017 *€'000*
Not later than 1 year	2,320	2,103	2,877
Between 1 and 5 years	1,629	3,289	7,351
More than 5 years	594	540	2,557
Total	**4,543**	**5,931**	**12,785**

The value of the minimum lease payments stood at €12.8 million, up from €5.9 million as at the end of FY2016, reflecting the extension of a number of contracts for the next five years.

C. Capital and Financial Commitments

The Guarantor is party to commitments of a capital nature in relation to contracted or upcoming works. As at 31 December 2017, the value of these commitments was €16.1 million. The majority of this amount was in relation to the development of the Laguna apartments and the extention of the office block.

The Guarantor has also financial commitments which at the end of FY2017 amounted to €58.7 million consisting of borrowings from banks and from the Issuer (the latter being in relation to the bonds raised by TI and onlent to SDC).

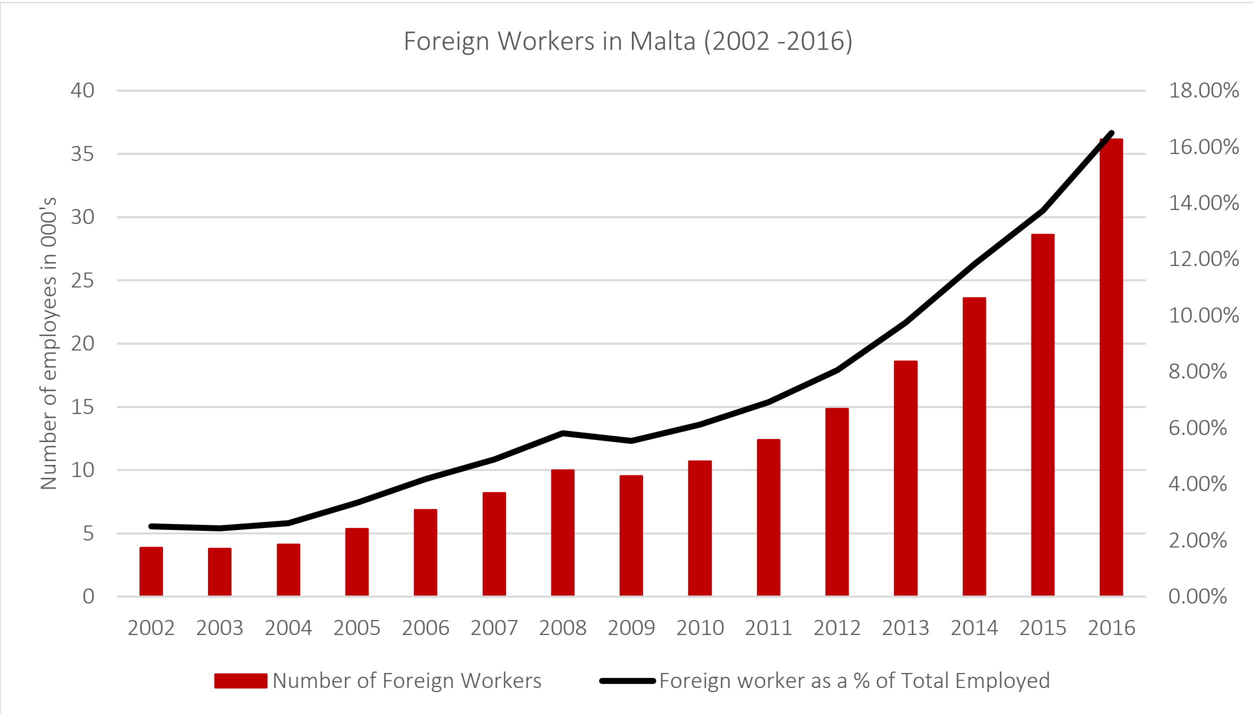
D. Other Agreements with the Tumas Group

Apart from other rental, management fee and finance agreements with Tumas Group companies, SDC has a number of loan agreements to provide short term funding to other subsidiaries within the Group which are repayable on call. These form part of the Group's treasury operations. These Group companies have stand-by funding facilities which can be drawn upon any time should SDC request the repayment of the outstanding amounts. Furthermore, SDC also provides corporate guarantees (including hypothecs over its assets) in favour of fellow Group companies and / or subsidiaries. These guarantees fall within the parameters established and as permitted in the prospectuses governing the bonds in issue.

4. Market Overview

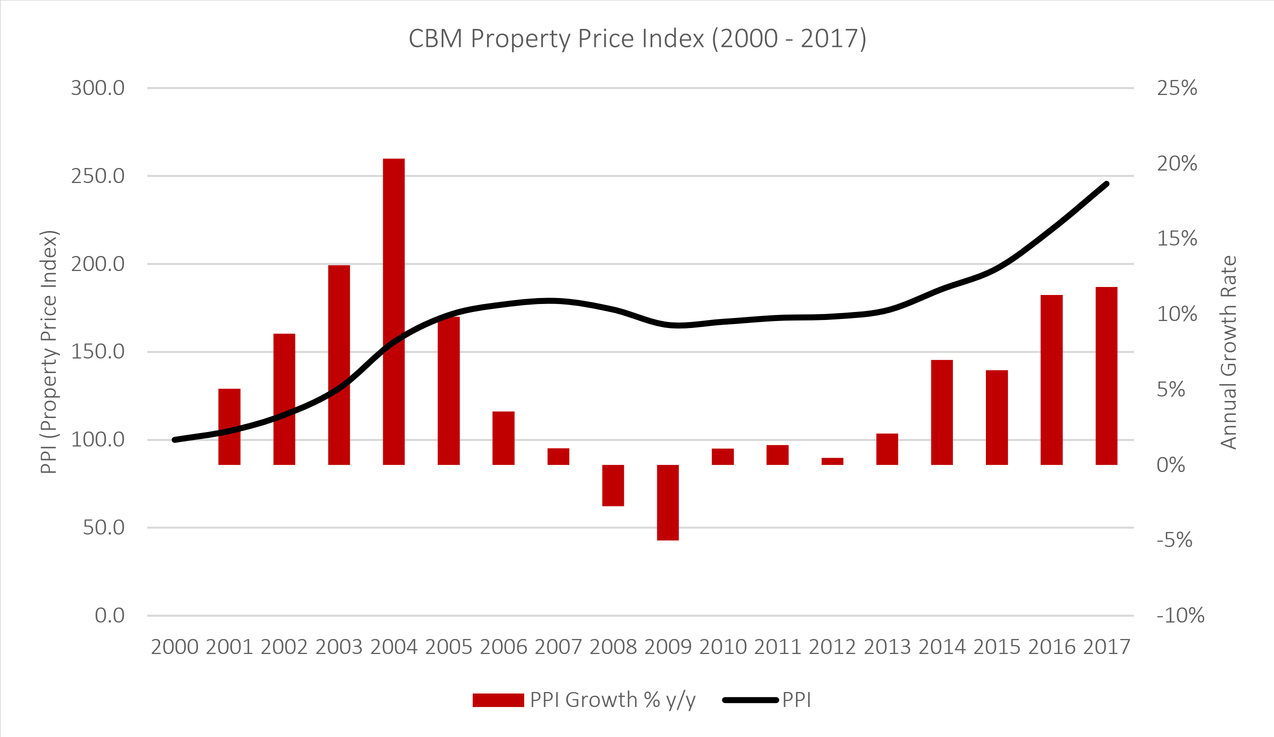
4.1 The Property Market in Malta

The construction and real estate industry has traditionally been a key driver of growth for the local economy. Moreover, the positive correlation between the performances of the local economy and the construction and real estate industry has been particularly evident in recent years. These have been mainly fuelled by favourable local and external macroeconomic dynamics as well as various initiatives (including fiscal incentives) by the Government of Malta aimed at boosting the overall level of public and private investment, enhance business/retail and consumer confidence, and increase the participation and relocation of numerous foreigners and foreign companies opting to reside and do business in Malta. The latter also includes the Individual Investor Programme which requires applicants to either acquire real estate in Malta (for a minimum value of €350,000) or lease a property at an annual rental rate of at least €16,000. Amid this background, it is also noteworthy to mention that although the number of foreigners opting to work in Malta exceeded 36,000 in 2016 (representing approximately 16% of the total workforce), Malta still needs to increase this number by a further 24,000 by the end of 2022 (according to a recent study made by Jobsplus) to match current and expected demand for labour.



Source: Jobsplus

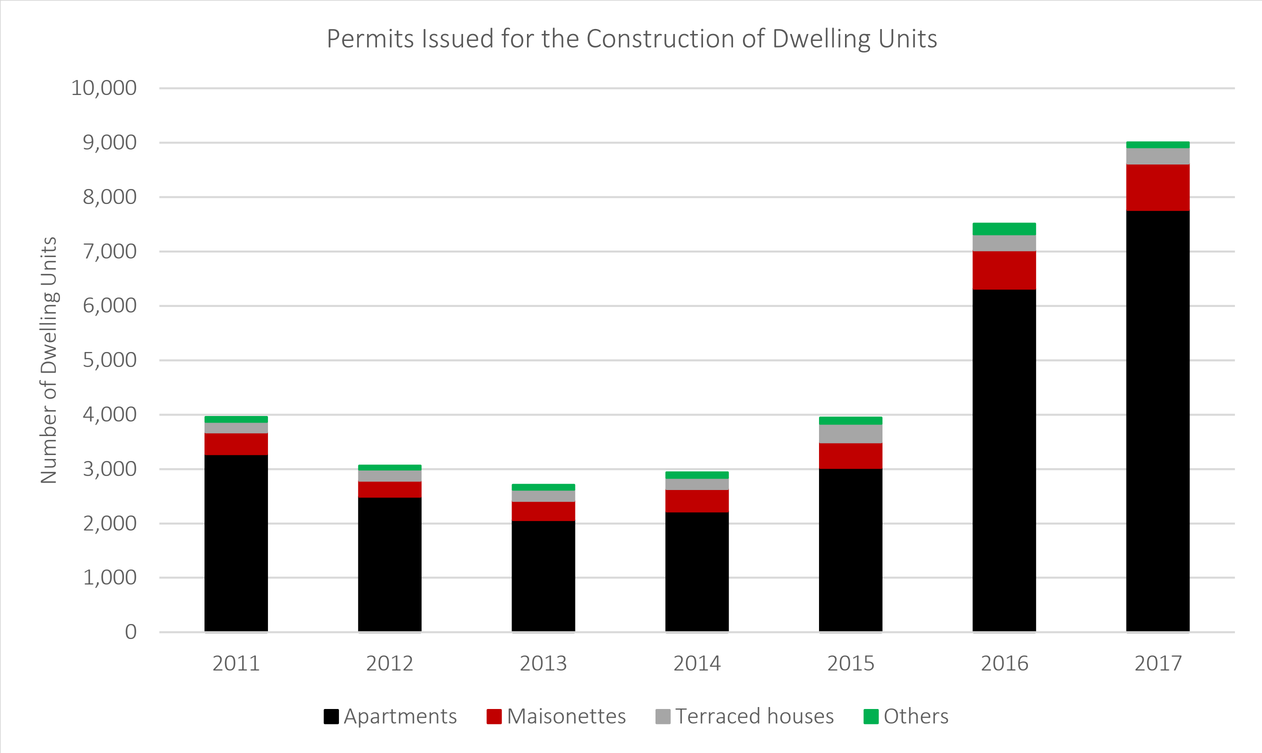
The most recent data issued by the Central Bank of Malta shows that property prices in Malta increased by 12% in 2017 over the previous year. This led the CBM Property Price Index, which tracks movements in the advertised prices of the major types of residential property, to reach a fresh all-time high of 245.6 points as at the end of 2017 compared to 219.7 points as at the end of 2016.



Source: *Central Bank of Malta*

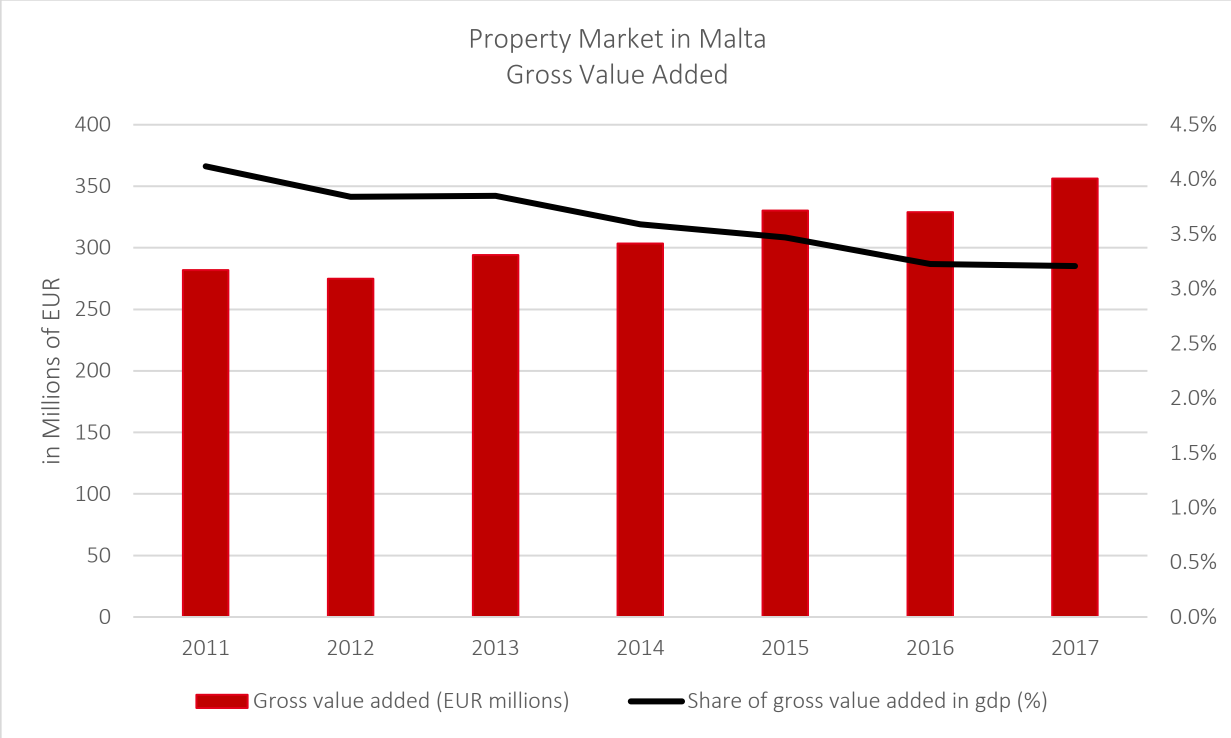
The CBM Property Price Index also shows that property prices in Malta increased by a compound average growth rate ("CAGR") of 5.4% per annum (in nominal terms) since 2000. Property prices increased rapidly from 2000 to 2005. Thereafter, the local property market went through a period of subdued growth between 2006 and 2013, also registering some element of contraction in 2008 and 2009. Following that, property prices started to rise again in a significant manner from 2014 with the positive trend continuing till present date.

The most recent upturn in property prices in Malta was mainly demand-driven. In fact, statistics show that the number of permits for residential units issued by the Planning Authority increased significantly over the past two years. In 2017, the Planning Authority sanctioned the development of 9,006 units, compared to 7,508 and 3,947 in 2016 and 2015 respectively. This increase was mostly in apartments (which is also the largest category of residential units), followed by maisonettes and terraced houses.



***Source:** Planning Authority*

The improved activity and sentiment across the local property market also reflected in the contribution of this sector to Malta's GDP. In fact, gross value added of the construction sector increased by over 8% to €356 million in 2017 compared to €329 million in the previous year. On the other hand, however, the percentage share of the construction sector to Malta's GDP continued to diminish as other sectors of the local economy grew at a relatively faster pace than the construction sector.



Source: *NSO - National Accounts*

COMMERCIAL PROPERTY

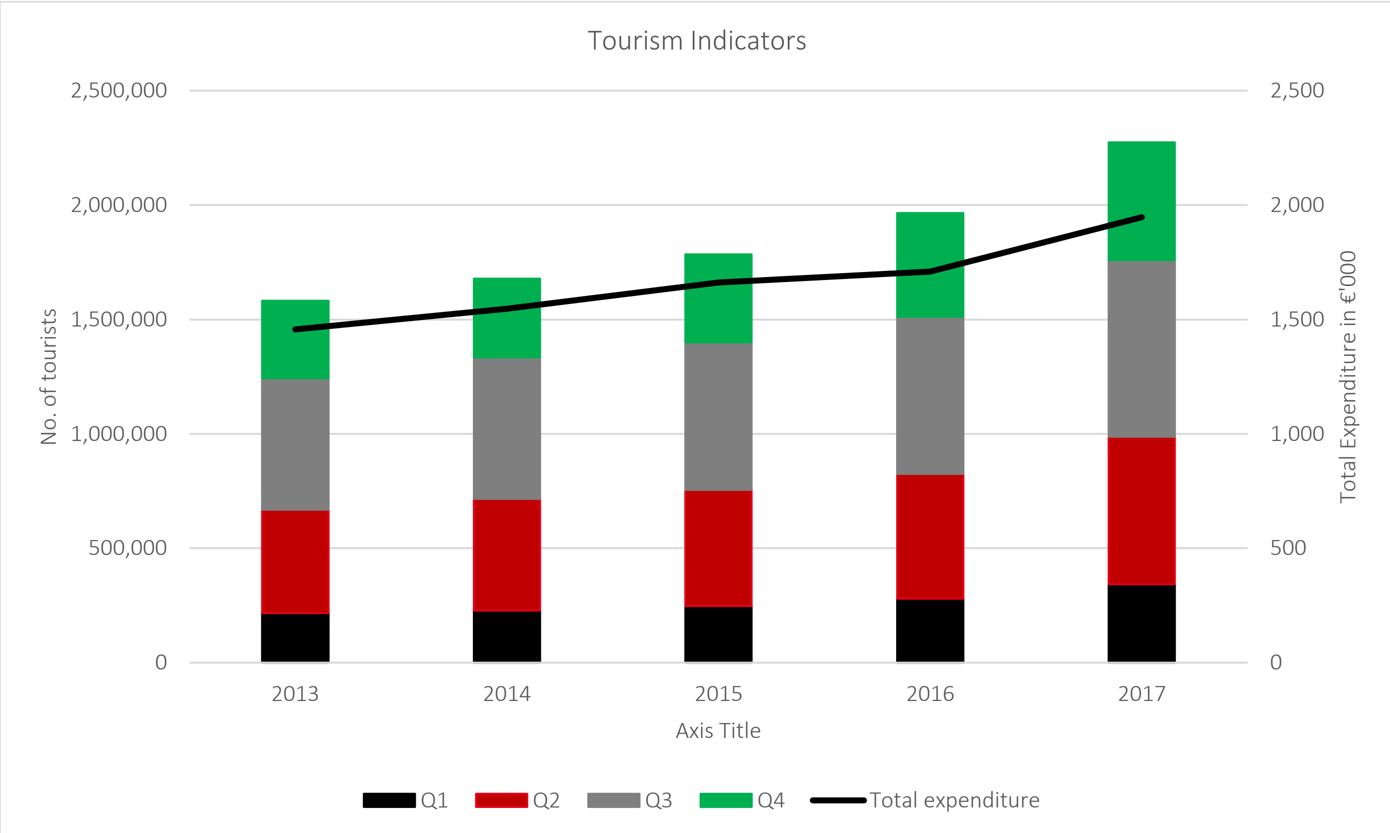
Although commercial property is a very important niche of the local property market, available statistics is indeed limited. Nonetheless, empirical evidence suggests healthy and buoyant demand, particularly for high-quality office space in line with the increase in the number of foreign companies operating in Malta. Indeed, with the constant influx of foreigners seeking to set up, transfer or expand their business locally, the demand for office space has increased considerably in recent years, mainly driven by Government's efforts at promoting Malta as a prime international business destination particularly for entities operating in financial services, i-gaming, information technology, aircraft maintenance and maritime. Other factors that contributed towards this success are: an advanced telecommunications network, highly skilled professionals at competitive labour costs, Malta's strategic location and the implementation of laws in line with EU directives.

4.2 THE TOURISM INDUSTRY

Tourism has traditionally been one of the major pillars of the Maltese economy. Moreover, the importance of the tourism industry to the local economy became more apparent in recent years as tourism numbers grew significantly whilst various tourist operators (including those in the areas of accommodation, dining, transportation and entertainment) expanded their business to cater for the increased numbers and/or target the higher end of the tourism spectrum.

A recent report issued by the World Travel & Tourism Council ("WTTC") estimates that the total (direct and indirect) contribution of the travel and tourism sectors represented just over 27% of Malta's GDP in 2017. This is much higher than the contribution of the travel and tourism sectors across the European Union (10.3%). Furthermore, travel and tourism accounted for 28% of total employment in Malta and between 11% and 12% of total exports and investments.[1]

Other statistics published by the Malta Tourism Authority (based on figures compiled by the Malta National Statistics Office[2]) show that during 2017, total inbound visitors amounted to 2.27 million (excluding overnight cruise passengers), representing an increase of almost 16% over 2016. Furthermore, the total number of guest nights increased by 10.3% whilst tourist expenditure expanded by nearly 14% to €1.95 billion (2016: €1.71 billion). Moreover, over 60% of the total inbound tourists came from the UK (25%), Italy (16%), Germany (8.5%), France (7.8%) and Scandinavia (6%).



Source: *NSO*

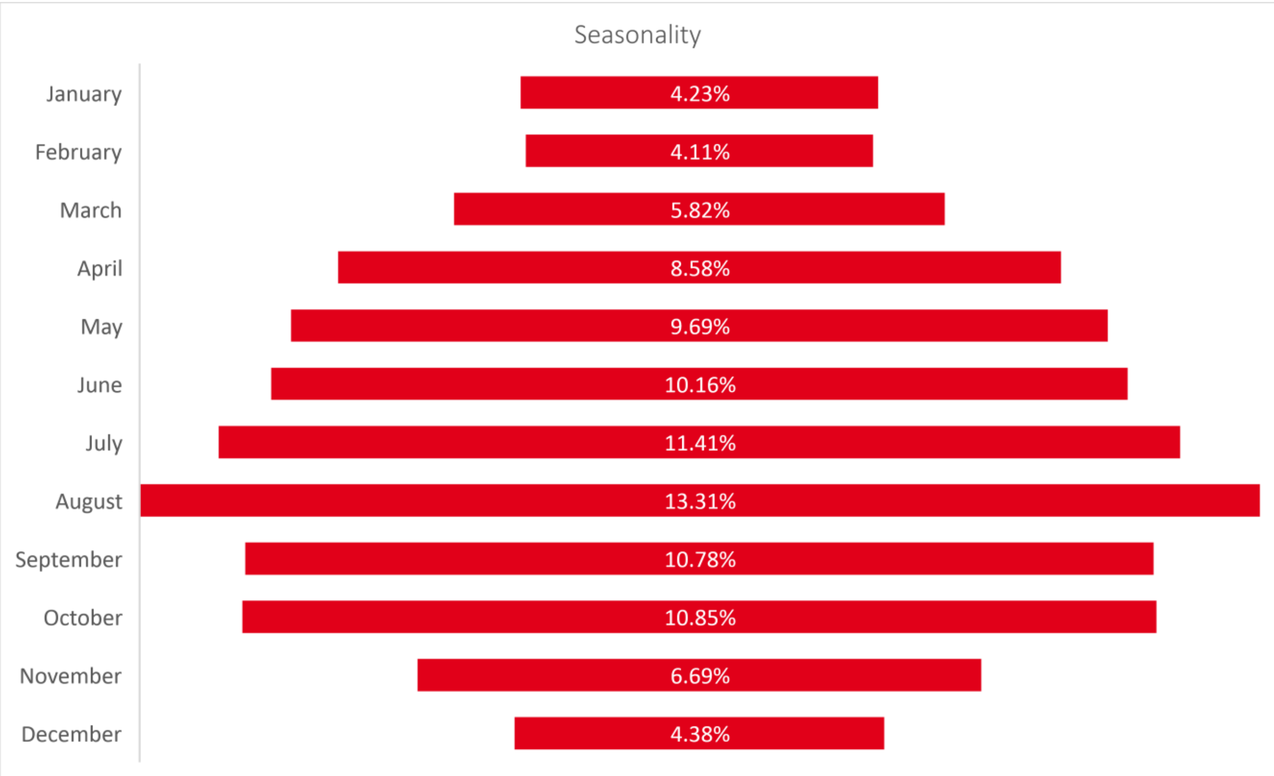
The increase in tourism numbers in 2017 was mainly driven by the increase in the number of leisure tourists which accounted for 76% of total tourist arrivals in 2017, albeit the number of business, professional and other travellers (including educational, religious and health) also rose significantly.

[1] https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/malta2018.pdf

[2] http://www.mta.com.mt/page.aspx?id=386

With respect to the type of preferred accommodation, the NSO statistics indicate that the total number of nights stayed in private accommodation (self-catering apartments, farmhouses, and private residence) recorded the strongest increase with a jump of over 16%. On the other hand, nights spent in collective accommodation (mainly hotels, guest hotels and hostels) rose by 6%. Overall, the share of collective accommodation as a percentage of total guest nights eased to 57% in 2017 from 59.4% in the previous year. In contrast, the share of private accommodation surged to 43% from 40.6% in 2016.

Just under two-thirds of total inbound tourism takes place between April and September. Figure 2 below shows the average proportion of inbound tourists each month over the past five years. Over the years, Government and various local tourism stakeholders and operators increased their efforts to mitigate seasonality and boost the overall significance of the tourism shoulder months (November to March). In fact, the total number of inbound tourists surged by nearly 40% over the past five years. As a result, although tourism to Malta remains concentrated during the peak months, the shoulder months now represent a very important season to the performance of the tourism sector in general, and is also regarded as the period that offers scope for further growth in the years ahead.



Source: *NSO*

The determining factors that contributed mostly to the overall growth in tourism numbers over the past years have been Malta's accession to the European Union in 2004 and the ensuing adoption of the euro as Malta's currency in 2008, as well as the introduction of low-cost airlines in 2006. Another factor that contributed notably towards the development of the Maltese tourism industry in recent years has been the increased focus to market Malta as a destination that is also ideal for business and conferences

Going forward, the prospects of the local tourism industry are positive. In fact, the WTTC[3] estimates that the local travel and tourism sector will expand by 4.2% per annum to reach nearly 33% of Malta's GDP by 2028.

Similarly, employment in the tourism and travel sector is being anticipated to climb to over 35% of total workforce by 2028 (equivalent to a growth of 2.3% per annum), whilst the amounts of tourist expenditure and investment by local operators are also projected to increase significantly. Meanwhile, however, all stakeholders in the local tourism industry need to ensure that Malta remains competitive, especially from a quality product offering perspective, and also aim at further reducing seasonality which, in turn, offers the biggest opportunity of growth for the years to come.

[3] *https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/malta2018.pdf*

5. COMPANY'S FINANCIAL REVIEW & FORECASTS

All figures referred to in this section of the report have been extracted from the audited financial statements of the Issuer for the respective years and supported by management information as necessary, with the exception of ratios which have been calculated by Rizzo, Farrugia & Co (Stockbrokers) Limited.

5.1 INCOME STATEMENT

for the year ended 31 December	*Actual* 2015 *€'000*	*Actual* 2016 *€'000*	*Actual* 2017 *€'000*	*Forecasts* 2018 *€'000*
Finance Income	3,069	3,010	2,724	2,435
Finance Costs	(2,967)	(2,893)	(2,580)	(2,235)
Net Interest Income	**103**	**117**	**144**	**200**
Administrative expenses	(91)	(112)	(132)	(141)
Profit before tax	**12**	**5**	**12**	**59**
Tax expense	(4)	(2)	(4)	(21)
Profit for the financial year	**8**	**3**	**8**	**38**

REVIEW – FY2017

The limited scope of the Company, acting as the financing vehicle of the Guarantor, is reflected in the composition of its income statement. The Issuer on-lends funds that it borrows (through bank loans or capital market issues) to the Guarantor, making a margin on the rate to cover its administrative expenses.

The lower level of finance income generated during FY2017 compared to earlier periods reflects the lower interest rate on the refinancing of a €25 million bond issue during the year. TI refinanced its €25 million 6.2% bonds that were issued in 2010 by an equivalent bond issue at a coupon of 3.75%, a savings of 245 basis points on €25 million per annum. .

Administrative expenses incurred by the Issuer related to listing and compliance costs, directors' remuneration and custodian fees. These stood at €132K in FY2017, which is an uplift of 18% compared to the previous year, reflecting higher payroll and directors' fees, particularly due to the addition of one further director at the start of the year.

FORECASTS - FY2018

The FY2018 forecasts of the Company, as prepared by management, indicate that TI is expected to improve its margins on 2017, saving on custody fees and lower amortization costs.

KEY RATIOS - ISSUER

Given the nature of the Company, the use of ratios to analyse the Company's performance is restricted to the following two ratio indicators:

	FY2015 (A)	*FY2016 (A)*	*FY2017 (A)*	*FY2018 (F)*
Net Income Margin *(Net interest income / finance income)*	3.35%	3.89%	5.29%	8.21%
Interest Cover *(Finance income / finance costs)*	1.03x	1.04x	1.06x	1.09x

VARIANCE TO PREVIOUS FORECASTS

In the financial analysis summary (FAS) published by the Company on 29 May 2017, the Company presented forecasts to FY2017 in line with the Listing Policies of the Malta Financial Services Authority dated 5 March 2013.

for the year ended 31 December	*Actual* **2017** *€'000*	*FAS 2017 Forecasts* **2017** *€'000*	*Variance*
Finance Income	2,724	2,729	*-0.18%*
Finance Costs	(2,580)	(2,589)	*-0.35%*
Net Interest Income	**144**	**140**	*2.86%*
Administrative expenses	(132)	(138)	*-4.35%*
Profit before tax	**12**	**2**	
Tax expense	(4)	-	
Profit for the financial year	**8**	**2**	

In absolute terms, the previous forecasts published in the FAS appended to the prospectus dated 29 May 2017 were very much in line with what the Company reported in its audited financial satatements for the year ended 31 December 2017, with a favourable overall variance of €6,000 in the profit for the year of the Company.

5.2 Statement of Financial Position

for the year ended 31 December	*Actual* 2015 *€'000*	*Actual* 2016 *€'000*	*Actual* 2017 *€'000*	*Forecast* FY2018 *€'000*
Assets				
Non-Current Assets				
Loans and Receivables	49,380	49,380	50,000	50,000
Total Non-Current Assets	**49,380**	**49,380**	**50,000**	**50,000**
Current Assets				
Loans and Receivables	-	-	-	-
Trade and Other Receivables	1,461	1,314	1,122	1,100
Current Tax Assets	2	-	-	-
Cash and Cash Equivalents	1,524	2,031	393	501
Total Current Assets	**2,986**	**3,345**	**1,515**	**1,601**
Total Assets	**52,366**	**52,725**	**51,515**	**51,601**
Equity and Liabilities				
Capital and Reserves				
Share Capital	233	233	250	250
Retained Earnings	360	363	371	410
Total Equity	**592**	**596**	**621**	**660**
Non-Current Liabilities				
Borrowings	49,677	49,764	49,608	49,655
Trade and Other Payables	549	949	-	-
Total Non-Current Liabilities	**50,226**	**50,713**	**49,608**	**49,655**
Current Liabilities				
Trade and Other Payables	1,547	1,416	1,286	1,286
Total Current Liabilities	**1,547**	**1,416**	**1,286**	**1,286**
Total Liabilities	**51,773**	**52,129**	**50,894**	**50,941**
Total Equity and Liabilities	**52,366**	**52,725**	**51,515**	**51,601**

Review – FY2017

The Issuer's asset base is reflective of the outstanding borrowings (both from banks and capital market issues) at year end. By the end of FY2016, total assets amounted to €52.7 million, relatively in line with FY2015. In FY2017, this amount was down to €51.5 million, reflecting the release of the bond redemption fund balance which was previously required fur the purpose of the €25 million 6.2% bonds which were redeemed during FY2017, net of interest payments made during the year.

During the periods under review, the composition of the Company's assets was in the main the same, consisting in the main of loans and receivables from SDC, which backed bank loans and outstanding bonds taken by the Issuer on behalf of the Guarantor.

The Company's share capital was increased in FY2017 (from €0.23 million to €0.25 million), reflecting the minimum regulatory capital requirements of a listed entity. The increases in retained earnings were minimal, reflecting the profits made by the Company over the years.

Analysis of Borrowings of the Issuer

The Issuer's borrowings complemented the loans it extended to SDC, and were composed of the following:

	FY2015 (A)	*FY2016 (A)*	*FY2017 (A)*
	€'000	*€'000*	*€'000*
Face Value of Bonds			
250,000 6.2% bonds 2017-2020	25,000	25,000	-
250,000 5% bonds 2024	25,000	25,000	25,000
250,000 3.75% bonds 2027	-	-	25,000
	50,000	**50,000**	**50,000**
Issue Costs	(647)	(647)	(486)
Accumulated Amortisation	324	411	90
Amortised Cost at 31 December	49,677	49,764	49,603
Total Borrowings	**49,677**	**49,764**	**49,603**

In FY2017, TI exercised its early redemption option in relation to the €25 million 6.2% bond 2017-2020 and replaced it with a €25 million 3.75% bond maturing in 2027.

FORECASTS - FY2018

Management's forecasts for FY2018 reflect a balance sheet structure for TI which is very similar to that of FY2017, as the Company is not expected to increase its borrowings during the current financial year.

5.3 STATEMENT OF CASH FLOWS

as at 31 December	*Actual* 2015 *€'000*	*Actual* 2016 *€'000*	*Actual* 2017 *€'000*	*Forecast* 2018 *€'000*
Net cash generated from operating activities	21	108	151	108
Net cash generated from / (used in) investing activities	4,625	(500)	(620)	-
Net cash generated from / (used in) financing activities	(4,775)	400	833	-
Net movement in cash and cash equivalents	**(130)**	**8**	**364**	**108**
Cash and cash equivalents at beginning of year	154	24	32	395
Cash and cash equivalents at end of year	**24**	**32**	**395**	**503**
Cash in Bond Redemption Fund	1,500	2,000	-	-
Total Cash Position	**1,524**	**2,032**	**395**	**503**

REVIEW – FY2017

Cash flows generated through the operating activities of the Issuer consisted primarily of the net movements in cash of amounts owed to the Issuer from SDC, netted off by the amounts that the Issuer owed to other related parties and trade creditors. As at the end of FY2017, cash inflows from operations amounted to €0.15 million (FY2016: €0.11 million).

The cash flows from investing activities of the Issuer in FY2017 were the net effect of the outflow to SDC following i) the payment received from SDC in relation to the 6.2% bonds which were redeemed during the year by TI; and ii) the lending of the proceeds of the new 3.75% bonds to SDC, iii) additional cash flows freed up from the bond redemption fund which were not required for the early redemption.

In terms of cash flows used by the Group in its financing activities, during FY2017, the Issuer redeemed the €25 million 6.2% 2017/2020 bond and in exchange offered the €25 million 3.75% 2027 bond. The bond issue costs amounted to *circa* €0.24 million. Following the redemption of the 6.2% bonds, the balance in the bond redemption fund of €2 million was freed up, partially utilised to redeem the 6.2% bonds while excess liquidity was onward lent to SDC.

The Company ended FY2017 with a cash balance of €0.4 million.

FORECASTS - FY2018

In FY2018, the Company is not expected to undertake additional borrowings which will effect the cash flows related to investing and financing activities. €0.11 million are expected to be generated from operating activities, largely in line with earlier periods, and as such, the closing cash balance for the year is expected to be €0.5 million.

6. Guarantor's Financial Review & Forecasts

The historic financial analysis of the Guarantor is based on audited financial information published by SDC for the past three financial years ended 31 December 2015, 2016 and 2017. The source of historic financial data are the annual reports issued by the Guarantor, supported by explanations from management.

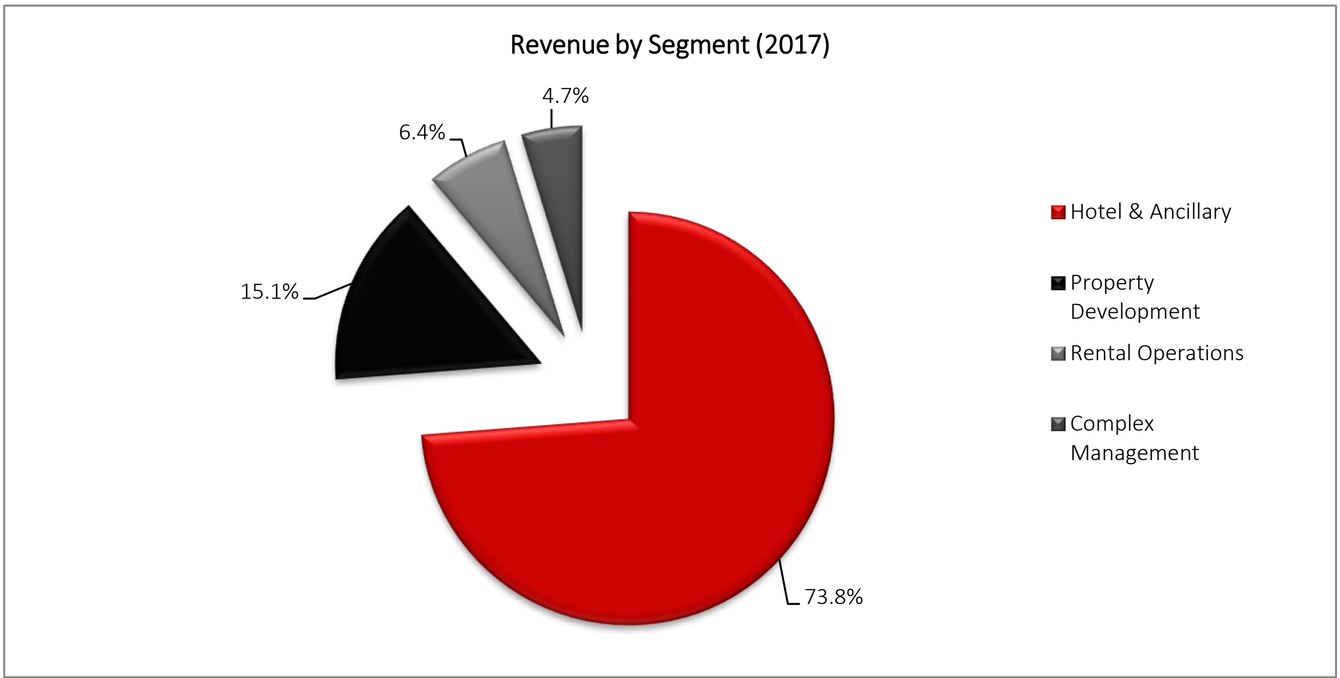
The forecasts have been prepared by management and the main assumptions in this regard are presented in the narrative below.

Financial figures presented may be subject to rounding differences.

6.1 Segmental Analysis

The operations of SDC are split into four main segments: hotel and ancillary operations, rental operations, property development and complex management. At 73.8%, the hotel and ancillary operations remained by far the largest revenue generating segment in FY2017 (FY2016: 77.7%). The other three segments each generated between 4% and 15% of total revenue.

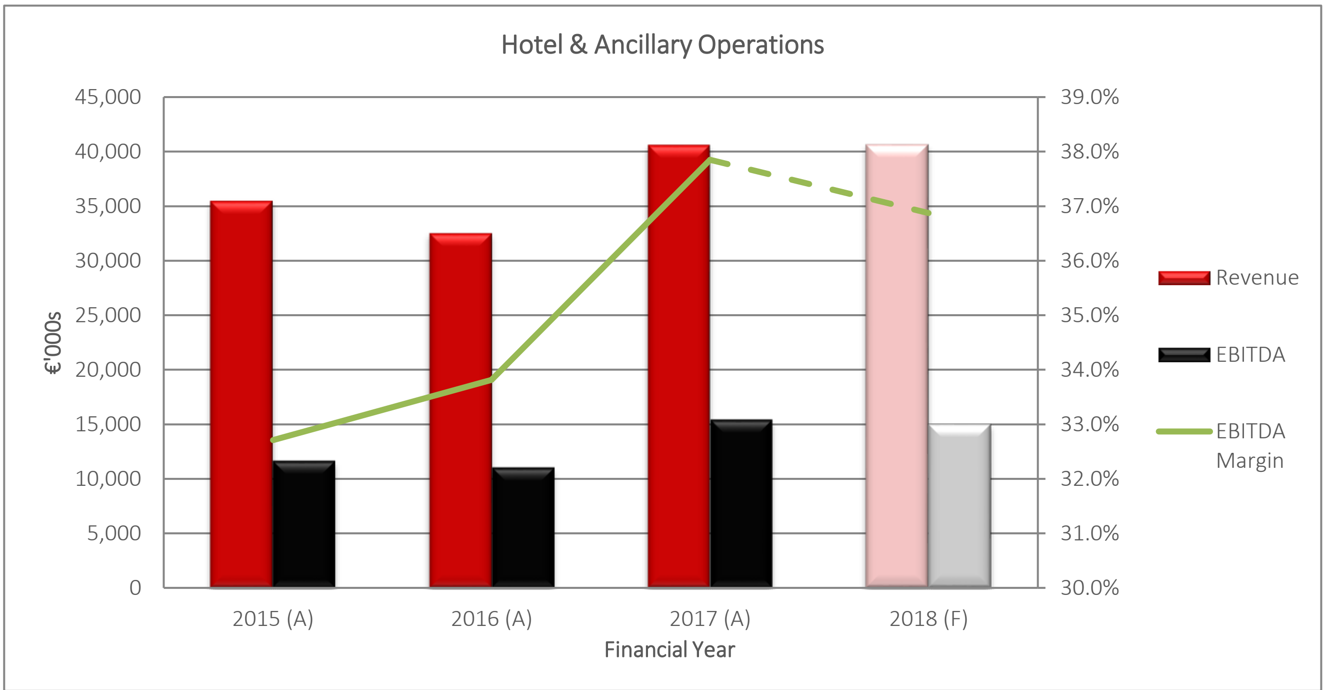
In FY2017, there was a notable shift in the contribution of the property development segment to the Guarantor's total revenue, as will be explained further in subsequent parts of this report.



A. HOTEL AND ANCILLARY OPERATIONS (HAO)

HAO, which encompasses the Hilton Malta hotel, the car park, the marina and Twenty-Two wine lounge remains the largest income segment of SDC. During FY2017, this segment generated revenue of €40.6 million, an increase of nearly €8 million (+24.8%) over the revenue for financial year 2016. One needs to take into consideration the direct effect of the 10 weeks in FY2016 during which the hotel was completely closed for guest room refurbishment and a major upgrade of the common areas, restaurants and the reception area, already referred to above.

The revenue increase in FY2017 can be attributable to an uplift in the room rate commanded by the newly refurbished 5-star hotel, improved occupancy and a number of notable events (such as the EU Presidency), all of which contributed to the additional revenue for the year under review.



Gross contribution generated from this segment has been in the region of 60% over the years under review, while EBITDA margin was above the 30% mark consistently between FY2015 and FY2017, reaching a record 37.8% in FY2017.

Despite registering an expected decline in revenue in FY2016, the Hilton Malta retained its dominant superiority in the 5-star segment, both in the average rate index and the Revenue Generation Index (RGI). The former compares the occupancy rates achieved at the Hilton Malta to the average of its 5-star peers, whilst the RGI compared the revenue generated per available room of the hotel to its peer set. The Market Penetration Index (MPI) was markedly lower in FY2016, due to the 10-week closure of the hotel. When adjusted to normalise the effect of this closure, the Hilton Malta was once more ahead of its peers and surpassed also the MPI of 2015.

In FY2017, the Hilton Malta retained its dominance in the 5-star hotel segment, surpassing averages across the three indices.

	FY2015	FY2016	*Normalised FY2016**	FY2017
Market Penetration Index (MPI)	1.04	0.88	*1.09*	1.07
Average Rate Index (ARI)	1.22	1.32	*1.32*	1.22
Revenue Generation Index (RGI)	1.31	1.22	*1.52*	1.35

Source: Competitor Set Analysis: The MHRA Hotel Survey by Deloitte - 2017. Information as provided by management.

** Normalised 2016 refers to the adjusted indices for 2016 for the 10-week period when the hotel was closed for refurbishment.*

The Refurbishment

Pursuant to SDC's Management Agreement with Hilton International and SDC's commitment to retain as high a standard as possible, in 2014, the Guarantor embarked upon an extensive refurbishment programme totalling €15 million. This exercise peaked in 2016 where the majority of the said works were carried out during a period of 10 weeks in the early part of the year, during which the hotel was completely closed for business.

This extensive refurbishment project focused on upgrading all the guest rooms, including the total replacement of furniture, fittings and bathrooms, as well as the refurbishment of the common areas. additional refurbishment works were carried out during FY2017. Management explained that the last part of the refurbishment of areas within the Hilton Malta will be undertaken this year, relating in the main to the refurbishment of the 2008 extension rooms, the presidential suite, the wellness area and the Quarterdeck Bar within the hotel premises. Apart from the annual fixture and fittings capex, this refurbishment is expected to require a further €3.0 million.

Variances and Forecasts

Hotel and Ancillary Operations	2017 (A)	2017 (F)	Variances *(% / p.p.)*	2018 (F)
Revenue €'000	40,616	37,468	8.4%	40,653
EBITDA €'000	15,373	13,397	14.7%	14,990
EBIDTA Margin	37.8%	35.8%	2.0 p.p.	36.9%

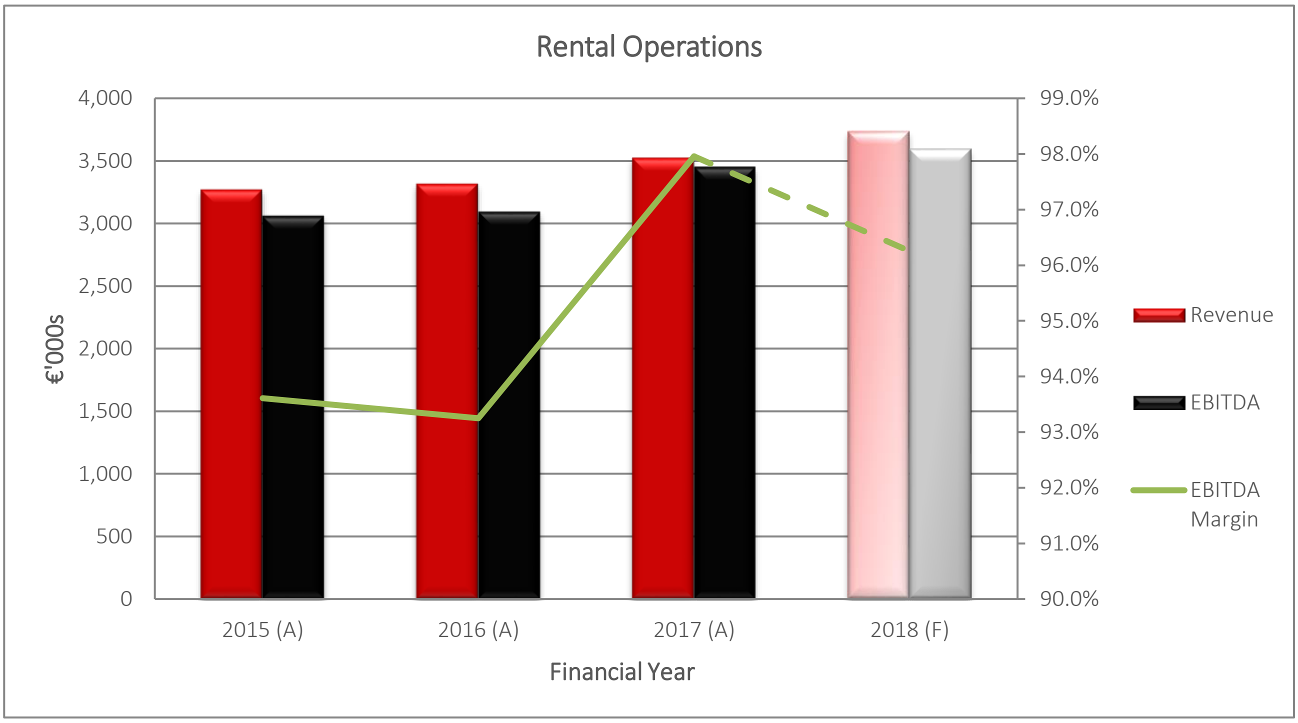
During FY2017, HAO fared better than anticipated, both in terms of revenue (+8.4%) and EBITDA (+14.7%). The projections for FY2018 anticipate revenue to remain in line with that of FY2017, as the decline in occupancy due to the non-reoccurance of notable one-time events is expected to be made up for by a pick-up in the rate.

These projections have been based on the directors' expectations that the hotel continued to perform in a similar strong manner as it had in the previous years, supported by the increase in tourism already being seen from figures issued by the National Statistics Office (NSO) and the substantial upgrades to the hotel.

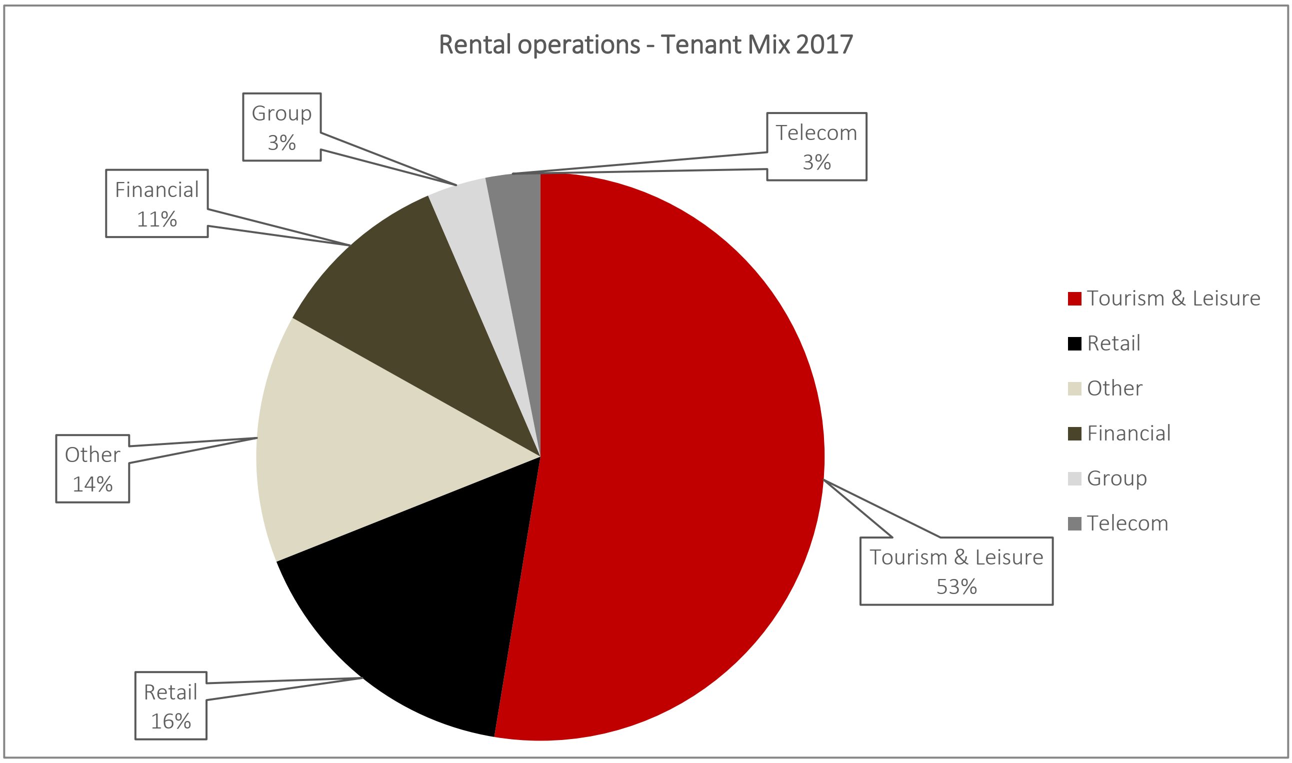
B. RENTAL OPERATIONS

Rental operations consist of areas within the Business Tower and other office spaces within Portomaso, the marina, the Lux Pavillion and other retail outlets, including a supermarket adjacent to the underground carpark. This segment operates on a very lean cost structure. In fact, EBITDA stands at over 90% of total segmental revenues.

Revenue from this segment increased marginally in FY2017 reflecting the contracted increases in the avereage rental rate per square metre. The increase in revenue in FY2017 contributed to a widening of the EBITDA margin for this segment, which increased approximatrely 5 percentage points compared to that of FY2016.



The rentable area is fully-occupied and the tenant mix in this segment was varied, with the tourism & leisure occupiying over 50% of the rentable space in FY2017.



Variances and Forecasts

Forecasted revenue and EBITDA for this segment for FY2017 was quite in line with what has been achieved. Most of the rental income is contracted and as such the Guarantor has visibility of rental income and the related margins. The material increase in margins emanates from lower compensations than envisaged which resulted from the curtainment in construction site disturbances.

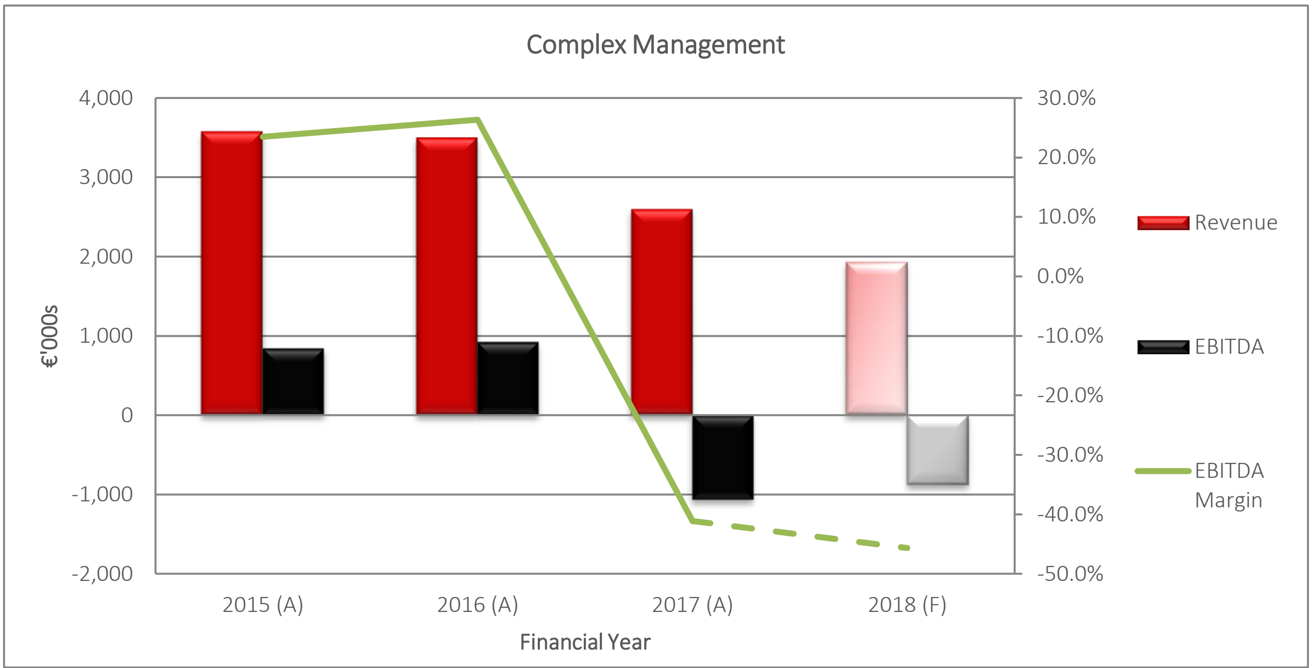
Rental Operations	2017 (A)	2017 (F)	Variances *(% / p.p.)*	2018 (F)
Revenue €'000	3,524	3,590	-1.8%	3,735
EBITDA €'000	3,452	3,351	3.0%	3,595
EBIDTA Margin	98.0%	93.3%	1.5 p.p.	96.3%

In the FAS appended to the prospectus dated 29 May 2017, the Group had plans to increase the rentable area through the building of a separate office block adjacent to the Business Tower. Earlier this year, the Company announced that SDC had granted this premises by title of temporary emphyteusis to third parties (vide section 6.2 below). To this effect, the rental income for FY2018 will not be effected by this additional space and will only reflect rate increases for contracted agreements or new agreements as current ones expire.

C. COMPLEX MANAGEMENT

This segment encompasses the management of the Portomaso Complex, including the landscaping, repairs and maintenance, cleaning and security of the common areas and the agency agreement relating to utilities. SDC receives a management fee in return for the performance of its functions. All expenses incurred by this segment were recharged to residential apartment owners, the hotel and commercial and office space owners. However, for FY2017 and FY2018, SDC will be exceptionally sharing costs related to new lift installations with apartment owners, thereby resulting in a negative EBITDA.

Furthermore, management explained that there was a change in the third party servicing and billing system, with respect to utilities as from FY2017, which meant that SDC will start being remunerated only by way of a managmenet fee which is lower than that of previous periods.



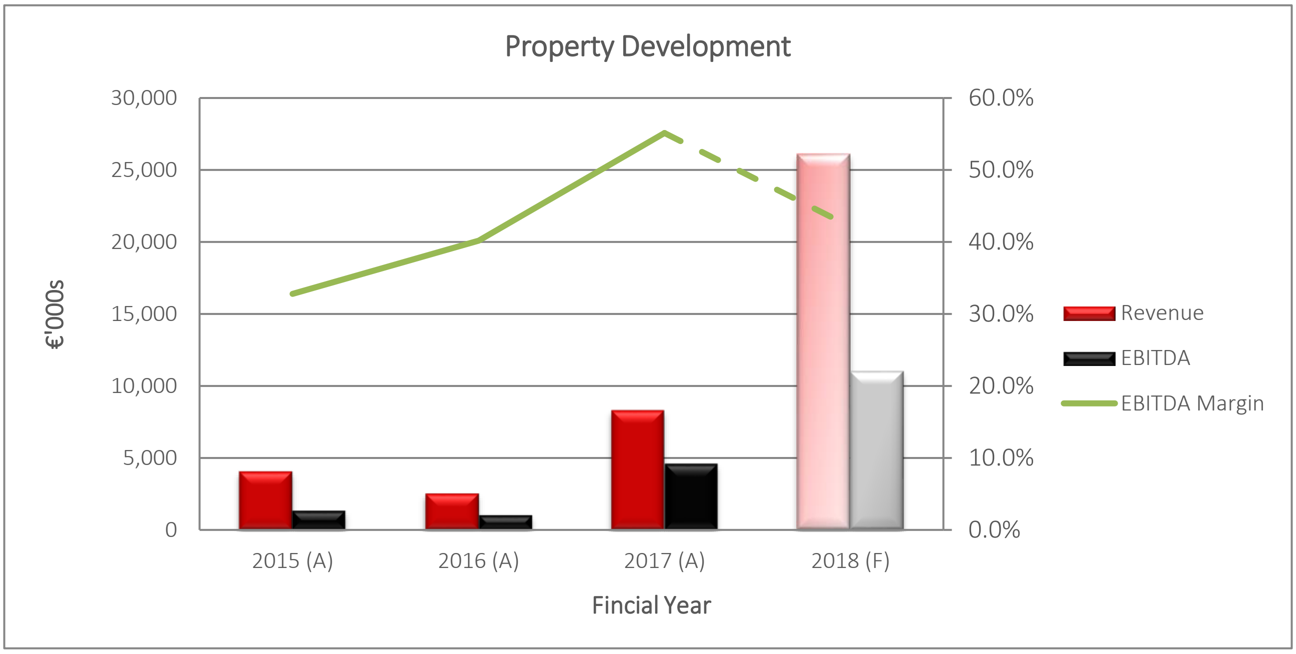
VARIANCES AND FORECASTS

While forecast revenue was surpassed in FY2017, the resultant EBITDA was negative in view of the exceptional cost-sharing decision taken by SDC to undertake the replacement of lifts together with various apartment owners.

Complex Management	2017 (A)	2017 (F)	Variances *(% / p.p.)*	2018 (F)
Revenue €'000	2,601	1,832	42.0%	1,929
EBITDA €'000	(1,070)	445	-340%	(881)
EBIDTA Margin	-41.1%	24.3%	1.5 p.p.	-45.7%

D. Property Development

The property development segment generates revenues from apartment sales and its costs relate to the construction and development of new units earmarked for sale. As such, the financial performance of this segment is volatile given its dependency on the actual number of apartments coming available for sale, the timing of new developments and that of final contracts with buyers.



Portomaso Apartment Blocks

The number of Portomaso apartments available for sale, as expected, declined over the years as the stock of a finite number of units was being sold off. At the date of this report, the remaining 2 apartments are subject to a promise of sale agreement while 3 apartments were sold during FY2017.

During FY2017, SDC entered into a promise of sale to purchase property abbutting the Portomaso Complex which will allow it to extend the Complex's footprint and secure more space for future development.

The Laguna Project

This significant upmarket addition consists of 44 top-end, low-rise units spread across 8,500 square metres. The project commenced during FY2014 and in a relatively short period of time, while still on plan, SDC concluded 40 promise of sale agreements. Cash inflows from such sales is staggered in terms of the promise of sale agreements and will affect revenue once the final deeds are signed. SDC has delivered 1 of the units in

2017, resulting in an uplift to revenue in this segment. The remaining deliveries are expected to happen during the course of this year and next.

VARIANCES AND FORECASTS

Revenue and EBITDA for FY2017 surpassed forecasts as the company delivered 1 of the Laguna units and sold 4 of the remaining apartments from within the other apartment blocks, thereby recognising the respective revenue and related costs. The forecasts for this segment are based on the assumption that SDC will deliver 22 out of the 44 Laguna units in FY2018.

Property Development	2017 (A)	2017 (F)	Variances *(% / p.p.)*	2018 (F)
Revenue €'000	8,312	2,971	179.8%	26,093
EBITDA €'000	4,583	706	549.2%	10,990
EBIDTA Margin	55.1%	23.8%	1.7 p.p.	42.1%

6.2 INCOME STATEMENT - CONSOLIDATED ANALYSIS

for the year ended 31 December	*Actual* 2015 *€'000*	*Actual* 2016 *€'000*	*Actual* 2017 *€'000*	*Forecast* 2018 *€'000*
Revenue	46,416	41,899	55,053	72,410
HAC	*35,507*	*32,554*	*40,616*	*40,653*
Property Development	*4,056*	*2,525*	*8,312*	*26,093*
Rental	*3,271*	*3,317*	*3,524*	*3,735*
Complex Mgmt	*3,581*	*3,503*	*2,601*	*1,929*
Direct Costs and Administrative Expenses	(30,100)	(26,671)	(32,227)	(43,390)
EBITDA	**16,316**	**15,227**	**22,825**	**29,020**
Depreciation	(5,117)	(5,825)	(5,855)	(6,026)
Sale of Investment Property	-	-	-	19,419
EBIT (Operating Profit)	**11,199**	**9,403**	**16,970**	**42,413**
Finance Income	228	255	801	290
Finance Costs	(3,758)	(3,568)	(3,054)	(2,886)
Profit before Tax	**7,669**	**6,091**	**14,717**	**39,817**
Tax Expense	(1,952)	(908)	(3,652)	(9,184)
Profit for the Year	**5,716**	**5,183**	**11,066**	**30,633**

Revenue generated from the four segments analysed above totalled €55.1 million in FY2017, an increase of 31.4% over revenues of FY2016 and 18.6% those of FY2015. The higher revenue in FY2017 was attributable to significant additional revenue from both the HAO segment and delivery of property, partly offset by lower complex management fees, as analysed further in an earlier section of this report.

After deducting direct and administrative costs of €32.2 million (FY2016: €26.7 million), EBITDA for the year was €22.8 million, an uplift of 50% compared to FY2016. After accounting for depreciation, operating profit for the year stood at €17 million.

Net finance costs were lower, backed by improved cash management and lower borrowing costs attributable to the refinanced 6.2% bonds during FY2017.

Profit before tax was €14.7 million in FY2017, representing a twofold increase over that for FY2016, and after deducting a tax charge of €3.7 million, profit after tax came at €11.1 million.

FORECASTS - FY2018

Revenue recognition of the delivery of the Laguna units during FY2018 is expected to increase the Guarantor's profitability even further, marginally offset by lower complex management fees. Additional to this, FY2018 is expected to be characterised by income emanating from the sale of the offices adjacent to the Portomaso

Business Tower. Management estimate that by the end of the current financial year, works completed at these offices will reach approximately 55% and as such, recognition of the respective revenues and costs will be taken to the income statement of FY2018 in line with International Financial Reporting Standards (IFRS). This is noted in the income statement – consolidated analysis above as profit on the sale of investment property. The remaining 45% will be taken to FY2019's income statement, in line with the conditions of the public deed pertaining to the transfer of the temporary emphyteutical title.

Profit after tax for FY2018 is expected to be marginally in excess of €30 million.

6.3 STATEMENT OF FINANCIAL POSITION

for the year ended 31 December	*Actual* **2015** *€'000*	*Actual* **2016** *€'000*	*Actual* **2017** *€'000*	*Forecast* **2018** *€'000*
Assets				
Non-Current Assets				
Property, Plant & Equipment	105,000	108,391	103,872	97,588
Investment Property	12,992	13,735	19,123	19,138
Trade & Other Receivables	3,776	3,192	845	845
Total Non-Current Assets	121,768	125,318	123,840	117,571
Current Assets				
Inventories	18,832	21,780	23,807	21,547
Trade & Other Receivables	23,137	22,212	38,033	28,185
Current Tax Assets	237	332	650	530
Cash & Cash Equivalents*	11,628	11,349	12,489	15,700
Total Current Assets	53,835	55,674	74,979	65,962
Total Assets	175,603	180,992	198,819	183,533
Equity & Liabilities				
Capital & Reserves				
Share Capital	13,653	13,653	13,653	13,653
Revaluation Reserve	51,599	51,378	51,158	51,158
Retained Earnings	12,966	16,356	24,427	30,045
Total Equity	78,218	81,387	89,238	94,856
Non-Current Liabilities				
Borrowings	57,079	54,085	56,010	54,637
Trade & Other Payables	2,467	211	163	212
Deferred Tax Liabilities	7,183	7,344	7,191	4,525
Total Non-Current Liabilities	66,729	61,640	63,365	59,374
Current Liabilities				
Borrowings	1,250	3,781	2,661	1,286
Trade & Other Payables	27,507	33,791	42,326	25,109
Current Taxation	1,899	393	1,229	2,908
Total Current Liabilities	30,656	37,965	46,216	29,303
Total Liabilities	97,385	99,605	109,581	88,677
Total Equity & Liabilities	175,603	180,992	198,819	183,533

**Cash balances are net of bank overdrafts*

The total asset base of the Guarantor was €198.8 million as at the end of FY2017. Over 50% of SDC's total assets are represented by Property, Plant and Equipment (PPE), which essentially comprises the Hilton Hotel and ancillary assets. This percentage decreased over the years, following depreciation charges which reduced the value of PPE on the books of the company, despite the additional investment regularly going into this asset category. The percentage share of this asset category has also decreased as property development assets (investment property and inventory) increased.

Investment Property, recorded in the books of SDC at historic cost less accumulated depreciation, comprises leased out parts of the Business Tower and other retail and commercial outlets which are not occupied by SDC. The office block adjacent to the Portomaso Business Tower was recognised on the books of SDC under Investment Property as at the end of FY2017 because, as explained earlier, this development was being earnmarked to be held for future rental income. While the net book value of Investment Property showing in the books of the Guarantor at the end of FY2017 stood at €19.1 million, management reported that the fair open market value of the investment property portfolio had an estimated value of €44.9 million (FY2016: €34.4 million; FY2015: €34.2 million).

Inventory in SDC's books consists of the Halland site, the Laguna apartments held for resale, the remaining stock of two apartments at the Portomaso complex and the *directum dominium* related to the Portomaso Complex recorded at cost. Inventory also includes the hotel and ancillary operations inventory.

Total trade and other receivables increased by 71%, from a total of €22.2 million in FY2016 to €38.0 million in FY2017. In the main, these consist of dues from other companies within the Tumas Group as SDC utilises any excess cash to lend to other companies within the Group on a short term basis. The increase in receivables reflects indirectly the cash generated by SDC upon the signing of promise of sale agreements as substantial deposits on the various residential units were received during FY2017.

On the liabilities side, SDC's borrowings, were largely in line with those reported in FY2016. The €25 million loan from TI (backed by the 6.2% bonds) was refinanced with a lower-coupon bond, thereby reducing the weighted average effective rate of borrowings for the company during FY2017. Total trade and other payables advanced by €8.5 million in FY2017, largely reflecting the considerable increase in advance deposits in respect to promise of sale agreements of Laguna units that are yet to be recognised as revenue in the financial statements once delivery takes place, as well as the balances for contracted works which were yet to be paid at the end of the financial year under review.

CAPITALISATION AND INDEBTEDNESS

SDC's net borrowings declined from €38.3 million in FY2016 to €29.7 million, reflecting the increased level of cash balances and the group treasury funding to related parties. As the Tumas Group seeks to minimise its overall finance costs, any excess funds available at SDC level and not immediately required are advanced to other subsidiaries in the form of short-term loans or overnight deposits, renewable at SDC's discretion depending on its commitments. This amount stood at €16.5 million by the end of FY2017 (FY2016: €7.3 million; FY2015: €5.9 million).

Reported equity increased from €81.4 million in FY2016 to €89.2 million in FY2017, reflecting the profit generated during FY2017.

The Guarantor's net gearing ratio, calculated as the level of net borrowings in relation to the company's reported equity plus net borrowings, improved from 32% in FY2016 to 24.9% in FY2017, reflecting the Guarantor's increase in equity and the healthy cash position as at the end of FY2017.

for the year ended 31 December	*Actual* **2015** *€'000*	*Actual* **2016** *€'000*	*Actual* **2017** *€'000*
Total Borrowings	**58,723**	**58,290**	**58,671**
Less Cash & Cash Equivalents	(12,022)	(11,773)	(12,489)
Less Group Treasury Funds	(5,888)	(7,317)	(16,531)
Less Advances to TI plc (for bond redemption fund)	(549)	(932)	-
Net Borrowings (A)	**40,264**	**38,268**	**29,651**
Reported Equity (B)	78,218	81,387	89,238
Gearing Ratio (A / A+B)	**33.98%**	**31.98%**	**24.94%**
FV Adjusted Equity (C)	97,256	100,026	106,554
Adjusted Gearing Ratio (A / A+C)	**29.28%**	**27.67%**	**21.77%**

While SDC recognises the value of investment property at cost in its balance sheet, in the notes to the financial statements it discloses the market value (based on directors' annual revision of active market prices). Calculating the gearing ratio on the basis of market value of investment property would result in an improved gearing ratio as highlighted in the table above (refer to '*Adjusted Gearing Ratio*').

6.4 STATEMENT OF CASH FLOWS

for the year ended 31 December	*Actual* 2015 *€'000*	*Actual* 2016 *€'000*	*Actual* 2017 *€'000*	*Forecast* 2018 *€'000*
Net cash generated from / (used in) operating activities	29,577	13,847	7,940	30,697
Net cash generated from / (used in) investing activities	(5,706)	(11,648)	(4,352)	310
Net cash generated from / (used in) financing activities	(16,651)	(2,477)	(2,448)	(27,796)
Net movements in cash and cash equivalents	**7,219**	**(279)**	**1,139**	**3,211**
Cash and cash equivalents at beginning of year	4,409	11,628	11,349	12,489
Cash and cash equivalents at end of year	**11,628**	**11,349**	**12,489**	**15,700**

In FY2017, SDC generated €7.9 million net cash from its operations, which is substantially lower than the €13.8 million generated in FY2016. The cash inflows from operations were utilized to generate the Group treasury operations already referred to.

On the other hand, net cash used in investing activities came in at €4.4 million in FY2017 as the additions to PPE and investment property were slower during the year under review (€6.7 million) when compared to those paid in FY2016 (€10.2 million), which is largely reflective of the significant cash outflow necessary in FY2016 relating to the Hilton Malta refurbishment.

Furthermore, net cash used in financing activities was around the same level as that of FY2016, at €2.5 million, and consisted of the refinancing of the 6.2% bond and its costs (through TI, but recharged to SDC), dividends paid and bank repayments and financing.

By the end of FY2017, SDC's cash balances stood at €12.5 million.

FORECASTS - FY2018

Cash flows envisaged for FY2018 are reflective of the significant cash inflows from the recognition of the sale of the Laguna apartments and the offices adjacent to the Portomaso Business Tower. The application of these cash balances will be towards the reduction of bank borrowings and the payment of a dividend to the company's shareholders, partly offset by an estimated €9.0 million possibly being redirected to SDC from group treasury operations. This is only an indication as SDC can decide to retain the current arrangements in place if funds can still be duly profitably employed with Group companies. Nonetheless, SDC's closing cash balances by the end of FY2018 are expected to remain healthy at over €15 million.

6.5 RELATED PARTY TRANSACTIONS

All companies forming part of the Tumas Group are considered related parties in view of the common controlling party. Related party transactions are carried out at arm's length between TI and SDC, as well as transactions between SDC and other companies within the group.

As the Tumas Group aims to maximise the use of available funds within the group and minimise (external) financing costs, SDC regularly operates within the group treasury function and has arrangements with a number of fellow subsidiaries within the group whereby any excess funds available at SDC are transferred to subsidiaries of the group for overnight placements and other short-term periods. Furthermore, the Guarantor regularly enters into trading transactions with fellow subsidiaries and associates within Tumas Group in its normal course of business. Such transactions being conducted include rental charges, management fees, recharging of expenses and financing charges. Related parties also include foreign Hilton Hotels and related affiliates.

SDC retains the right, at all times, to call on these funds and have such balances transferred to its bank accounts as and when needed. Indeed, such treasury operations are covered by banking facilities or cash at the respective individual companies.

7. Ratio Analysis

The below are key ratios applicable to the SDC Group:

	Actual FY2015	*Actual* FY2016	*Actual* FY2017	*Forecast* FY2018
Net Profit Margin *(Net Profit / Revenue)*	12.3%	12.4%	20.1%	42.3%
EBITDA Margin *(EBITDA / Revenue)*	35.2%	36.3%	41.5%	40.1%
Return on Assets *(Profit before Tax / Average Assets)*	4.80%	3.42%	7.75%	20.83%
Return on Equity *(Profit for the Period / Average Equity)*	8.92%	6.49%	12.97%	33.28%
Return on Capital Employed *(Profit for the Period / Average Capital Employed)*	4.19%	3.72%	7.48%	20.32%
Net Debt / EBITDA	2.86x	3.05x	2.02x	1.13x
Gearing Ratio (1) *(Total Borrowings / Average Equity + Total Borrowings)*	47.64%	42.03%	40.75%	37.79%
Gearing Ratio (2) *(Net Borrowings / Average Equity + Net Borrowings)*	0.39x	0.32x	0.26x	0.26x
Gearing Ratio (3) *(Net Borrowings / Average FV adjusted Equity + Net Borrowings)*	29.28%	27.67%	21.77%	22.80%
Current Ratio *(Current Assets / Current Liabilities)*	1.76x	1.47x	1.62x	2.25x
Cash Ratio *(Cash & Equivalents / Current Liabilities)*	0.38x	0.30x	0.27x	0.54x
Interest Cover Ratio *(EBITDA / Net Finance Cost)*	4.62x	4.60x	10.13x	11.18x

SDC's ratios have overall improved in FY2017, supported by increased profits, lower net borrowings and healthy levels of equity, all of which contributed to margins and returns superior to those reported in earlier years. As a matter of fact, SDC is one of the least geared company in Malta (refer to section 8 below) which has listed securities or acts as a guarantor for listed securities on the Malta Stock Exchange. Complemented with a diversified portfolio of assets and operations, the forecasted metrics for the group are expected to remain strong and in line (or better) than those reported in the earlier periods.

8. Comparative Set

The table below compares TI's financial metrics (as the guarantor to the TI bonds) to those of a few other companies which have debt securities listed on the Malta Stock Exchange and maturing in the same years as the TI securities (or their respective guarantors). It is to be noted, however, that there are significant differences in the business models of each of the listed companies being compared below and an exact match to the operations and business of the Issuer and Guarantor is not available. Thus, while the metrics below can be used as a gauge of SDC's financial strength against other issuers listed locally, they do not capture the quantitative factors such as the different business models of each issuer, their competitive position in the market, KPIs, etc. The list below compares the two outstanding bonds of TI to a few other issuers which have comparable maturities. Such list is not exhaustive.

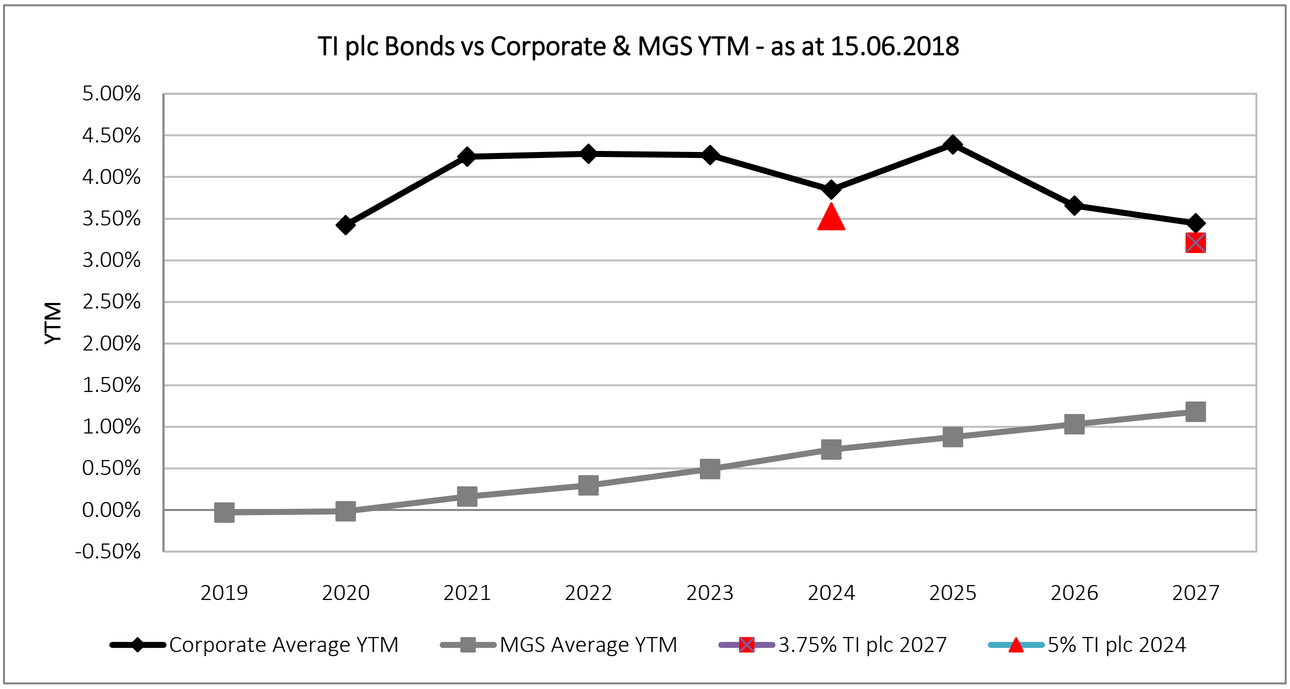
	Outstanding Amount (€)	Total Assets (€'000)	Total Equity (€'000)	Gearing Ratio (%)	Net Debt to EBIDTA (times)	Interest Cover (times)	YTM (as at 15.06.2018) %
5.00% Tumas Investments plc 2024	**25,000,000**	**198,819**	**89,238**	**25.79**	**2.02**	**10.13**	**3.53**
6.00% AX Investments plc 2024	40,000,000	286,318	173,323	26.09	3.98	4.44	3.72
6.00% International Hotel Investments plc 2024	35,000,000	1,602,317	884,632	36.36	7.91	2.64	4.18
5.00% Hal Mann Vella Group plc (secured) 2024	30,000,000	107,801	39,813	54.01	10.60	3.05	3.73
5.10% 1923 Investments plc 2024	36,000,000	118,490	33,711	56.60	11.18	1.79	4.46
3.75% Tumas Investments plc 2027	**25,000,000**	**198,819**	**89,238**	**25.79**	**2.02**	**10.13**	**3.21**
4.35% SD Finance plc 2027	65,000,000	217,599	65,698	47.74	3.21	5.46	3.45
3.50% Simonds Farsons Cisk plc 2027	20,000,000	163,528	96,632	28.81	1.81	17.86	2.87
4.00% Stivala Group Finance plc (secured) 2027	45,000,000	179,732	145,122	6.81	1.57	9.51	3.43
3.75% Virtu Finance plc 2027	25,000,000	161,959	79,465	40.66	3.82	11.3	3.28

Source: Yield to Maturity from rizzofarrugia.com, based on bond prices of 15 June 2018. Ratio workings and financial information quoted have been based on the issuer's and their guarantors where applicable, from published financial data for the year ended 2017.

Calculations:

- *Gearing Ratio: Net Borrowings / [Net Borrowings + Average Equity]*
- *Net Debt to EBITDA: This is the measurement of leverage calculated by dividing a company's interest-bearing borrowings net of any cash or cash equivalents by its EBITDA*
- *Interest Cover: The interest coverage ratio is calculated by dividing a company's EBITDA of one period by the company's net finance costs of the same period*
- *Yield to Maturity (YTM) from rizzofarrugia.com, based on bond prices of 15 June 2018. 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*

The chart below shows the average yield to maturity of the TI bonds compared to other corporate bonds listed on the Malta Stock Exchange and benchmarked against the Malta Government Stock yield curve as at 15 June 2018.



The following is a summary of the YTMs of each of the outstanding TI's bonds and how they compared to the average YTMs of corporate bond and MGS with a similar maturity:

Bond Issue	YTM	Premium (Discount) over Corporate Bond Average	Premium over Average MGS
5.00% TI plc 2024	3.53%	(32 bps)	281 bps
3.75% TI plc 2027	3.21%	(24 bps)	203 bps

GLOSSARY

INCOME STATEMENT EXPLANATORY DEFINITIONS

Revenue	Total revenue generated by the company from its business activity during the financial year.
Cost of Sales	The costs incurred in direct relation to the operations of the Issuer or Guarantor
Gross Profit	The difference between Revenue and Cost of Sales.
EBITDA	Earnings before interest, tax, depreciation and amortization, reflecting the company's earnings purely from operations.
Depreciation and Amortization	An accounting charge to compensate for the reduction in the value of assets and the eventual cost to replace the asset when fully depreciated.
Finance Income	Interest earned on cash bank balances and from the intra-group companies on loans advanced.
Finance Costs	Interest accrued on debt obligations.
Net Profit	The profit generated in one financial year.

CASH FLOW STATEMENT EXPLANATORY DEFINITIONS

Cash Flow from Operating Activities	The cash used or generated from the company's business activities.
Cash Flow from Investing Activities	The cash used or generated from the company's investments in new entities and acquisitions, or from the disposal of fixed assets.
Cash Flow from Financing Activities	The cash used or generated from financing activities including new borrowings, interest payments, repayment of borrowings and dividend payments.

BALANCE SHEET STATEMENT EXPLANATORY DEFINITIONS

Assets	What the company owns which can be further classified in Current and Non-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.

Liabilities	What the company owes, which can be further classified in Current and Non-Current Liabilities.
Current Liabilities	Obligations which are due within one financial year.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Equity	Equity is calculated as assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.