26th June 2019

The Directors
Dizz Finance plc
Dizz Buildings
Triq il-Harruba
Santa Venera
Malta

FINANCIAL PLANNING
SERVICES LIMITED

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Dear Sirs

Dizz Finance plc – Financial analysis summary

In accordance with your instructions, and in line with the requirements of the Listing Authority, we have compiled the Financial Analysis Summary (the "Analysis") set out on the following pages. A copy of this report is also attached to this letter.

The purpose of the Analysis is that of summarising key financial data appertaining to Dizz Finance plc (the "Issuer") and Dizz Group of Companies Limited (the "Guarantor" or "Dizz Group" or "Group"). The information is derived from various sources, as disclosed, or is based on our own computation as follows:

1. Historical financial data for the period 1 January 2016 to 31 December 2018 were extracted from the audited financial statements of the Issuer;

2. Historical financial data for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 were extracted from audited financial statements of the Guarantor;

3. The forecast for the financial year ending 31 December 2019 and the projection for the year ending 31 December 2020 were prepared by management;

4. Our commentary on the results of the Issuer and Guarantor and on its financial position is based on the explanations provided by management; and

5. The ratios quoted in the following pages are computed through the application of the definitions set out in Part 7 of the Analysis.

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 should not be interpreted as a recommendation to invest in the Bonds. Prospective investors should seek professional advice before investing in the Bonds.

Yours faithfully,

Matthew Bonello

Director

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Glossary

Analysis	Financial Analysis Summary
Bond Issue	The €8.0 million 5% unsecured bonds 2026
Company or Dizz Finance or Issuer	Dizz Finance p.l.c.
Dizz Group or Group or Guarantor	Dizz Group of Companies Limited
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax Depreciation and Amortisation
FY	Financial Year
Hub	Development of a site in Mriehel
Management	Management of the Dizz Group, including Dizz Finance p.l.c.
POS	Promise of Sale
ROA	Return on Assets
ROE	Return on Equity
ROCE	Return on Capital Employed

1 Information about the Issuer and Guarantor

1.1 Key activities

1.1.1 The Issuer

Dizz Finance plc (the "Issuer", the "Company" or "Dizz Finance") was originally registered as Dizz Rentals Ltd, a limited liability company under the laws of Malta, on 24 June 2015. This company was converted into a public limited company and re-named on 15 January 2016.

The principal object of Dizz Finance p.l.c. is to act as the financing arm of the Dizz Group, by raising funds and lending them on to Group companies. The Issuer owns and manages a portfolio of properties in Malta either for use by the Dizz Group or for rental to third parties. The Issuer's property portfolio includes both residential properties mainly situated in upmarket localities and retail properties. The retail properties are rented out to other companies within the Dizz Group while a number of the residential properties are leased out to third parties.

1.1.2 The Guarantor

Dizz Group of Companies Limited (the "Guarantor" or the "Group") was registered as a private limited liability company on 28 March 2014 and is the holding company of the Group. The Dizz Group's core activities are spread over three pillars – (i) retail of branded garments and apparel, (ii) operation of food and beverage outlets; and (iii) owning and operating a real estate portfolio.

Retail - The Dizz Group is an established business operator in Malta which started its retail operations in 2000. The Group is the local franchisor of Terranova, Terranova Kids, Calliope, Liu Jo and Liu Jo Uomo Elisabetta Franchi, Max & Co., Guess, Brooks Brothers, Trussardi, Paul & Shark, Harmont & Blaine, Billionaire, Alberta Ferretti, Michael Kors and Moschino.

Food and beverage - As at December 2018 Dizz Group's catering activities include the operation of four cafeterias through the representation of the Italian franchise Café Pascucci in Malta. Another Café Pascucci outlet has started operating in Gzira as from April 2019.

Real Estate - The Group owns a portfolio of investment properties and during the last quarter of 2018 the Group also acquired the right to operate 2,863 sqm within Tigne Point and 2,581sqm within Centre Parc.

During the financial year ended 31 December 2018, the Group employed an average of 151 full-time employees across the 25 outlets it operated across Malta. The Group's outlets are mainly concentrated in the St. Julian's, Sliema and Valletta area, whilst two Terranova megastores are located in Iklin and Fgura.

1.2 Directors and key employees

1.2.1 The Issuer

Dizz Finance p.l.c. is managed by a Board of six directors who are entrusted with its overall direction and management. The members of the Board as at date of this Analysis are included hereunder:

Directors	**Position**
Diane Izzo	Chairperson and Executive director
Karl Izzo	Executive director
Edwin Pisani	Executive director
Francis Cassar	Independent non-executive director
Francis Gouder	Independent non-executive director
Joseph C. Schembri	Independent non-executive director

The Executive Directors of the Issuer are entrusted with the company's day-to-day management and are also directors of other companies within the Group. The Executive Directors are supported in this role by several consultants and benefit from the know-how gained by members and officers of the Dizz Group.

1.2.2 The Guarantor

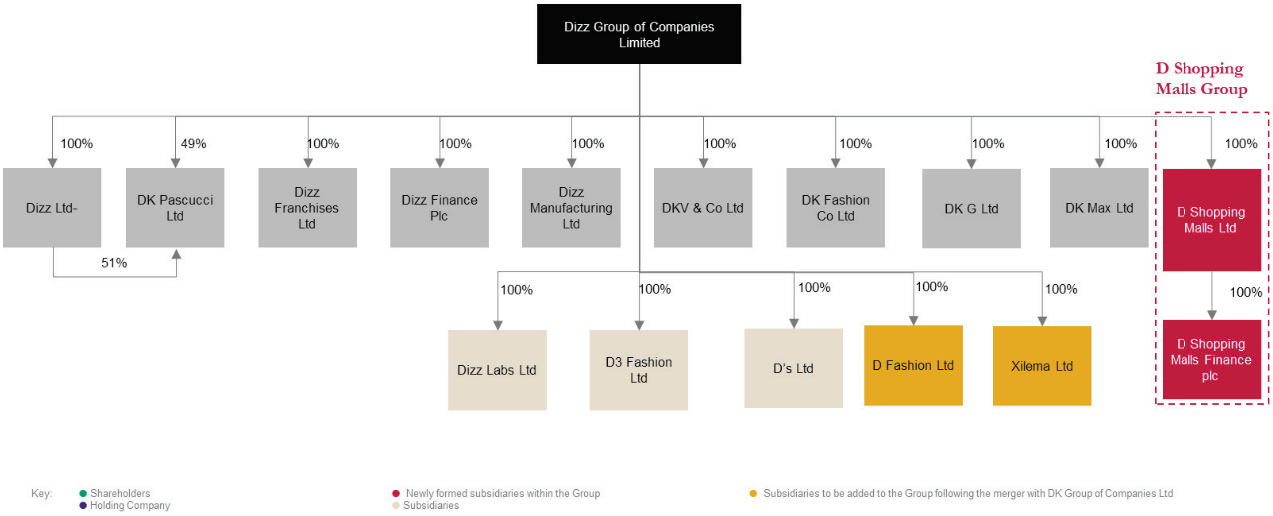
Dizz Group of Companies Limited is managed by a Board of Directors who are entrusted with its overall direction and management. The members of the board as at the date of this Analysis are included hereunder:

Directors	**Position**
Diane Izzo	Chief Executive and Executive Director
Daniela Bonello	Operational Director
Jean Paul Muscat	Financial Controller
Edwin Pisani	Operational Director

1.3 Organisational structure

The authorised and issued share capital of Dizz Group as at the date of this Analysis is 3,290,000 ordinary shares at a nominal value of €1 per share. All issued shares are fully paid up. The shares are owned equally by Diane Izzo and Karl Izzo.

The diagram below illustrates the organisational structure of the Group as at 31 December 2018.



Source: Dizz Group of Companies Ltd 2018 audited financial statements and Registry of Companies

1.3.1 Changes to the Group's structure

D Shopping Malls Limited

D Shopping Malls Limited was set up in July 2018 and it is fully owned by Dizz Group of Companies Limited. D Shopping Malls Limited is principally engaged in the management, operation and lease of the following property portfolio:

Name of property	Address	Lessor	Use of property	Total sqm	Title over property
D Mall	Tigne Point, Sliema	Sliema Wanderers Football Club	Retail/ office	2,863	Lease for a 60 year period
Centre Parc	Centre Parc Retail Hub, Triq it-Tigrija Qormi, Malta	Centre Parc Holdings Limited	Retail	2,581	Lease for a term of 15 years
Laguna Property	Laguna Complex, Portomaso Development, Spinola, Saint Julian's	Owned freehold	Residential	203	Held under title of freehold ownership

Qui-si-sana Property	Apartment 13, Waterside Place, and 6, Byron Court, ix-Xatt ta' Qui-si-sana, Sliema	Owned freehold	Residential	308	Held under title in part freehold and in part under title of temporary emphyteusis

D Shopping Malls Finance p.l.c.

D Shopping Malls Finance p.l.c. is mainly owned by D Shopping Malls Limited, except for one ordinary B share. This company was incorporated with the intention to act as a financing arm to the operations of D Shopping Malls Limited. In September 2018, D Shopping Malls Finance p.l.c. successfully issued a €7.5 million 5.35% Unsecured Bonds 2028 on Prospects MTF, a multi-lateral trading platform regulated by the Malta Stock Exchange.

D Fashion Limited

D Fashion Limited was set up on 25 August 2017. The objective of this Company is to hold and operate the Lusso outlet in St. Julian's which houses a number of other high-end brands. In 2018, D Fashion was 100% owned by DK Group of Companies Limited. The latter company enjoys common shareholders with Dizz Group of Companies Limited. The companies within the two groups have similar operations and thus Management decided to merge these two companies by the end of 2019.

Xilema Limited

Xilema Limited, which was set up on 10 October 2016, is currently owned by DK Group of Companies Limited. The objective of this Company is to hold and operate the Yogorino operations and a Café Pascucci outlet in Valletta. This company will also merge with the Dizz Group of Companies in 2019.

Dizz Franchises Ltd

Dizz Franchises Ltd was set up on 9 November 2015. The original objective of this company was to act as the holding company for all of the Group's franchises. Since this did not materialise and the company was inactive, the shareholding of this company was transferred to Diane Izzo.

2 Principal assets of the Issuer and other Group companies

2.1 Improvements to properties

Improvements to properties primarily include the value of movables (equipment, furniture and fittings) within the investment properties owned by Dizz Finance p.l.c., which were acquired as part of the initial transfer. The carrying amount of these movables is €0.3m as at 31 December 2018 and are expected to be fully depreciated within 6 years.

2.2 Property portfolio

The table below highlights the properties currently held by the Issuer, including both properties used by the Group for its day to day operations and also investment properties. The Issuer and the Group's properties were independently valued by architect Kurt Vella at 31 December 2018. In total, the properties had a fair value of €6.5m (2017: €4.1m). The movement mainly originates from the acquisition of the Gzira and the Laguna properties

List of investment property owned by the Issuer and other Group Companies

Name of property	Location	Fair value as at 31 December 2018 (€)	Description
Investment property owned by the Issuer leased to related parties			
Dizz Group Head Office	Carob Street, Santa Venera	444,000	Two offices, one measuring 114sqm and the other 194sqm, currently used as the Dizz Group Head Office. It is management's intention to relocate its Head Office to the premises it is currently developing in Mriehel and plans to lease out the existing offices to third parties once vacated.
Terranova retail outlet Santa Venera	Kappillan Mifsud Street, Santa Venera	567,000	Retail outlet, measuring 420sqm, currently used as a Terranova outlet.
Caffe Pascucci oulet Gzira	Gzira Road, Gzira	524,892	Coffee shop, measuring 180sqm, currently used as a Caffe Pascucci outlet
Investment property owned by the Issuer leased to third parties			
Mellieha apartment	Tas-Sellum, Mellieha	216,500	Investment property in Mellieha being rented out to third parties.
St Julian's apartment	Church Street, St Julian's	262,500	Investment property in St Julian's being rented out to third parties.
Gzira apartment	Savoy Gardens, Gzira	260,000	Investment property in Gzira being rented out to third parties.

Swieqi apartment	Corner View apartment, Swieqi	368,400	Investment property in Swieqi being rented out to third parties.
Swieqi maisonette and garage	Aquarius maisonette and garage, Swieqi	274,677	Investment property in Swieqi being rented out to third parties.
Investment property owned by other Group Companies leased to third parties			
Sliema apartment	Apartment 6, Byron Court, Qui si Sana, Sliema	734,000	Investment property in Sliema to be rented out to third parties
Sliema apartment	Apartment 13, Waterside Court, Qui si Sana	966,000	Investment property in Sliema to be rented out to third parties
St. Julian's apartment	Laguna Apartment, Portomaso, St Julian's	1,900,000	Investment property in St. Julian's to be rented out to third parties
Total		**6,517,969**	

During 2018, the Group finalised the contracts for the Laguna Property (which was later transferred to D Shopping Malls Limited) and the Property in Gzira road which is currently being leased out to Pascucci. As at 31 December 2018 the Laguna property registered an increase in fair value of €0.6 million.

2.3 Properties under promise of sale agreements

The Issuer has closed most of the promise of sale agreements which were pending as at 31 December 2017. The only property which is still on a promise of sale agreement is the Apartment in Pieta. This is expected to be concluded during 2019.

Name of property	Cost (€)	Amounts already paid (€)	Description
Apartment, Pieta	225,000	97,250	The contract is expected to be signed in 2019
Total	**225,000**	**97,250**	

2.4 Amounts due by Group companies

As at 31 December 2018, amounts due to Dizz Finance p.l.c. from related parties totalled €6.2m. These represented amounts loaned out to Group companies, in line with the use of proceeds from the bond issue. These loans are covered by agreements between Dizz Finance p.l.c. and the respective Group companies, dated 30 November 2016. However, the rates at which these loans were given out have been revised upwards in 2018. These loans have a 10-year term and are subject to an effective interest rate of 10.7% per annum.

2.5 Dependencies on the Group

The Issuer's principal business is to act as the main financing arm and property holding company of the Group. The Issuer is dependent on other entities within the Group and most of its revenue in FY18 was generated from Group companies. This included interest income from related parties totalling €0.7m and rental income totalling €0.2m. It is estimated that around 91% of the Issuer's revenue was generated by Group companies in FY18.

3 Material assets of the Group

The Group, through its subsidiaries, has entered into the following material contracts:

3.1.1 Franchise agreements

The Group has entered into a number of franchise agreements for all the brands it represents. The Terranova and Calliope brands are key contributors to the performance of the Group's fashion retail operations while the franchise agreement with Café Pascucci is key to the Group's catering operations. The commercial terms of the main franchise agreements are summarised below:

Dizz Ltd entered into a franchise agreement with Teddy S.p.A. for the operation of a number of Terranova outlets in Bay Street, Embassy, Tigne Mall and Qormi once Centre Parc Retail Hub is complete. The contracts are renewed annually and are subject to minimum turnover levels per outlet. Dizz Ltd has signed a sales network contract agreement with respect to the Terranova megastores in Fgura and Iklin. These contracts were signed in 2016 and are valid for seven years but will be automatically renewed upon expiry.

In addition to the above, during the same period Dizz Ltd entered into a franchise agreement with Teddy S.p.A. for the operation of the Calliope franchise. During 2018 the Tigne Mall outlet was closed and thus to date the Group only operates the Calliope store in Bay Street. The contract is renewed annually and is subject to minimum turnover levels.

The Group also entered into agreements with Betty Blue S.p.A. to open three Elisabetta Franchi branded stores in Malta together with an agreement with Manifatture Del Nord S.r.l. for the distribution of Max & Co products in Malta. Both agreements have a five-year term, started in late 2015 and require the Dizz Group to make a minimum number of purchases every year. Currently, the Group is in discussion with Betty Blue S.p.A. to re-negotiate franchise terms. The Group has successfully negotiated lower inventory purchase requirements. The parties are also discussing the possibility of shifting all the risks and rewards with respect to the Valletta outlet to Betty Blue S.p.A. The Group will operate the outlet on behalf of the franchisor and receive an operator fee in exchange.

The Group also has franchise agreements in place with Liu Jo S.p.A. and Cocama Ltd for the distribution of Liu Jo and Liu Jo Uomo garments and apparel in Malta. In 2016 the Group acquired the franchise for the following three brands, Guess and Brooks Brothers and the right to distribute and sell through exclusive stores three new high-end brands in Malta, being Paul & Shark, Trussardi and Harmont & Blaine.

During 2017, the Dizz Group obtained the right to distribute and sell Pinko and Goldenpoint. Dizz Ltd entered into a franchise agreement with Cris Conf Spa, for the operation, maintenance or improvement of mono-brand Pinko. Chris Conf Spa also grants to the Franchisee the exclusive right for the sale of Pinko imported garments. The agreement shall be deemed to have no time limit; however, it shall be in force for a period of at least five years, starting from 25th October 2017. Similarly, D's Ltd entered into a franchise agreement with Goldenpoint S.p.A., allowing the Franchisee to open points of sale bearing the sign Goldenpoint on the territory of Malta and Gozo. The present contract shall remain in effect indefinitely and is effective from the 3rd October 2016.

In order to diversify and thus hedge against the risks presented by the apparel retail market, the Group also entered into four franchise agreements with Café Pascucci Torrefazione S.p.A. for the operation of three Café Pascucci cafeterias in Bay Street, Santa Venera and Paceville. The agreements have an initial duration of three years, after which they will be renewed for a further three years. Dizz Ltd was required to pay an entrance fee upon signing the agreement (which includes material and services), together with an annual fee payable thereafter. One should note that in 2019 the Group entered into a new franchise agreement with Café Pascucci Torrefazione S.p.A. to operate the new Café Pascucci outlet in Gzira.

During 2018, the Group concentrated on consolidating its position and thus the plan is to merge Dizz Group of Companies Limited and DK Group of Companies Limited which are currently owned by the same shareholders. DK Group of Companies Limited has a franchise agreement with Yogorino, operates the Lusso flag ship store and operates an additional Pascucci outlet in Valletta. The aim of the Lusso store is to house top designer brands such as Billionaire, Michael Kors, Versus by Versace, Alberta Ferretti and Moschino. Management believe that the introduction of Yogorino and Pascucci outlet in Valletta, is in line with the Group's strategy to decrease dependence on the apparel retail market.

3.1.2 Development of the Hub

The Group is currently in the process of developing the proposed site in Mriehel (referred to as the "Hub" or the "Hub project"), which is earmarked as a logistics centre for the Group's retail operations, house its Head Office, serve as a manufacturing site and also house the Group's storage and distribution centre. The fair value of the Hub as at 31 December 2018 was €0.9m. A Café Pascucci outlet is also expected to be developed in the reception area. Due to unforeseen health and safety issues the completion of the Hub was delayed. This is now expected to be completed by June 2021.

The Hub will be constructed on a site of c. 1,245sqm located in Mriehel. The site has been granted to Dizz Manufacturing by the Government Property Department on a temporary emphyteusis of 65 years. This emphyteutical grant was granted against a lump sum of €0.5m in 2016 upon commencement of the grant, with €18k ground rent being payable annually throughout the term of the grant. The ground rent is also subject to a revision every five years.

This project will be set on seven floors including two which will be used as a parking area. The original plan stated that the other floors will be used to organise the storage and distribution hub for the Group's retail operations. Part of the storage hub will be used for the assembly and packaging of garments. These operations will involve buttoning, zipping and packaging of Terranova clothing before these are distributed to various countries. These operations are expected to account for c. 41% of the proposed area. The remaining area will be used for the Group's Head Office and the Café Pascucci cafeteria.

3.1.3 Lease agreements

The Group has a number of third-party lease agreements in place. The main terms of these agreements are listed below:

- *Bay Street Holdings Ltd:* the following four subsidiaries, Dizz Ltd, D's Ltd, DK Fashion Co. Ltd, and DK Pascucci Limited have signed separate lease agreements to operate Terranova, Calliope, Calliope (Kids), Liu Jo and Café Pascucci brands. All agreements with Bay Street Holdings Ltd are expected to expire by 2020. The lessees agreed to pay a one-time goodwill fee to the lessor and also an operator's fee and a service fee per square meterage of the designated area. The latter charges are required to be paid one month in advance. DK Guess Limited has also entered into an agreement with a third party for the assignment of an additional outlet in Baystreet to the Group, from which a Guess outlet is being operated. The assigned agreement expires in 2019.

- *Tigné Mall Ltd:* Dizz Ltd, DK Fashion Co. Ltd and DK Pascucci Limited signed a lease agreement with the lessor to operate the Terranova, Liu Jo, Paul and Shark, Harmont & Blaine, Guess and Pascucci brands in an assigned space in Tigné Mall. The lease agreements are expected to expire between 2020 and 2032. During such tenure the Lessee is expected to make rental payments on a quarterly/monthly basis.

- *Sliema Wanderers Football Club:* In 2018 the Group entered into a 60-year lease agreement with Sliema Wanderers Football Club to lease an area within the Tigne Complex. The property is being leased in shell form with the intention to partition into a number of retail outlets/kiosks and sub-let to third and related parties.

- *Centre Parc Holdings Limited:* In 2017 the Group entered into a lease agreement with Centre Parc Holdings Limited to lease a substantial part of the commercial space situated at ground floor of Centre Parc Retail Hub. The lease term is that of 15 years and it was agreed that rent is to be paid quarterly in advance.

- Other lease agreements:

    - *Fgura:* In 2016 Dizz Limited has entered into a lease agreement with 240 Limited to lease out the 240 Complex for a term of 15 years from which Terranova is currently operating. Rent is payable quarterly in advance.

    - *Iklin:* In 2015 the Group agreed to lease out the Terranova Megastore in Iklin from Mike 2000 Company Ltd for a period of 10 years. Rent is payable every quarter in advance.

    - *Sliema:* Both D3 fashion Ltd and DK G Ltd lease an outlet in Bisazza Street Sliema to operate the Elisabetta Franchi and the Guess franchise. These two lease agreements are expected to terminate in 2025. Rents are payable quarterly/ half yearly in advance.

    - *St Julian's:* The Group also operates a Café Pascucci and Lusso from two separate outlets in St Julian's, one pertains to Café Pascucci and the other to the Lusso franchise. DK Pascucci Limited entered into a lease agreement with the lessor for the rental of an area forming part of the Dragonara Business Centre in Paceville. The agreement was signed in 2016 and is valid for 10 years. Similarly, the Lusso outlet will leased out till 2027.

    - *Valletta:* The Group has entered into rental agreements for four additional outlets in Valletta from which Brooks Brothers, Liu Jo, Max & Co and Elisabetta Franchi outlets operate. These rental agreements are expected to expire between 2027 and 2031. Rent is payable quarterly in advance.

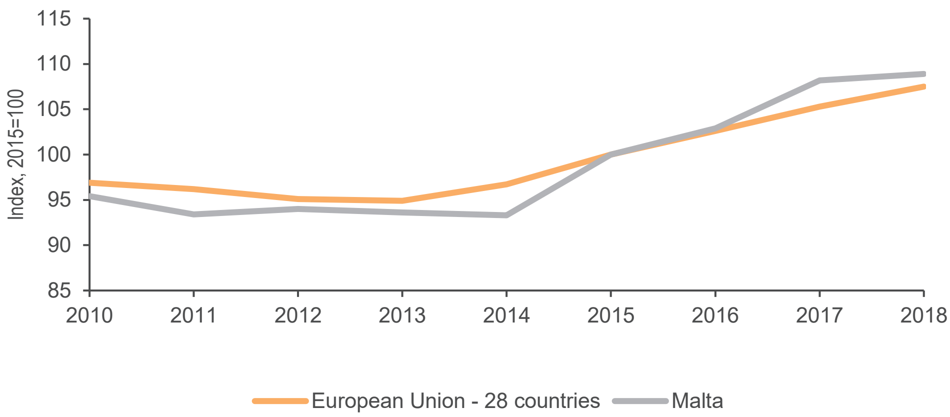
4 Market analysis

4.1 Retail sales in Malta

As shown in the chart below, the total retail trade turnover in Malta has registered strong growth since 2014 and has outpaced the average growth experienced within the 28 EU countries. This reflected the stronger increase in prices experienced in Malta when compared to the EU average, together with stable overall volumes of trade. Prior to 2010, Malta's performance lagged behind the EU average retail turnover, however this situation has since reversed. A number of factors have contributed to this strong performance, including:

- The increase in disposable income resulting from lower utility costs and a robust labour market;
- The opening of various commercial centres in Malta;
- The robust overall growth of the Maltese economy which has outpaced the EU average; and
- The increase in the expat community in Malta.

Index of total retail trade turnover



Source: Eurostat – Retail trade, except of motor vehicles and motorcycles, Index of total turnover, quarterly data (seasonally and calendar adjusted)

4.2 Overview of the apparel retail sector in Malta

Retail sales of clothing in specialised stores in Malta have performed strongly over the past few years, reflecting the performance of the retail sector in general over the period. NSO data illustrates that turnover within the sector has registered consecutive years of growth between 2012 and 2016, increasing from €182m in 2012 to €243m in 2017, representing a Compound Annual Growth Rate (CAGR) of 6%.

The total number of outlets selling fashion apparel remained relatively stable between 2012 and 2017 at just over 700 outlets. A minimal decrease was recorded in 2017, from 717 outlets in 2012 to 703 outlets in 2017. According to NSO data this movement pertains to the small store category.

Performance of specialised clothing retail stores in Malta

	2012	2013	2014	2015	2016	2017
0-9 employees						
Total turnover (€million)	59	56	60	63	71	62
Number of outlets (units)	674	655	670	628	674	655
Average turnover per outlet (€million)	0.09	0.09	0.09	0.10	0.11	0.09
Growth in average turnover		(2%)	5%	12%	5%	(10%)
10-49 employees						
Total turnover (€million)	45	48	42	47	47	44
Number of outlets (units)	29	28	26	33	33	32
Average turnover per outlet (€million)	1.55	1.71	1.62	1.42	1.42	1.38
Growth in average turnover		10%	(6%)	(12%)	0%	(3%)
50-249 employees						
Total turnover (€million)	78	81	91	113	121	137
Number of outlets (units)	14	14	14	15	15	16
Average turnover per outlet (€million)	5.57	5.79	6.50	7.53	8.07	8.56
Growth in average turnover		4%	12%	16%	7%	6%
Total turnover (€million)	182	185	193	223	239	243
Growth in total turnover		2%	4%	16%	7%	2%
Total number of outlets (units)	717	697	710	676	722	703

Source: National Statistics Office Malta (NACE 47.71 data)

Outlets employing 9 employees or less registered rather irregular average turnover growth, but on the whole the positive growth by far outweighed the negative. With regard to the medium sized outlets, the average turnover was reported to be negative in most periods, despite maintaining a relatively stable number of outlets throughout the period under observation. The turnover of large outlets within the sector has increased from €78m or 43% of the clothing retail sector's turnover in 2012 to €137m or 56% of the sector's revenue in 2017. In addition, average turnover per outlet has increased from €5.6m in 2012 to €8.6m in 2017.

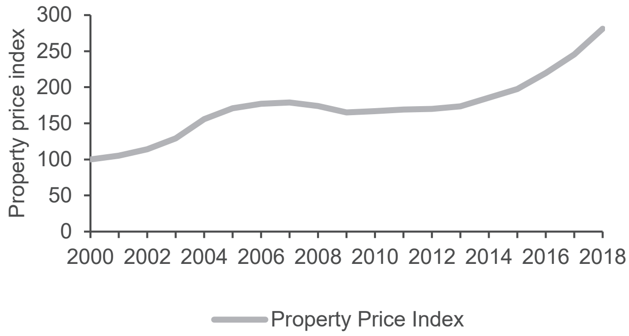
4.3 Food and beverage market in Malta

Malta has experienced an increase in the number of tourists over the past years. In fact, as per NSO News release 017/20191, the number of inbound tourist trips during 2018 has increased by fourteen point three percent (14.3%) with an increase in total tourist expenditure of 8% when compared to 2017.

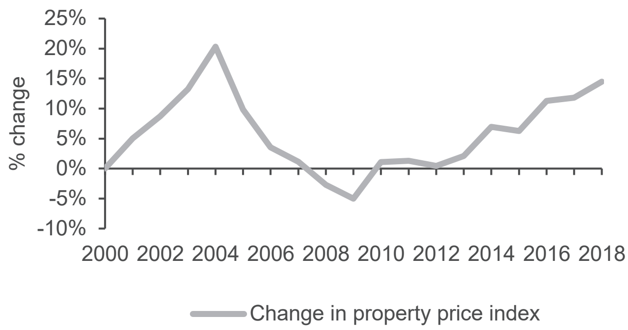
These positive results in the tourism industry translate in a positive effect over the revenue generated by the Café Pascucci outlets operated by the Group.

4.4 Overview of the property market in Malta

The analysis of property price movements illustrated below is based on the Central Bank of Malta's residential property price index, which tracks movements in advertised residential property prices. As set out below, the Maltese property market is enjoying a period of growth from 2014 to 2018. The property price index has reached 281.1 in 2018 representing an increase of 61% from 2013 to 2018.



Source: Central Bank of Malta



Source: Central Bank of Malta

According to the Central Bank of Malta report entitled "The Construction Sector in 2015", an increase in the number of permits issued for residential dwellings and commercial properties supported the recovery in the construction sector. As evidenced in the chart below, permits for residential units issued by the Planning Authority began to recover in 2014 and continued to increase by end of 2018. Permits in fact increased from 2,705 in 2013 to 12,885 in 2018.

Source: Planning Authority

5 Review of financial performance and position

5.1 Financial information of the Issuer

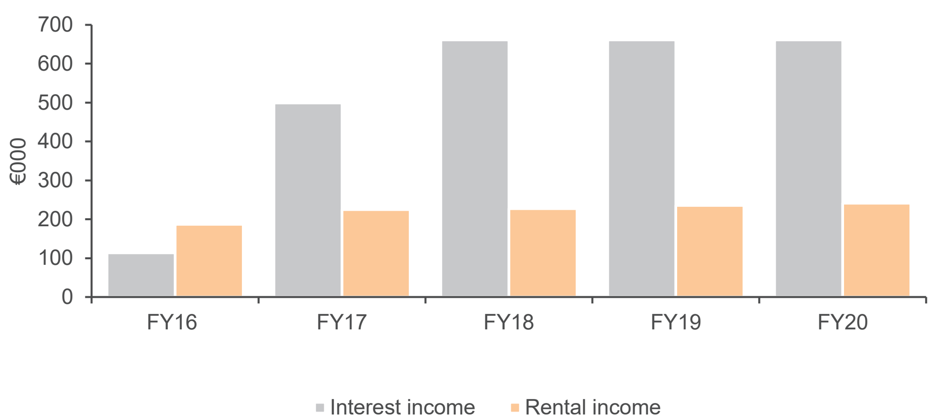
This section makes reference to the audited financial statements of the Issuer for the financial year ending 31 December 2016, 2017 and 2018 which were audited by KSi Malta Certified Public Accountants. The forecast financial information for the years ending 31 December 2019 and 2020 was prepared by the Management of the Issuer. The projected financial statements relate to events in the future and are based on assumptions which Management believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

Issuer's statement of comprehensive income

€000	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast	FY20 Projection
Revenue	303	729	889	897	903
Finance costs	(94)	(402)	(402)	(401)	(401)
Gross profit	208	327	486	496	502
Administrative expenses	(66)	(103)	(100)	(87)	(92)
Depreciation and amortisation	(47)	(68)	(70)	(70)	(70)
Operating profit	96	156	317	339	340
Fair value movement on property	601	-	-	-	-
Net profit before tax	697	156	317	339	340
Taxation	(104)	(178)	(125)	(119)	(119)
Net profit after tax	**593**	**(22)**	**192**	**221**	**221**

In 2018, the Issuer generated revenues of €0.9m, an increase of €0.16m from FY2017, mainly due to an increase in interest rates charged to related parties. In prior years related party loans were subject to an interest rate of 8%, however this year the interest rate for some related party loans was increased and the resultant effective interest rate amounts to 10.7%.

Breakdown of Issuer's revenue



Source: Dizz Finance p.l.c. 2016, 2017 and 2018 audited financial statements and Management projections

Revenue in FY19 consisted mainly of interest income from related parties (€0.7m), rental income due from related companies and third parties (€0.2m). Going forward, Management expects to achieve slightly lower revenues in FY20. This change in revenue is projected to arise from:

- *Interest receivable from loans to Group undertakings:* The Issuer has entered into loan agreements with Group companies, earning interest at the rate of 10.7% per annum. Going forward this is expected to remain stable at FY18 amounts;

- *Rental income:* The Issuer is expected to generate a stabilised annual rental income of €0.2m in FY20. The projections are based on the assumption that the present property leased to Terranova in St Venera will now be leased to third parties.

- Finance costs in FY19 amounted to €0.4m, representing primarily accrued interest on the Bond. The Company's administrative expenses, at €0.1m in FY17 and FY18, include Directors' fees, general administration costs and salaries, accountancy and professional fees. Management is currently undertaking a cost cutting exercise to eliminate any unnecessary costs. One of these measures was the revision of the overhead cost allocation policy. These measures have resulted in lower administrative costs across all the Group. In fact, general administrative costs for the Issuer are expected to decrease to €87k in FY19.

Issuer's statement of financial position

€000	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast	FY20 Projection
ASSETS					
Non-current assets					
Property, plant and equipment	369	347	310	265	219
Investment property	3,884	4,077	2,918	3,143	3,143
Other financial assets	100	-	-	-	-
Loans owed by related companies	6,263	6,163	6,163	6,163	6,163
Loans owed by third parties	-	97	88	88	88
Deposits on property	793	1,318	97	-	-
Total non-current assets	11,409	12,002	9,577	9,659	9,614
Current assets					
Trade and other receivables	199	837	6,467	6,467	6,467
Cash and cash equivalents	220	-	-	-	157
Total current assets	419	837	6,467	6,467	6,624
Total assets	**11,828**	**12,838**	**16,044**	**16,126**	**16,238**
EQUITY AND LIABILITIES					
Equity					
Share capital	1,910	1,910	1,910	1,910	1,910
Retained earnings	1,278	1,256	1,472	1,693	1,914
Total equity	**3,188**	**3,166**	**3,382**	**3,603**	**3,824**
Non-current liabilities					
Borrowings	7,763	7,787	7,811	7,836	7,860
Deferred tax liability	194	253	195	195	195
Total non-current liabilities	7,957	8,041	8,007	8,031	8,055
Current liabilities					
Trade and other payables	622	1,410	3,682	3,668	3,668
Borrowings	-	52	608	705	572
Current taxation	60	170	365	119	119
Total current liabilities	682	1,631	4,655	4,492	4,359
Total liabilities	8,640	9,672	12,662	12,523	12,414
Total equity and liabilities	**11,828**	**12,838**	**16,044**	**16,126**	**16,238**

The Issuer's total assets increased from €11.8m as at 31 December 2016 to €16.0m by end of 2018. The main movements relate to investment property and trade and other receivables. The latter increased substantially in 2018 from €0.8 million to €6.5 million. These are mainly amounts due from related parties. These amounts are unsecured, interest free and repayable on demand. These are classified as a current asset since IFRS 9 states related parties loans should be recognised as current if the borrower does not hold the right to defer settlement for at least 12 months after the reporting period. Going forward, it was assumed that payment will not be demanded. The property, plant and equipment balance as at 31 December 2018 is basically composed of improvements to buildings which amount to €0.3m. In addition, the Issuer advanced loans to Group companies, totalling €6.2m in 2016, in line with the use of proceeds from the Bond Issue. As per the terms of loan agreements included in the contracts dated 30 November 2016, the amounts due from related parties are repayable on the tenth anniversary of the agreement signing date.

The Issuer disposed of its Qui Si Sana and the Laguna properties to D Shopping Malls at a consideration of €1.7 million and 720,000 ordinary shares respectively, whilst the Gzira property was paid up in full. Investment properties ended the year with a carrying value of €2.9 million. This is expected to increase slightly in FY19 once the contract for the Pieta apartment is executed. At 31 December 2018, the Issuer had €225k in capital commitments with respect to the acquisition of immovable property held on promise of sale.

The Issuer's borrowings also increased from €7.8m at 31 December 2017 to €8.4m as at 31 December 2018. FY18 includes €0.6m due to related parties. In FY17 the Company obtained a bank overdraft facility and as at 31 December 2018 this stood at €122k.

The Issuer's trade and other payables increased from €1.4m as at 31 December 2017 to €3.7 million as at 31 December 2018 mainly due to an increase of amounts due to related parties. These amounts are unsecured, interest free and repayable on demand. Under IFRS 9, these are classified as current liabilities since the related parties do not have the right to defer settlement for at least 12 months after the reporting period.

As at 31 December 2018, total equity stood at €3.4m, comprising of accumulated profits of €1.5 million. The Issuer's equity base is expected to increase further in 2019 and 2020, because of retention of profits earned during these years.

Issuer's statement of cash flows

€000	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast	FY20 Projection
Cash flows from operating activities	192	308	835	430	691
Cash flows from investing activities	(1,926)	(630)	1,667	(128)	-
Cash flows from financing activities	1,974	50	(2,486)	(400)	(400)
Movement in cash and cash equivalents	240	(272)	15	(97)	291
Cash and cash equivalents at beginning of period/year	(19)	220	(52)	(36)	(134)
Cash and cash equivalents at end of period/year	**220**	**(52)**	**(36)**	**(134)**	**157**

During FY18, the Issuer generated €0.8m from operations, mainly resulting from the rental of the Company's properties and €1.7m in cash from investing activities, when selling the Laguna and the Qui Si Sana properties.

Financing activities also represent an outflow which amounts to €2.5m in FY17. This is mainly due to the on-lending of additional funds to related parties.

Given that there are no other property acquisitions in the pipeline and the planned reduction in administrative costs, the cash flow position is expected to improve in 2020.

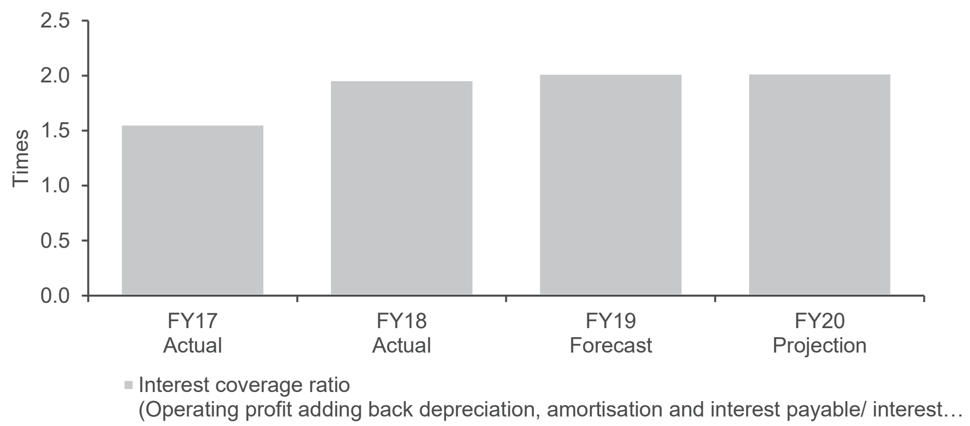
Issuer's evaluation of performance and financial position

€000	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast	FY20 Projection
Gross profit margin (Gross Profit/Revenue)	68.8%	44.8%	54.7%	55.3%	55.6%
Operating profit margin (Operating profit/Revenue	31.7%	21.3%	35.7%	37.8%	37.7%
Net profit margin (Profit for the year/Revenue)	195.9%	-3.0%	21.6%	24.6%	24.5%
Interest coverage ratio (Operating profit adding back depreciation, amortisation and interest payable/ interest payable)	2.51x	1.56x	1.96x	2.02x	2.02x
Return on assets (Net profit before tax/ Total assets)	5.9%	1.2%	2.0%	2.1%	2.1%
Return on capital employed (Net profit before tax/ Capital employed)	6.2%	1.4%	2.8%	2.9%	2.9%
Return on equity (Profit attributable to owners/ Average Equity attributable to owners)	18.6%	-0.7%	5.7%	6.1%	5.8%
Current ratio (Current assets/Current liabilities)	0.61x	0.51x	1.39x	1.44x	1.52x
Gearing ratio (Net borrowings/ (Total equity + Net borrowings)	70.3%	71.2%	71.3%	70.3%	68.4%

The Issuer's profitability ratios in FY18 were in line with forecasted ratios in the last published FAS. The margins in FY19 and FY20 will remain stable with the only difference being the fact that Management project that they will lease out the current St Venera property which until 2018 was being used as a Terranova shop to third parties.

The Issuer's interest cover, calculated as income (after deducting administrative expenses, and excluding fair value movement on property, depreciation and amortisation) to interest payable, amounted to 1.96 times in FY18 and then increase to 2.02 times in FY19 and remain stable throughout FY20.

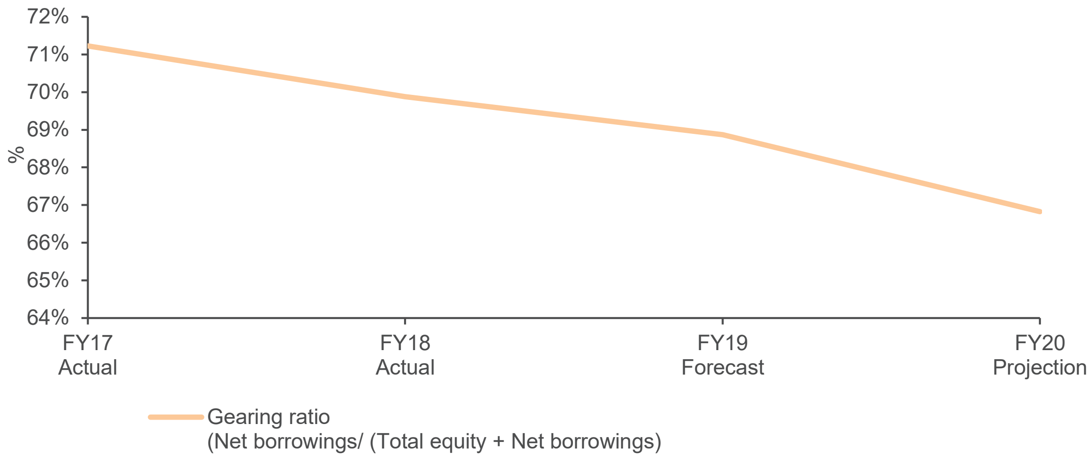
Interest cover ratio analysis



Source: Financial Planning Services Ltd based on Dizz Finance p.l.c. 2017 and 2018 audited financial statements and Management projections

In FY18 the current assets exceeded current liabilities by c. €1.8m due to amounts owed to related parties. As a result, the Issuer's current ratio totalled 1.39:1 in FY18. This is expected to go up to 1.52 times by FY20, primarily due to outstanding balances with related parties. The gearing ratio, which measures the extent to which the Issuer is financed through debt, amounted to 69.9% in FY18. For the purposes of this calculation, borrowings are based on the outstanding bonds and other borrowings, net of cash balances held by the Issuer. On the other hand, the Issuer's equity includes issued share capital and any accumulated reserves. This is expected to gradually start improving and decrease to around 67% in FY20.

Gearing ratio analysis



Source: Financial Planning Services Ltd based on Dizz Finance p.l.c. 2017 and 2018 audited financial statements and Management projections

5.2 Differences from 2017 FAS - Issuer

With respect to the Issuer, the table below compares the following:

- FY18 actual cash flow statement to the forecast included in the 2018 FAS; and
- FY19 forecast cash flow statement included in the 2019 FAS to the FY19 projection issued in the 2018 FAS.

Comparing projected cash flows over the years - Issuer

€000	FY18 Actual	FY18 Forecast FAS2018	Variance	FY19 Projection FAS2019	FY19 Projection FAS2018	Variance
Cash flows from operating activities	835	713	122	430	723	(293)
Cash flows from investing activities	1,667	(483)	2,150	(128)	(124)	(4)
Cash flows from financing activities	(2,486)	(391)	(2,095)	(400)	(391)	(9)
Movement in cash and cash equivalents	15	(161)	176	(97)	208	(305)
Cash and cash equivalents at beginning of period/year	(52)	(51)	(1)	(36)	(212)	175
Cash and cash equivalents at end of period/year	**(36)**	**(212)**	**176**	**(134)**	**(3)**	**(130)**

The following is a detailed explanation of the variances for both FY18 and FY19:

- Since there was a change in interest rates charged on amounts due from related parties the cash flow from operating activity for FY18 resulted in €122k more than what was forecasted in the previous FAS.

- During FY18 the Company disposed of the Laguna and the Qui Si Sana properties and this has resulted in a cash injection of €1.7m. The introduction of D Shopping Malls into the Group was not being forecasted in the previous FAS. This introduction gave the opportunity to the Issuer to dispose of its properties and benefit from this cash injection.

- Cash flows from financing activities are significantly different due to the fact that the proceeds from sale of the two properties were on-lent to related companies.

The updated FY19 projections result in a decrease of €293k in cash flows from operating activities due to the settlement of tax liabilities. As at 31 December 2018, the Issuer had €365k of current tax liabilities. The Management project that by the end of FY19 these outstanding amounts will be paid in full.

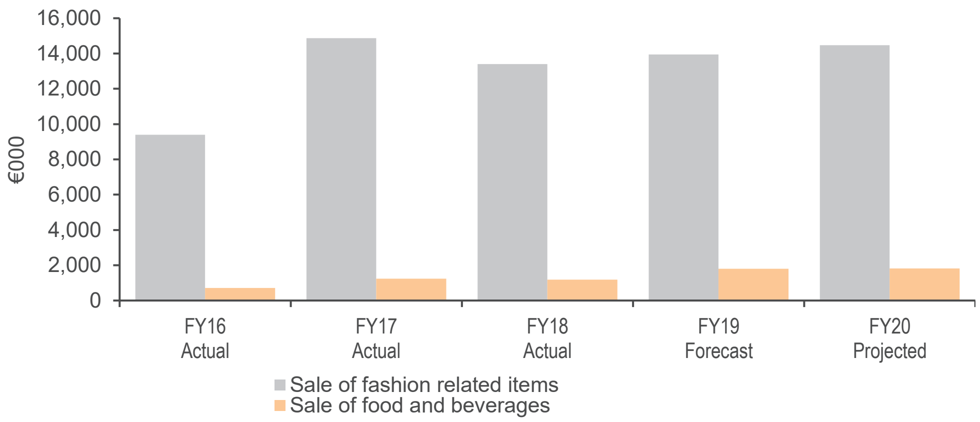
As illustrated in previous sections, the Issuer is owned by Dizz Group of Companies Limited. As the Issuer's primary role is that of raising funds to finance the Group's operations, combined with the fact that the Bond Issue is guaranteed by the Dizz Group, an overview of the performance and financial position of the Group is set out below.

This section makes reference to the audited financial statements of the Guarantor for the financial years 31 December 2016, 2017 and 2018. The financial statements were audited by KSi Malta Certified Public Accountants. The forecasted financial information for the years ending 31 December 2018 and 2019 was prepared by the Group's Management. The projected financial statements relate to future events and are based on assumptions which Management believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

Guarantor's statement of comprehensive income

€000	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast	FY20 Projected
Revenue	10,156	16,261	14,594	15,738	16,279
Cost of sales	(4,873)	(8,520)	(8,138)	(9,270)	(9,399)
Gross profit	5,283	7,741	6,456	6,468	6,880
Administrative	(4,016)	(5,846)	(5,549)	(2,816)	(2,936)
EBITDA	1,267	1,896	907	3,652	3,944
Depreciation	(695)	(829)	(796)	(944)	(974)
Amortisation	(90)	(95)	(82)	(2,822)	(3,126)
Operating profit	482	972	28	(114)	(157)
Investment income	105	131	168	2,248	2,174
Other gains and losses	624	(42)	1,347	-	-
Marketing expenses	(50)	(101)	(88)	(162)	(167)
Finance costs	(386)	(568)	(773)	(2,808)	(2,826)
Profit before tax	774	392	681	(835)	(975)
Taxation	(181)	(297)	(336)	(275)	(377)
Net profit	593	95	345	(1,110)	(1,352)
Other comprehensive income					
Property revaluation		(65)	-	-	-
Deferred tax		(42)	-	-	-
Other comprehensive income/(loss) for the year	-	(107)	-	-	-
Total comprehensive income/(loss) for the year	**593**	**(12)**	**345**	**(1,110)**	**(1,352)**

The Group generates most of its revenue from the sale of clothing items, with more than 90% of total revenue being generated from the sale of clothing in the historical years. In FY18, the Group's turnover decreased by 10.4%, from €16.3m in FY17 to €14.6m in FY18.



Source: Dizz Group of Companies Ltd 2016 to 2018 audited financial statements and Management projections

The Group's revenue slowed down in FY18 and this was principally due to the closure of the Terranova outlets in Valletta and Paola, Calliope outlet in Tigne Mall, Pinko Store in Sliema, Trussardi store in Tigne Mall. These store closures form part of the Group's ongoing restructuring programme.

The Group's catering operations remained stable during FY18, totalling €1.2m. All the revenue generated from the Group's F&B operations is generated from the representation of the Italian franchise Café Pascucci, which commenced in 2014. The Group operated three Café Pascucci outlets during FY18. In

FY19 the revenue generated from the Group's catering operations is expected to increase by 49% due to the addition of a new Café Pascucci outlet in Gzira and the introduction of Xilema Ltd to the Group which operated a Café Pascucci outlet and a Yogorino outlet in Valletta.

Administrative expenses decreased in FY18 when compared to the prior year. This is mainly due to more efficient use of human resources and better allocation of administrative costs. In contrast, finance costs increased from €568k to €773k since now it includes finance costs originating from the new €7.5m 5.35% unsecured bond issued by D Shopping Malls Finance p.l.c.

Other gains of €1.3m arose on the sale of Calliope at Tigne Mall and changes in fair value of investment property. These changes form part of the ongoing restructuring which is taking place within the Group. As a result, the Group registered a profit before tax of €0.3m during FY18.

The Group is required to implement IFRS 16 as from 1 January 2019. The standard gives the option to opt for a modified retrospective approach. This will result in a change in accounting treatment of operating leases. This means that in FY19 the Group will recognise a right-of-use asset and a lease liability in the statement of financial position for all those leases which were previously accounted for as operating leases. Consequently, the relevant expense will now be treated as amortisation and interest expense. Given that modified retrospective approach is adopted there will be no equity adjustment on initial application of IFRS 16. Hence, the comparative information is not restated.

Given the adoption of IFRS 16 administrative expenses in FY19 indicate a significant drop. However, this is neutralised by the increase in amortisation expense and finance cost as illustrated in the statement of comprehensive income above. In addition, investment income is expected to increase by €2.2m in FY19 since it will be the first full year of operation of D Shopping Malls and Centre Parc. These changes would improve EBITDA for FY19 from €0.9m to €4.3m however net profit figure would go down from €0.3m to a negative €0.5m.

One should note that IFRS 16 impacts the Group's profit in a negative way. If one had to disregard the impact of the latter on the statement of comprehensive income, the Group is expected to register a profit of c. €60k in FY19.

Guarantor's statement of financial position

€000	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast	FY20 Projected
ASSETS					
Non-current assets					
Property, plant and equipment	7,698	8,708	8,241	9,698	9,325
Investment property	3,062	3,066	5,507	5,732	5,732
Intangible asset	1,079	985	2,000	1,976	1,892
Right of use asset				36,774	33,765
Deferred tax asset	37	77	187	518	799
Other financial assets	100	97	88	88	88
Other assets	793	1,318	97	-	-
Trade and other receivables	-	-	1,453	-	-
Total non-current assets	12,769	14,251	17,574	54,786	51,601
Current assets					
Inventories	2,019	2,792	4,309	3,795	3,249
Trade and other receivables	1,651	1,986	4,743	1,128	1,190
Cash and cash equivalents	600	233	3,412	2,513	3,147
Total current assets	4,270	5,011	12,464	7,435	7,586
Total assets	**17,039**	**19,262**	**30,038**	**62,221**	**59,187**
EQUITY AND LIABILITIES					
Equity					
Share capital	3,290	3,290	3,290	3,291	3,291
Retained earnings	802	1,058	1,403	279	(1,073)
Other reserves	513	406	406	406	406
	4,605	4,754	5,099	3,976	2,624
Non-controlling interest	58	-	-	-	-
Total equity	4,662	4,754	5,099	3,976	2,624
Non-current liabilities					
Finance lease liability				33,664	32,223
Borrowings	7,763	7,787	15,230	15,262	15,295
Deferred tax liability	194	254	404	489	501
Total non-current liabilities	7,957	8,041	15,635	49,415	48,018
Current liabilities					
Finance lease liability				2,913	2,984
Borrowings	1,074	1,714	1,754	1,117	849
Trade and other payables	3,187	4,282	6,777	4,362	4,273
Current taxation	159	471	773	438	438
Total current liabilities	4,420	6,467	9,304	8,830	8,545
Total liabilities	12,377	14,508	24,939	58,245	56,563
Total equity and liabilities	**17,039**	**19,262**	**30,038**	**62,221**	**59,187**

The Group's total assets rose from €19.3m at 31 December 2017 to €30m at 31 December 2018. The growth is mainly originating from the increase in investment property, trade and other receivables and inventory.

During FY18 the Group concluded all the promise of sale agreements which were entered into in FY17 except for one. This resulted in a decrease in other assets and an increase in investment property.

Trade and other receivables in FY18 include €2.3m of prepayments in relation to the project at the Point, Sliema which relate to lease obligations for future periods as per the original contract. FY18 trade receivables also include €2.1m of amounts due from DK Group of Companies Limited and €1.6m which pertains to amounts prepaid to suppliers and amounts receivable for the sale of Calliope. Trade and other receivables in FY19 are expected to decrease since DK Group of Companies Limited is expected to merge with the Group and hence the amounts receivable will be eliminated on consolidation of the Group.

Inventory increased substantially in FY18 and the reason behind this is the high levels of stock commitments the Group has to commit to in order to represent a brand in Malta. Management is currently in discussions with most of the franchisors with the aim to renegotiate the terms of the franchise agreements. Apart from the above Management are currently in discussions with third parties who are willing to buy stock which accumulated due to high stock commitments Management faced in FY18.

In FY19, total assets are expected to increase by €32.2m as the Group recognises the right-of use asset in relation to the leases, as required by IFRS 16. The impact of the IFRS 16 also increases the total liabilities by €36.8m as the finance lease liability portion is recognised as a current and a non-current liability.

A substantial amount of trade and other payables consist of privileged creditors, €2.7m in FY18 (FY17: €2m). The Group has a repayment programme in place with the respective privileged creditors and thus these amounts will be fully settled off over a number of years. FY18 balance also included €1.2m commitment with Sliema Wanderers Football Club in relation to the development of Tigne Mall. This has been settled in FY 19. The remaining amounts principally comprise of trade purchases and ongoing costs, however no interest is charged on any outstanding balances.

As at 31 December 2018, the Group had overdraft facilities in place, with balances totalling €1.8m and a positive balance of €3.2m in an Escrow account being held at Jesmond Mizzi Financial Advisors Limited. This cash will be utilised for the development of D Malls and Centre Parc. The Group also had a number of bank guarantees and letters of credit in favour of suppliers. These overdraft facilities and guarantees are secured, inter alia, by the Group's properties, including the investment property portfolio held by the Issuer.

Guarantor's statement of cash flows

€000	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast	FY20 Projection
Cash flows from operating activities	474	2,025	(2,721)	1,953	2,703
Cash flows from investing activities	(8,109)	(2,633)	(1,262)	(1,767)	(1,000)
Cash flows from financing activities	7,813	(400)	7,122	(801)	(801)
Movement in cash and cash equivalents	178	(1,008)	3,140	(615)	902
Cash and cash equivalents at beginning of period/year	(652)	(473)	(1,481)	1,659	1,395
Cash and cash equivalents at merger				352	
Cash and cash equivalents at end of period/year	**(473)**	**(1,481)**	**1,659**	**1,395**	**2,297**

In FY18, the Group had a negative cash outflow of €2.7 million from its operating activities.

The Group's investment over the period also resulted in a cash outflow from investing activities of €1.3m being registered. This included capital expenditure totalling €0.4m mainly relating to capitalised development costs, furniture and fittings and other equipment for the Group's outlets. The Group also invested a total of €0.9m in investment property and deposits on investment property.

The Group's strategy is to diversify its business and thus in FY18 Management decided to invest further in the property portfolio. Hence, The Group raised a €7.5 million bond on Prospects MTF which were partly used in FY18 and intended to be used in FY19 for the development of D Malls and Centre Parc.

Management plan to merge the companies forming part of the DK Group into the Dizz Group and open new outlets in FY19. The aim is to stabilise a positive net cash flow position from FY20 onwards.

Guarantor's evaluation of performance and financial position

€000	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Forecast	FY20 Projection
Gross profit margin (Gross Profit/Revenue)	52.0%	47.6%	44.2%	41.1%	42.3%
Operating profit margin (Operating profit/Revenue	4.7%	6.0%	0.2%	-0.7%	-1.0%
Net profit margin (Profit for the year/Revenue)	5.8%	0.6%	2.4%	-7.1%	-8.3%
Interest coverage ratio (Operating profit adding back depreciation, amortisation and interest payable/ interest payable)	3.28x	3.34x	1.17x	1.30x	1.40x
Return on assets (Net profit before tax/ Total assets)	4.5%	2.0%	2.3%	-1.3%	-1.6%
Return on capital employed (Net profit before tax/ Capital employed)	6.1%	3.1%	3.3%	-1.6%	-1.9%
Return on equity (Profit attributable to owners/ Average Equity attributable to owners)	12.9%	2.0%	6.8%	-27.9%	-51.5%
Current ratio (Current assets/Current liabilities)	0.97x	0.77x	1.34x	0.84x	0.89x
Gearing ratio excluding finance lease liability (Net borrowings/ (Total equity + Net borrowings)	63.9%	66.1%	72.7%	77.7%	83.2%
Gearing ratio including finance lease liability (Net borrowings/ (Total equity + Net borrowings)	63.9%	66.1%	72.7%	92.7%	94.8%

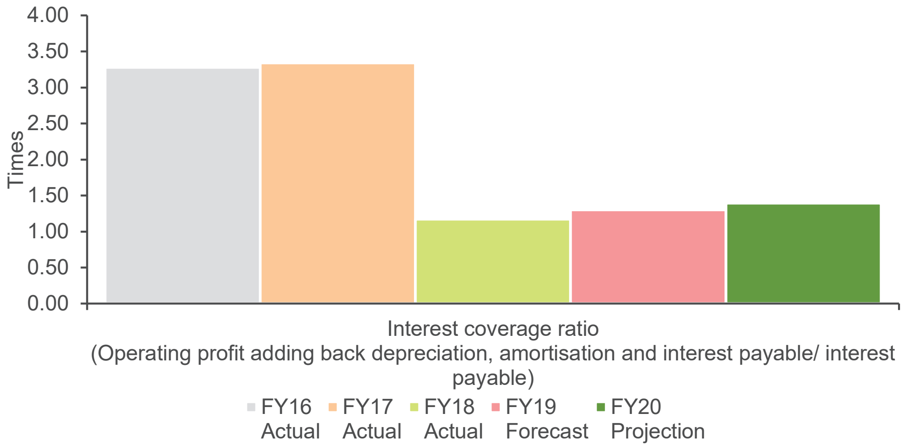
Source: Dizz Group of Companies 2016, 2017 and 2018 consolidated audited financial statements and Management projections

The table above sets out a number of KPIs illustrating the Group's historic and projected performance over the period between FY16 and FY20. Over the past three years, the Group has managed to obtain an average gross profit margin of 47% while growing its operations significantly. Going forward, the Group expect gross margins to register a decrease, from 44.2% to 41.1%, as some of the accumulated stock of FY18 is expected to be sold at a discount.

The Group's operating profit margin stood at 0.2% in FY18. This reflects the high staff and rental costs paid by the Group, particularly due to the fact that the Group's outlets are located in prime locations on the island. However, Management expect operating profit margins to go down to -0.7% in FY19 as forecasted profits are impacted by the adoption of IFRS 16.

Interest cover ratio stood at 1.17x in FY18, as opposed to 3.34x in FY16. This reflected the higher interest cost faced by the Group during the year as a result of the new bond issue. The increase in its operating profit margin will push the interest cover ratio to 1.3x in FY19 and 1.4x in FY20.

Interest cover ratio analysis



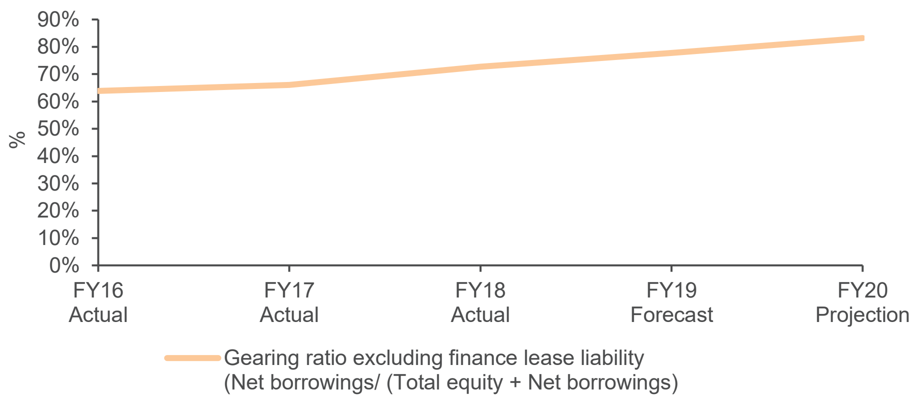
Source: Dizz Group of Companies 2016, 2017 and 2018 consolidated audited financial statements and Management projections

The Return on Assets (ROA) amounted to 2.3% in FY18 as the Group registered significantly higher profits when compared to FY17. The Group's Return on Capital Employed (ROCE) amounted to 3.3% in FY18. This is also expected to go further down to -1.6% in FY19. Return on Equity (ROE) amounted to 6.8% in FY18. This is also expected to go in the negative regions in FY19 due to the adoption of IFRS 16.

The current ratio stood at 1.34:1 at 31 December 2018, this was higher than that of 2017 as a result of the bond proceeds which are still on escrow account. The current ratio is expected to get closer to 1:1 in FY18 and FY19 as the Group continues to invest in its outlets, the development of the Hub and investment property.

The Group's gearing, measured as its debt to total funding, stood at 66.1% on 31 December 2017. This was in line with what was presented in FY16. In FY18 this increased to 72.7% since debt increased due to the new bond issue. In the projections, gearing is expected to increase as a result of a decrease in net profits. However, this is originating from the amortisation of right-of-use and the interest on fiancé lease liability. Most of the accounting ratios indicate a decline in FY19 and FY20, however this is due to the adoption of IFRS 16.

Gearing ratio analysis (excluding finance lease liability)



Source: Dizz Group of Companies 2016, 2017 and 2018 consolidated audited financial statements and Management projections

5.3 Differences from 2018 FAS - Guarantor

5.3.1 Statement of comprehensive income

Guarantor's statement of comprehensive income

€000	FY18 Actual	FY18 Forecast	Variance
Revenue	14,594	18,323	(3,729)
Cost of sales	(8,138)	(9,687)	1,549
Gross profit	6,456	8,636	(2,180)
Administrative	(5,549)	(7,205)	1,656
EBITDA	907	1,431	(524)
Depreciation	(796)	(829)	33
Amortisation	(82)	(119)	37
Operating profit	28	483	(455)
Investment income	168	135	33
Other gains and losses	1,347	-	1,347
Marketing expenses	(88)	(103)	15
Finance costs	(773)	(484)	(289)
Profit before tax	681	31	650
Taxation	(336)	(10)	(326)
Net profit	**345**	**21**	**324**

As set out in the table above, the Group's profit for the year was €0.3 million higher than projected. The main reason behind this difference was due to the restructuring that the Group generated €1.3 million from the sale of Calliope and the gain arising from the change in fair value from investment properties which offset the decrease in projected revenues.

The Group's total administrative costs were lower than expected, mainly due to the several initiatives undertaken by the Group to be more cost efficient and the fact that growth was hindered by the fact that actual revenues were not in line with expectations. During FY18, finance costs increased substantially since actual figures represent interest charged on the new bond issue.

5.3.2 Cash flow statement

With respect to the Guarantor, the table below compares the following:

- FY18 actual cash flow statement to the forecast included in the 2018 FAS; and
- FY19 forecast cash flow statement included in the 2019 FAS to the FY19 projection issued in the 2018 FAS.

Comparing projected cash flows over the years - Guarantor

€000	FY18 Actual	FY18 Forecast FAS2018	Variance	FY19 Projection FAS2019	FY19 Projection FAS2018	Variance
Cash flows from operating activities	(2,721)	450	(3,171)	1,953	936	1,017
Cash flows from investing activities	(1,262)	(823)	(439)	(1,767)	(920)	(848)
Cash flows from financing activities	7,122	728	6,394	(801)	(699)	(102)
Movement in cash and cash equivalents	3,140	355	2,785	(615)	(682)	67
Cash and cash equivalents at beginning of period/year	(1,481)	(1,481)	0	1,659	(1,126)	2,784
Cash and cash equivalents at merger				352		
Cash and cash equivalents at end of period/year	**1,659**	**(1,126)**	**2,785**	**1,395**	**(1,808)**	**2,851**

FY18 has resulted in an improvement of €2.8m in its cash and cash equivalents. This is substantially different from what was forecasted in last year's FAS. This was mainly due to the issue of the new bond which has resulted in €7.1m in cash flow from financing activities. In addition to this there were also the following movements during FY18:

- Cash flow from operating activities were €3.1m lower than initially projected for FY18. This was mainly due to achieving lower EBITDA levels and an increase in working capital requirements. During the year Management decided to close a number of outlets as part of their restructuring process and thus sales have decreased. Moreover, both trade receivables and inventory have increased substantially during FY18 and thus reduce liquidity of the Group.
- Cash flow from investing activities are €439k higher than what was previously forecasted. This pertains to the investment in property, D Malls and Centre Parc.

In contrast to last year's projections, FY19 year-end cash balances indicate a positive cash balance of €1.4m. Cash flow from operating activities turns out to be significantly higher than what was projected in 2018 since Management are aiming to sell most of FY18 accumulated stock by year end. One should also highlight that the increase in investing activities due to investment in property, D Malls and Centre Parc. However, the amounts which relate to the D Malls and Centre Parc projects are paid out from the Escrow account. In fact, the opening cash position and the total cash flows from investing activities are expected to net off each other.

6 Comparables

The table below compares the Dizz Group and the Issuer's bond issue to other debt issuers which are listed on the Malta Stock Exchange. The list includes a number of issuers (excluding financial institutions) which have listed bonds maturing in the medium term, i.e. between eight to ten years. This is in line with the term of the bond of the Issuer. Although one might argue that there are significant and material differences between the risks and operations of Dizz Group and that of the comparables, the comparative analysis provides an indication of the financial performance and strength of the Group.

Comparative analysis

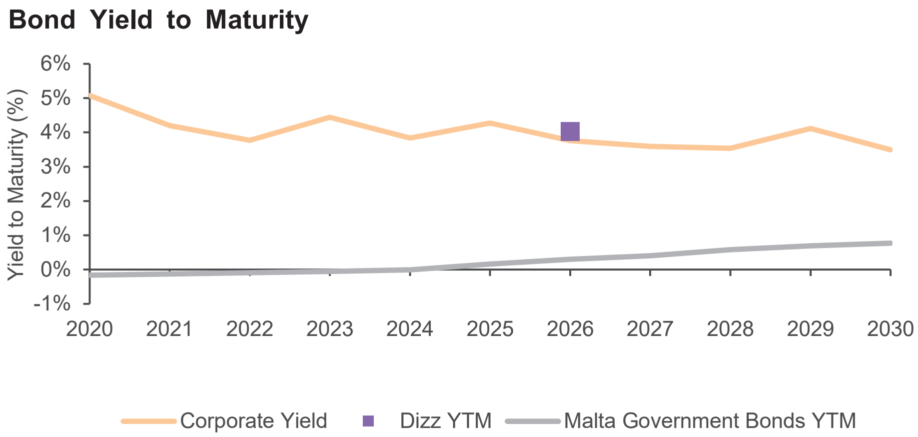
	Maturity date	Nominal value (€000)	Coupon (%)	Yield to maturity (%)	Interest cover (times)	Total assets (€000)	Net asset value (€000)	Gearing ratio (%)
Pendergardens Dev. plc Secured Series I	2020	14,711	5.50	3.29	1.22	80,052	25,712	50.2%
Pendergardens Dev. plc Secured Series II	2022	26,921	6.00	2.37	1.22	80,052	25,712	50.2%
Gap Group plc Secured	2023	19,931	4.25	3.36	4.10	55,237	9,869	71.8%
United Finance Plc Unsecured € Bonds	2023	8,500	5.30	4.52	1.19	21,625	6,916	57.4%
1923 Investments plc Unsecured	2024	36,000	5.10	4.41	1.51	120,794	38,318	48.4%
AX Investments plc Unsecured	2024	40,000	6.00	1.96	7.31	325,243	214,590	18.6%
Hal Mann Vella Group plc Secured Bonds	2024	30,000	5.00	3.95	2.32	112,006	43,514	51.0%
Mariner Finance plc Unsecured	2024	35,000	5.30	3.75	4.76	83,223	44,178	43.3%
Tumas Investments plc	2024	25,000	5.00	2.98	23.35	266,910	154,483	16.4%
Hili Properties plc Unsecured	2025	37,000	4.50	3.95	1.81	154,742	52,242	62.9%
Dizz Finance plc	2026	8,000	4.35	4.03	1.17	30,038	5,099	72.7%
Hudson Malta plc Unsecured	2026	12,000	4.35	3.84	5.37	28,166	6,135	61.4%
International Hotel Invest. plc Secured	2026	55,000	4.00	3.84	3.90	1,617,853	877,620	39.0%
International Hotel Invest. plc unsecured	2026	40,000	4.00	3.63	3.90	1,617,853	877,620	39.0%
Medserv plc	2026	21,982	4.50	4.50	1.18	156,777	18,697	74.2%
MIDI plc Secured	2026	50,000	4.00	3.31	8.96	220,613	97,440	36.4%
Eden Finance plc Unsecured	2027	40,000	4.00	3.27	5.63	185,717	103,511	31.8%
SD Finance plc € Unsecured Bonds	2027	65,000	4.35	4.27	6.19	229,882	63,771	50.1%

Source: 1. Latest audited financial statements for each company; 2. Malta Stock Exchange
Note: Information as at 19 June 2019

The interest cover ratio determines the ability of the company to meet its interest obligations on the outstanding borrowings. The Dizz Group could cover its interest costs 1.17 times over in 2018.

The gearing ratio indicates what level of funding is being generated by external borrowings as compared to shareholders' funding. The gearing level for the Group stands at 72.7%. The higher the gearing level the more vulnerable the company tends to be to an economic slowdown.

The chart below depicts the yield to maturity of the bond when compared to other corporate bonds listed on the Malta Stock Exchange together with Malta Government Bonds. The yield to maturity in 2026 for the Issuer's Bond is 3.82%; slightly higher than the weighted average yield to maturity for Malta's corporate bonds maturing in 2026.



Source: Malta Stock Exchange, Central Bank of Malta, Financial Planning Services Limited
Note: Data as at 19 June 2019

7 Explanatory definitions

Statement of comprehensive income	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including retail income and rental income.
Direct costs	Direct costs include costs which are incurred in the production of revenue.
Gross profit	Gross profit is the difference between revenue and direct costs. It refers to the profit made by the Group before deducting operating costs, depreciation and amortisation, finance costs, impairment provisions, share of profits from associate and affiliate companies and other operating costs.
Operating costs	Operating costs include all operating expenses other than direct costs and include general and administration expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Fair value of investment property	Fair value of investment property is an accounting adjustment to change the book value of the Group's investment property to its estimated market value.
Profit after tax	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
Profitability ratios	
Gross profit margin	Gross profit margin is the difference between revenue and direct costs expressed as a percentage of total revenue.
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Efficiency ratios	
Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Group.