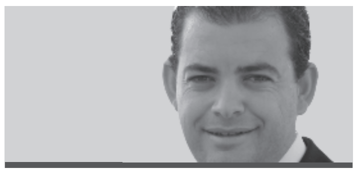
Stock Market Review



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Hotel San Antonio plc offers to buy back bonds

Hotel San Antonio plc, owner of the 300-room four-star hotel in Qawra and issuer of bonds in 2002, published three important announcements in an equivalent number of weeks.

Firstly, on May 25, the company reported that it had not set up a Capital Reserve Fund (also known as a sinking fund) to cover the redemption of the bonds on May 30, 2012, but it was collaborating with its bankers to secure the required financing for the eventual redemption of the bonds in May 2012.

While this news may have caused some concern among investors, another announcement followed on June 8 stating that the company had obtained full financing from its bankers and the new funding obtained not only covered the redemption of the €5.8 million bonds in issue, but also included an amount required to carry out further improvements to the hotel.

Furthermore, on June 18, the company issued a third announcement stating that it would be participating in the market to acquire up to €2 million worth of its own bonds from any bondholders willing to sell their bonds. While such an announcement may have also surprised many investors, this is not the first time a bond buy-back has occurred.

Eden Finance plc and PAVI Shopping Complex plc both carried out buy-backs in recent weeks without, however, informing the market beforehand. In fact, only last week, PAVI Shopping Complex plc confirmed that it recently acquired €582,343 worth of bonds on the market. A bond buy-back initiative is indeed positive both from a company as well as from a market perspective and should be welcomed. Given the continued lack of a proper market-making facility in domestic corporate bonds, it provides an opportunity for any bondholder who may wish to dispose of some or all of his/her holdings prior to maturity to do so.

Having issued these announcements at such brief intervals, Hotel San Antonio plc organised a meeting with the financial community on June 25 to provide further information and an update on the financial performance of their business. Prof. Edward Scicluna, a non-executive director of the company and chairman of the audit committee, addressed the gathering and provided some key performance indicators normally used in the hospitality industry.

The actual hotel occupancy for 2009 increased by two percentage points to 78 per cent from 76 per cent the previous year despite the decline in tourism numbers experienced locally. Prof. Scicluna also gave an update on the first half of the current year and confirmed that the Hotel San Antonio had experienced an increased occupancy level during Q1 2010 (63 per cent vs 56 per cent in 2009) and a minimal decline in the second quarter.

More importantly, the hotel's average room rate had only decreased minimally in 2009 to €38.83. This marginal decline has been reversed during the first half of 2010 as the hotel achieved a slightly higher room rate compared to the first six months of last year. The improved occupancy numbers in 2009 generated total revenue of €5.83 million, representing a decline of only two per cent compared to the previous year. Meanwhile, earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to €1.9 million, seven per cent lower than the previous year. Despite the decline in EBITDA, the company's interest cover improved to 2.34 times in 2009 from 2.22 times in 2008 as finance costs decreased in the light of lower interest rates and the continued steady repayment of bank borrowings.

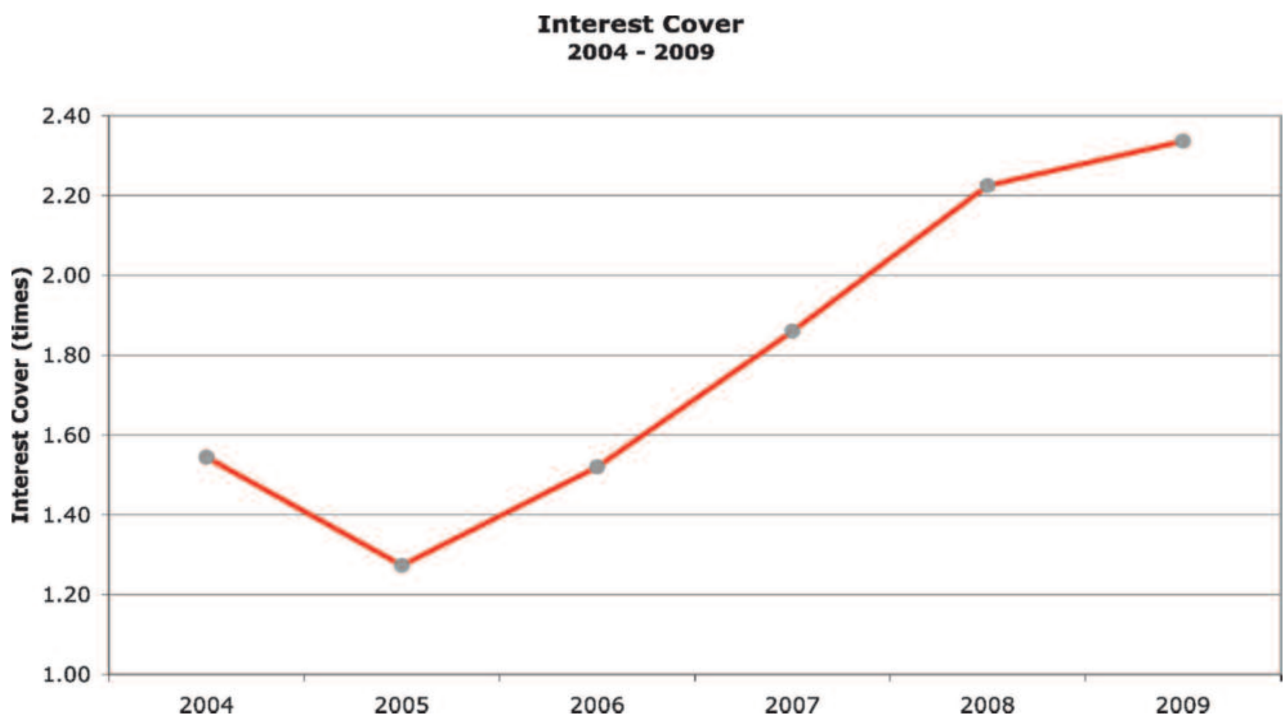
In this respect, Prof. Scicluna confirmed that since the company issued its bonds in 2002, overall bank borrowings had decreased by a total of €5 million from €11.5 million in 2002 to €6.5 million in 2009. Prof. Scicluna explained that although the company had not created the Capital Reserve Fund, the reduction in bank borrowings was a positive development as excess cash was used to reduce the overall indebtedness of the company.

The company's gearing ratio improved consistently through the past eight years from over 3.3 times in 2002 to 1.49 times in 2009. The offering document published by Hotel San Antonio in conjunction with its bond issue in 2002 had specifically stated at the time that a Capital Reserve Fund will be created after the company repays interest and capital on its banking facilities.

The improvement in the gearing ratio over the years was also a result of a further capital injection by the shareholders. This amounted to €1.1 million in each of the year's 2003 and 2004 together with a gradual increase in shareholders funds' resulting from profit retention since 2007.

Hotel San Antonio plc expects the gearing ratio to continue to strengthen in the coming three years as bank borrowings continue to decline from circa €6.5 million as at December 31, 2009, to €4.2 million in 2012 ahead of the bonds reaching their redemption date. This should reduce the overall indebtedness to 1.18 times representing total borrowings of €5.8 million and shareholders' funds of €8.1 million.

Holding regular meetings with the financial community is important and should become customary with all listed companies, irrespective of whether they have their equity or bonds listed. Unfortunately, this is currently not common practice and some issuers only hold meetings on the eve of their bond offering period. The financial community should be in a better position to monitor the performance of a company throughout the lifetime of a bond. Regular briefings by companies on their financial performance and future strategy will help to improve the flow of information to the market.



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