



19-25, Conservatory Street, Floriana, Malta
Company Registration Number C89431
(the “Company”)

Supplement to the Company Announcement issued by the Company on the 5th November 2019

Quote

Reference is made to the Company Announcement issued by the Company on the 5th November 2019.

The appendices mentioned in the Company Announcement issued on the 5th November 2019 were inadvertently not included. The contents of the announcement including the agenda being reproduced hereon and the appendices are hereby attached.

Bondholders’ Meeting

The Board of Directors of the FES Finance p.l.c. (the Company) announces that the Company will be calling upon investors, holding as at close of business on 31 October 2019, the €5 million bonds issued in terms of Company Admission Document dated 6 March 2019, holding ISIN number: MT0002231208 (the “Bonds”) for a meeting at 18:00 hours on 20 November 2019 at the AX The Victoria Hotel, Gorg Borg Olivier Street, Sliema, SLM 1807.

The agenda of the meeting shall be as follows:

- A. Quorum
- B. Appointment of Chairperson and Secretary of the meeting
- C. Notice of meeting
- D. Change in use of proceeds

The Board of Directors of the Company proposes to change the use of proceeds from the Secured Bonds originally allocated for the acquisition of the St. Julian’s site by means of an emphyteutical grant and to develop same into a boutique hotel. Further details may be found in Appendix A attached hereto.

- E. Fresh bond issue to be fully fungible with the Secured Bonds and revision to security securing the Secured Bonds

The Company further proposes to issue a new bond for a total of three million and eight hundred thousand euro (€3,800,000) which would become fully fungible with the Secured Bonds whilst revising the security securing the Secured Bonds. Further details may be found in Appendix B attached hereto.

F. Other business

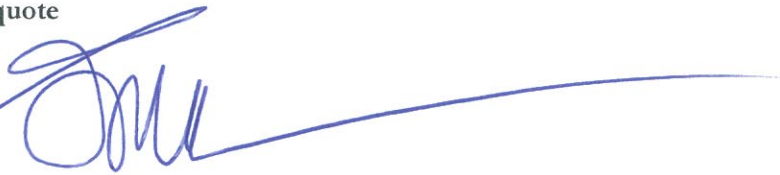
G. Closure

The Company shall be convening the meeting of Bondholders by notice in writing over the coming days which shall include details explaining the purpose for the matters being proposed.

BONDHOLDERS ON THE REGISTER AS AT THE CLOSE OF BUSINESS ON 31 OCTOBER 2019 SHALL BE ELIGIBLE TO RECEIVE NOTICE, ATTEND AND VOTE AT THAT MEETING.

By Order of the Board

Unquote

A handwritten signature in blue ink, appearing to be 'Dr Reuben Debono', written over a horizontal line.

Dr Reuben Debono

Company Secretary

6 November 2019

Appendix A – Change in use of proceeds

The use of proceeds sections in the Company Admission Document (section E.1 of the Summary and section 21.1 of Part II), setting out the reasons for, and purpose of, the Secured Bond issue stated that up to €1,111,000 of the bond proceeds were to be advanced to FES Projects Limited (the Guarantor of the Secured Bonds) to acquire the St. Julian's site (situated on 21, Triq Wied Ghomor, St Julian's) by means of an emphytheutical grant and to develop the site into a 23-room boutique hotel in line with PA/03805/17. However, the said development was subject to: (i) a third party appeal (PAB/00167/18) being denied by the Environment Planning Review Tribunal; and (ii) that following such rejection, the appellant would not seek further redress as afforded by law.

As set out in the Company Admission Document section 6.2.3.2, the last hearing before the Environment Planning Review Tribunal (the Tribunal) was expected to take place on 6 December 2018. However, the Tribunal's decision was deferred to 25 April 2019 and subsequently, further deferred, without setting a date for the next hearing. Although six months have passed, the date for the next hearing has not yet been set. Consequently, the Company will not be able to commence development works and operate the boutique hotel as from 1 July 2020 as previously outlined in the Company Admission Document. In view of these developments, the Board of Directors is proposing that €1.1 million of the bond proceeds will be employed towards another investment.

Accordingly, after due deliberation, the Board of Directors is proposing to change the use of proceeds in such a way that the said maximum amount of €1.1 million is utilised to part-fund the acquisition of an additional adjoining property (the "Adjoining Property") to the Gzira boutique hotel (as defined in the Company Admission Document and known as the Euro Guesthouse).

As set out in the Company Admission Document, €3.8 million of the bond proceeds were utilised to acquire the Euro Guesthouse and convert/develop it into a boutique hotel through a two-stage development. Since the date of the Company Admission Document, FES Projects Limited increased room stock from 28 rooms to 30 rooms, developed the lower floors of the boutique hotel and opened the Santa Cruz Bistro and Tapas restaurant. As outlined in Section 6.2.3.1 of the Company Admission Document, between November 2019 and March 2020, FES Projects Limited had envisaged developing further the boutique hotel by converting the adjacent duplex maisonette and increasing room stock to 56 rooms. Since its launch in August 2019, the boutique hotel has achieved an Average Daily Rate (ADR) of €105 per room and occupancy of 94%, in high Season, and an Average Daily Rate (ADR) of €75 per room and occupancy of 77%, in first shoulder month, and has maintained a 8.8 rating on Booking.com and a 4.5 star rating on the prominent accommodation and travel rating website, TripAdvisor®, which are the highest ratings in its competitor group.

Recently, FES Projects Limited has identified the opportunity to acquire an additional adjoining property (the Adjoining Property) and develop the said property together with the adjacent duplex maisonette, hence increasing room stock to 94 rooms once complete. As a result, FES Projects Limited has recently entered into a promise of sale agreement in order to acquire the Adjoining Property.

The consideration for the sale and acquisition of the Adjoining Property is one million, and two hundred thousand Euro (€1,200,000), payable in the following manner:

- (i) the sum of one hundred and twenty thousand Euro (€120,000) as part of the price on the signing of the promise of sale deposited with Notary Anne-Marie Cuschieri, and out of which sum, one hundred thousand Euro (€100,000) shall remain deposited with the said Notary until the final deed of sale and shall be released in favour of the vendor upon the final deed of sale;
- (ii) out of the sum of €120,000 mentioned above only the sum of twenty thousand Euro (€20,000) is non-refundable after 31 December 2019;
- (iii) the final settlement of the balance shall be paid on the notarial deed of sale and purchase of the Adjoining Property.

The Adjoining Property includes movables, as seen and accepted by FES Projects, for a further sum of one hundred thousand Euro (€100,000).

FES Projects Limited has also appointed architects and engineers to undergo the necessary preliminary testing and draw up plans for the combined property.

Appendix C attached hereto, includes updated consolidated financial projections for the FES Group which take into consideration the acquisition of the Adjoining Property and development thereof to form part of the Euro Guesthouse, as well as other factors as further explained in Appendix B.

Appendix B - Fresh bond issue to be fully fungible with the Secured Bonds

In order to develop the Gzira boutique hotel/Euro Guesthouse into a hotel having a stock of 107 rooms, the FES Group requires a total of €4.2 million. FES Group is seeking to raise the said funds by means of a change in the use of proceeds of the Secured Bonds as outlined and detailed in Appendix A of this notice, and by means of a fresh issue of bonds (the “Fresh Bond Issue”) equivalent to three million and eight hundred thousand euro (€3,800,000) on Prospects MTF subject to terms and conditions which are identical to those of the Secured Bonds and which shall be fully fungible with the Secured Bonds.

The proceeds from the Fresh Bond Issue shall be used predominantly to part-finance the acquisition of the Adjoining Property and development thereof in order to be combined with the Euro Guesthouse and for the latter to be developed into a hotel having a stock of 107 rooms. A part of the said proceeds shall be used to convert property which FES Group has acquired in Senglea into a 10-room boutique hotel (the “Senglea Property”).

In terms of the Company Admission Document, the Company may issue further bonds, in line with section E2 paragraph 9 and section 22.14:

QUOTE

The Issuer [FES Finance p.l.c.] may, from time to time, without the consent of the Bondholders, create and issue further debentures, debenture stock, bonds, loan notes or any other debt securities, either having the same terms and conditions as any outstanding debt securities of any series (including the Secured Bonds) and so that such further issue shall be consolidated and form a single series with the outstanding debt securities of the relevant series (including the Secured Bonds), or upon such terms as the Issuer may determine at the time of their issue, provided that no issue may be made that would rank prior to the Bonds in respect of the Collateral.

UNQUOTE

It should be noted that the Secured Bonds are secured by means of a hypothec registered over the Euro Guesthouse in favour of the Security Trustee in its capacity as trustee of the FES Trust for the benefit of the Bondholders. The Company proposes that as part of the Fresh Bond Issue and acquisition of the Adjoining Property, the security is extended and consolidated to include the Adjoining Property being acquired as explained in Appendix A. This would form part of the security granted to the Bondholders as well as the holders of the Fresh Bond Issue. Accordingly, the Company proposes that the Fresh Bond Issue of €3.8 million would also enjoy security rights from the said hypothec over the whole property (both the current Euro Guesthouse, as well as the Adjoining Property being acquired and any further development thereof). It is estimated that the Euro Guesthouse together with the Adjoining Property will have a value of at least eight million and eight hundred thousand euro (€8,800,000) following the proposed acquisition and subsequent development, and the fresh special hypothec over the entire premises including the Adjoining Property will be capped at €8.8 million covering the capital repayment for both the Secured Bonds and the Fresh Bond Issue.

Hence, it is proposed that the Secured Bonds and the Fresh Bond Issue becomes fully fungible such that following the payment of the first interest of the Fresh Bond Issue, all bonds issued under the Fresh

Bond Issue shall be integrated with the existing issue of the Secured Bonds and thereafter both shall be deemed to be one bond under the same International Securities Identification Number (ISIN).

Appendix C attached hereto, includes updated consolidated financial projections for the FES Group which take into consideration the acquisition of the Adjoining Property and development thereof to form part of the Euro Guesthouse, and the conversion of the Senglea Property and operation thereof.

Appendix C – Updated consolidated financial projections

Consolidated income statement

€000	FY2019	FY2020	FY2021	FY2022
Revenue	181	812	1,916	2,835
Cost of sales	(93)	(277)	(620)	(940)
Gross profit	88	535	1,296	1,895
Administrative expenses	(164)	(261)	(496)	(715)
EBITDA	(76)	273	800	1,180
Depreciation and amortisation	(58)	(117)	(217)	(284)
Operating profit	(134)	157	583	896
Net finance costs	(86)	(189)	(285)	(441)
Profit before tax	(220)	(32)	298	455
Tax expense	80	20	(107)	(169)
Profit after tax	(140)	(12)	191	287
EBITDA margin	(41.9)%	33.7%	41.8%	41.6%
Interest cover ratio (times)	n/a	1.09x	1.82x	2.68x

Consolidated statement of financial position

€000	FY2019	FY2020	FY2021	FY2022
ASSETS				
Non-current assets				
Property, plant and equipment	6,010	11,446	12,746	12,589
Intangible assets	94	176	156	135
Deferred tax asset	80	100	-	-
Total non-current assets	6,184	11,721	12,901	12,725
Current assets				
Inventories	1	4	19	30
Trade and other receivables	142	48	122	184
Cash and cash equivalents	1,315	1,453	420	849
Total current assets	1,457	1,505	560	1,063
Total assets	7,641	13,226	13,462	13,788
EQUITY AND LIABILITIES				
Equity				
Share capital	601	601	601	601
Revaluation	1,813	3,307	3,307	3,307
Retained earnings	(140)	(152)	39	326
Total equity	2,274	3,757	3,948	4,234
Non-current liabilities				
Borrowings	5,000	8,800	8,800	8,800
Deferred tax liability	157	288	288	288
Total non-current liabilities	5,157	9,088	9,088	9,088
Current liabilities				
Trade and other payables	12	34	78	118
Accrued interest	198	348	348	348
Total current liabilities	210	382	426	466
Total liabilities	5,367	9,470	9,514	9,554
Total equity and liabilities	7,641	13,226	13,462	13,788
Gearing	61.8%	66.2%	68.0%	65.3%

Consolidated statement of cash flows

€000	FY2019	FY2020	FY2021	FY2022
Cash flows from operating activities				
EBITDA	(76)	273	800	1,180
Working capital adjustments				
Changes in inventory	(1)	(3)	(15)	(11)
Changes in receivables	(142)	94	(74)	(62)
Changes in payables	12	22	44	41
Operating cash flow	(207)	385	755	1,148
Tax paid	-	-	(8)	(170)
Net cash (used in)/ generated from operating activities	(207)	385	747	978
Cash flow from investing activities				
Payments for property, plant and equipment	(3,877)	(3,697)	(1,342)	(108)
Net cash used in investing activities	(3,877)	(3,697)	(1,342)	(108)
Cash flow from financing activities				
Proceeds from issue of shares	500	-	-	-
Proceeds from bond issue	5,000	3,800	-	-
Interest paid	(1)	(250)	(440)	(440)
Bond issue costs	(102)	(100)	-	-
Net cash generated from financing activities	5,398	3,450	(440)	(440)
Movement in cash and cash equivalents	1,314	138	(1,035)	430
Cash and cash equivalents at the beginning of the year	1	1,315	1,453	418
Cash and cash equivalents at end of year	1,315	1,453	418	848