# Financial Analysis Summary

11 May 2016

Issuer

## Pendergardens Developments p.l.c.

(C58098)

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The Directors
Pendergardens Developments p.l.c.
GB Buildings, Triq il-Watar
Ta'Xbiex XBX 1301
Malta

11 May 2016

Dear Sirs

**Pendergardens Developments p.l.c. Financial Analysis Summary**

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 financial analysis is that of summarising key financial data appertaining to Pendergardens Developments p.l.c. (the "**Company**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data, for the period 5 November 2012 (being date of incorporation) to 31 December 2013 and for the financial years ended 31 December 2014 and 31 December 2015, has been extracted from the audited financial statements of the Company for the periods in question.

(b) The forecast data of the Company for the year ending 31 December 2016 has been provided by management of the Company.

(c) Our commentary on the results of the Company and on its financial position is based on the explanations provided by the Company.

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

(e) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the Company. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Company and should not be interpreted as a recommendation to invest in any of the Company's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Company's securities.

Yours faithfully,

**Wilfred Mallia**
Director

# TABLE OF CONTENTS

# PART 1 – COMPANY INFORMATION

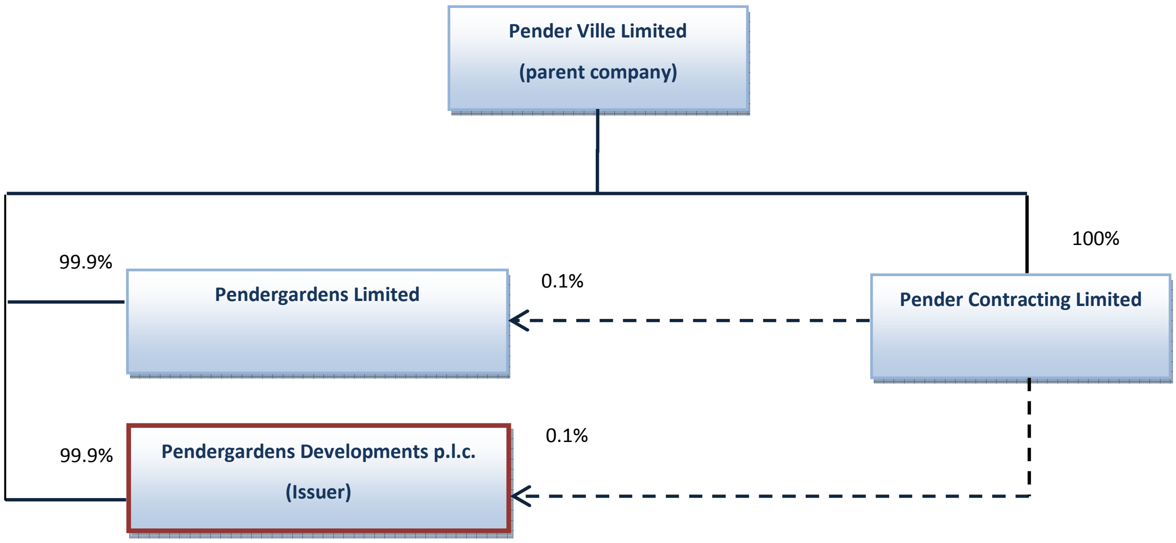
## 1. KEY ACTIVITIES

The principal activity of Pendergardens Developments p.l.c. (the "**Company**" or "**Issuer**") is to carry on the business of a property development company. In particular, the Company is currently involved in the development of Block 17 and Towers I and II, and in marketing residential units, retail and office space located in Block 16, Block 17 and Towers I and II. The aforementioned properties comprise the final phase of the Pendergardens Project ("**Phase II**").

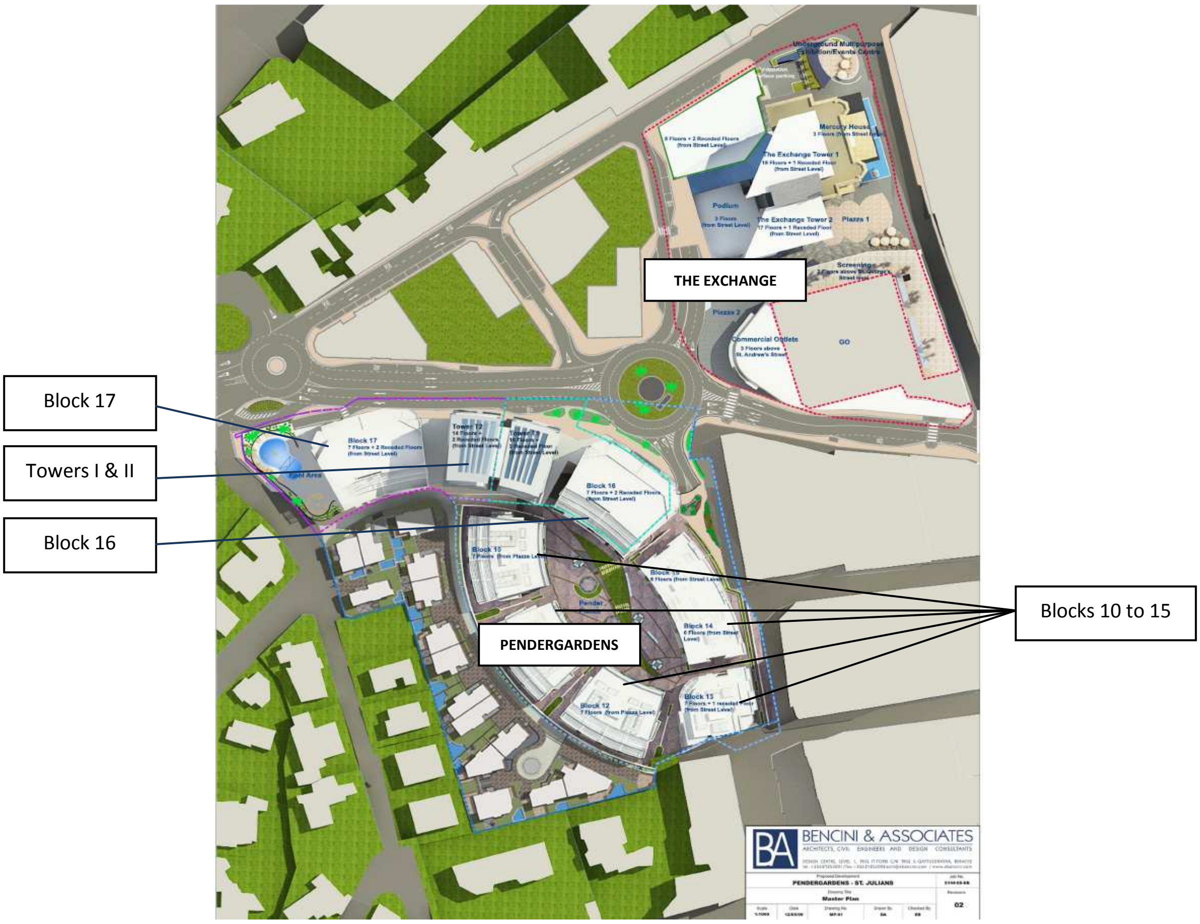
## 2. PENDERGARDENS GROUP

### 2.1 Organisational Structure

The Company was incorporated in November 2012 and forms part of the Pendergardens Group as set out in the Group organisational structure hereunder:



The parent company of the Group is Pender Ville Limited. It was set up in July 2005 by a consortium of investors to acquire and develop Pender Place ("**Pendergardens**") and Mercury House ("**The Exchange**") in St Julians, each site measuring 18,500m$^2$ and 8,500m$^2$ respectively. The acquired area is depicted in the site plan below:




**Site Plan:** Pendergardens and The Exchange

Pender Ville Limited commenced development of 150 residential apartments spread over 6 blocks (known as Blocks 10 to 15) together with underlying car park spaces in the first quarter of 2007. All apartments were sold over a 6-year period, except for one apartment which is being used by the Pendergardens Group as an office. Total sales proceeds generated from the aforementioned sales amounted to €43.4 million.

In a bid to proceed with the development of the remaining part of Pendergardens, the Block 16 site (measuring *circa* 1,379m$^2$) was transferred in December 2012 to Pendergardens Developments p.l.c. The Company issued €12 million in debt securities and initiated construction of 46 residential apartments, 807m$^2$ of retail area and car park spaces in the first quarter of 2013. Block 16 was completed in 2015.

Pursuant to the bond offer in May 2014, which consisted of the issuance of €15 million 5.5% Secured Bonds 2020 and €27 million 6% Secured Bonds 2022, the Company redeemed the above-mentioned debt securities and acquired from Pender Ville Limited the last remaining parcel of land at Pendergardens measuring 3,217m$^2$ to construct Block 17 and Towers I & II. The aforesaid development will include, once completed, 77 residential apartments, 7 floors of office space, commercial premises and car park spaces.

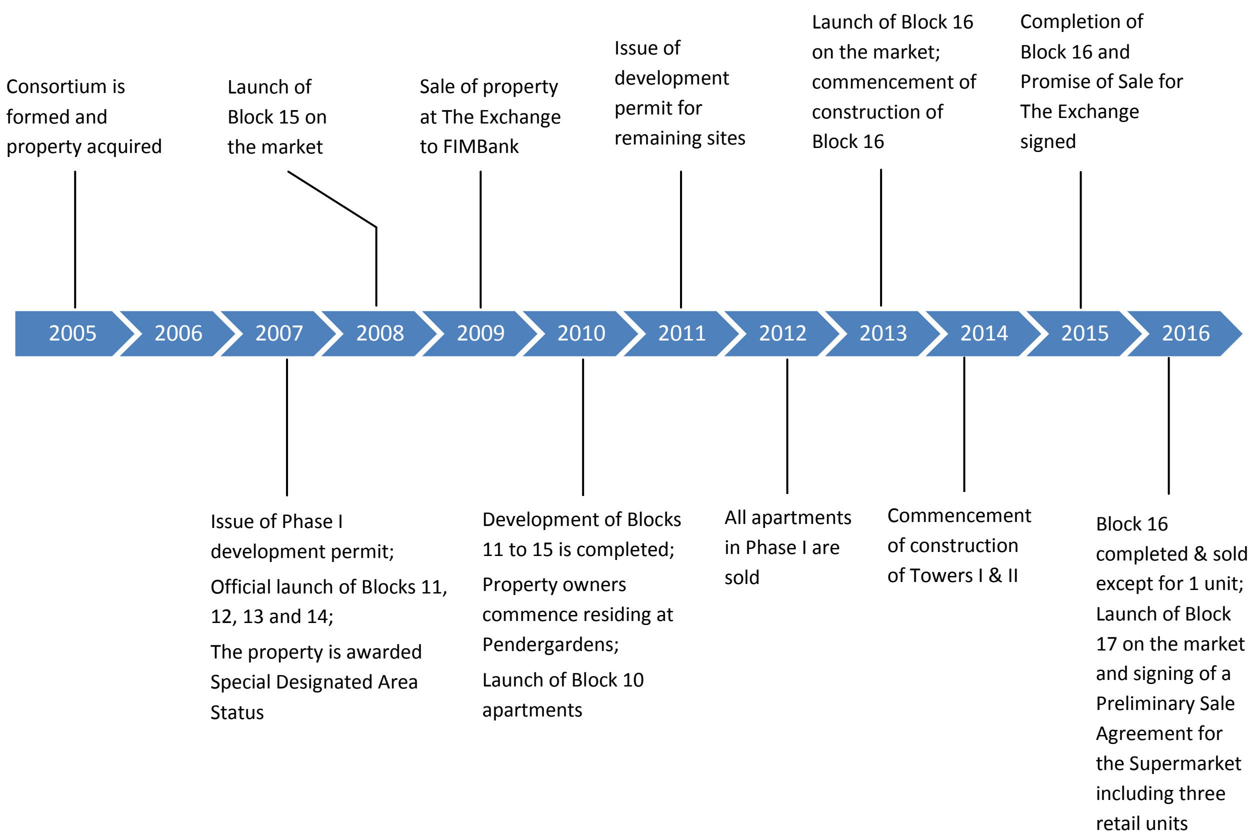
In 2009, Pender Ville Limited sold an area measuring 950m$^2$ to FIMBank plc. The Pendergardens Group was entrusted with the construction of the FimBank plc property which was completed in 2012.

In December 2015, Pender Ville Limited entered into a preliminary sale agreement to dispose of the site known as The Exchange to a third party by December 2016.

Pendergardens Limited, a subsidiary company of the Pendergardens Group, owns a portion of land (*circa* 4,300m$^2$) forming part of Pendergardens and is subject to a preliminary sale agreement. The said site is intended for the development of 15 detached and semi-detached villas.

Pender Contracting Limited was incorporated in February 2006 principally to act as the main contractor to execute the construction and development of Pendergardens. Currently, the company is involved in the development of Block 17 and Towers I & II.

## 2.2 Key Events



## 3. DIRECTORS AND SENIOR MANAGEMENT

The Company is managed by a Board consisting of five directors entrusted with the overall direction and management of the Company.

**Board of Directors**

| | |
|---|---|
| Edmund Gatt Baldacchino | Chairman |
| Edward Licari | Deputy Chairman |
| John Attard | Director |
| Philip Farrugia | Director |
| Joseph FX Zahra | Director |

The Company has no employees and therefore is reliant on the resources seconded to it by its parent company, Pender Ville Limited. The names and responsibilities of the latter's senior management are set out hereunder:

**Senior Management**

| | |
|---|---|
| Peter Diacono | Chief Executive Officer |
| Claudia de Maria | Financial Controller |
| Michael De Maria | Sales & Marketing Manager |
| Ernest Debono | Cost Manager & Quantity Surveyor |

## 4. MAJOR ASSETS & OPERATIONAL DEVELOPMENT OF THE COMPANY

## 4.1 Phase II – Block 16

In February 2013, the Company entered into a fixed price contract with a sister company, Pender Contracting Limited, for €10.02 million (excluding VAT) to construct and develop Block 16. The aforesaid property was completed in 2015.

Block 16 comprises 46 apartments, 4 levels of underlying car spaces and *circa* 807m$^2$ of retail area. Interest from prospective investors in Block 16 units has been positive and as at the date of this report, the Company has sold 34 units and entered into preliminary sale agreements for 12 units. The following table illustrates the mix of apartments in Block 16 and the remaining units available for sale.

**Phase II - Block 16**
**Residential**

| | No. of units | Contracts of sale | Pre-sale agreements | Unsold units |
|---|---|---|---|---|
| 1-bedroom unit | 10 | 9 | 1 | |
| 2-bedroom unit | 16 | 12 | 4 | |
| 2-bedroom duplex unit | 2 | 2 | | |
| 3-bedroom duplex penthouse | 2 | | 1 | 1 |
| 3-bedroom duplex unit | 14 | 9 | 5 | |
| 3-bedroom penthouse | 2 | 1 | 1 | |
| | **46** | **33** | **12** | **1** |

## 4.2 Phase II – Block 17 and Towers I & II

In 2014, the promoters of Pendergardens resolved to initiate construction of the remaining parcel of land measuring *circa* 3,217m$^2$ and known as Block 17 and Towers I & II. Both properties will comprise four levels of car park spaces below ground level, and two levels above ground of retail and office space totalling *circa* 15,000m$^2$. As from Level 2, Block 17 will have seven floors of residential units and Towers I & II will include seven levels of office space (lettable area of *circa* 5,400m$^2$) and a further eight levels of residential units. The top two floors of the Towers will be developed into two duplex penthouses. It is planned that the offices and residences in Towers I & II will have separate entrances, lobbies and lifts.

As to the level of finishes, Block 17 will be similar to Block 16, whereas Towers I & II will have a level of finish superior to the other blocks. Development of Block 17 and Towers I & II is expected to be completed in the first semester of 2018.

The table below shows the proposed mix of residential units available in Block 17 and Towers I & II:

| **Phase II - Block 17 and Towers I & II Residential** | **Block 17 units** | **Towers I & II units** | **Total units** |
|---|---|---|---|
| 1-bedroom unit | 20 | | 20 |
| 2-bedroom unit | 20 | | 20 |
| 3-bedroom unit | 7 | 28 | 35 |
| 3-bedroom duplex penthouse | | 2 | 2 |
| | **47** | **30** | **77** |

The Company launched on the market apartments in Block 17 in the beginning of May 2016 with resounding success. Up to the date of this report no less than 39 out of the 47 apartments have been 'Reserved' against a non-refundable fee at prices higher than those projected for the purpose of the bond issue in 2014. The Preliminary Agreements will be signed within the next few weeks. The total gross value of the 39 units, together with car spaces 'Reserved', amounts to over €15.7 million.

## 4.3 Phase II – Sales Strategy and Projections

Marketing of Block 16 units commenced in 2013 and as outlined in section 4.1 above, 45 out of 46 units have been sold or are subject to preliminary sale agreements. The Block 17 residential units were launched on the market in May 2016 and a similar sales strategy to that of Block 16 has been adopted by the Company. A number of reservations have been made and preliminary sale agreements are expected to be signed in June 2016.

The pricing strategy for Towers I & II residences has been devised to target the higher-end of the market and the level of finish will be significantly superior to other part of the development, reflective of market expectations for such apartments. It is expected that Towers I & II apartments will be marketed in mid-2017.

In addition to residential units, Phase II includes the development of a total commercial gross area of *circa* 16,400m$^2$. The retail areas of Block 16 and Block 17 are currently available on the market for sale or lease. The marketing launch of the Towers I & II residential units and office space is planned to be in the second semester of 2017.

In April 2016 the Company signed a preliminary agreement for the Supermarket including three retail units which will be integrated with the Supermarket.

Complementing the above properties are car park spaces reserved for residents and tenants within the underground parking facilities. Furthermore, Pendergardens will be providing public parking facilities to accommodate clients of respective tenants and an additional 247 car park spaces will be rented to a third party car park operator for use by the general public.

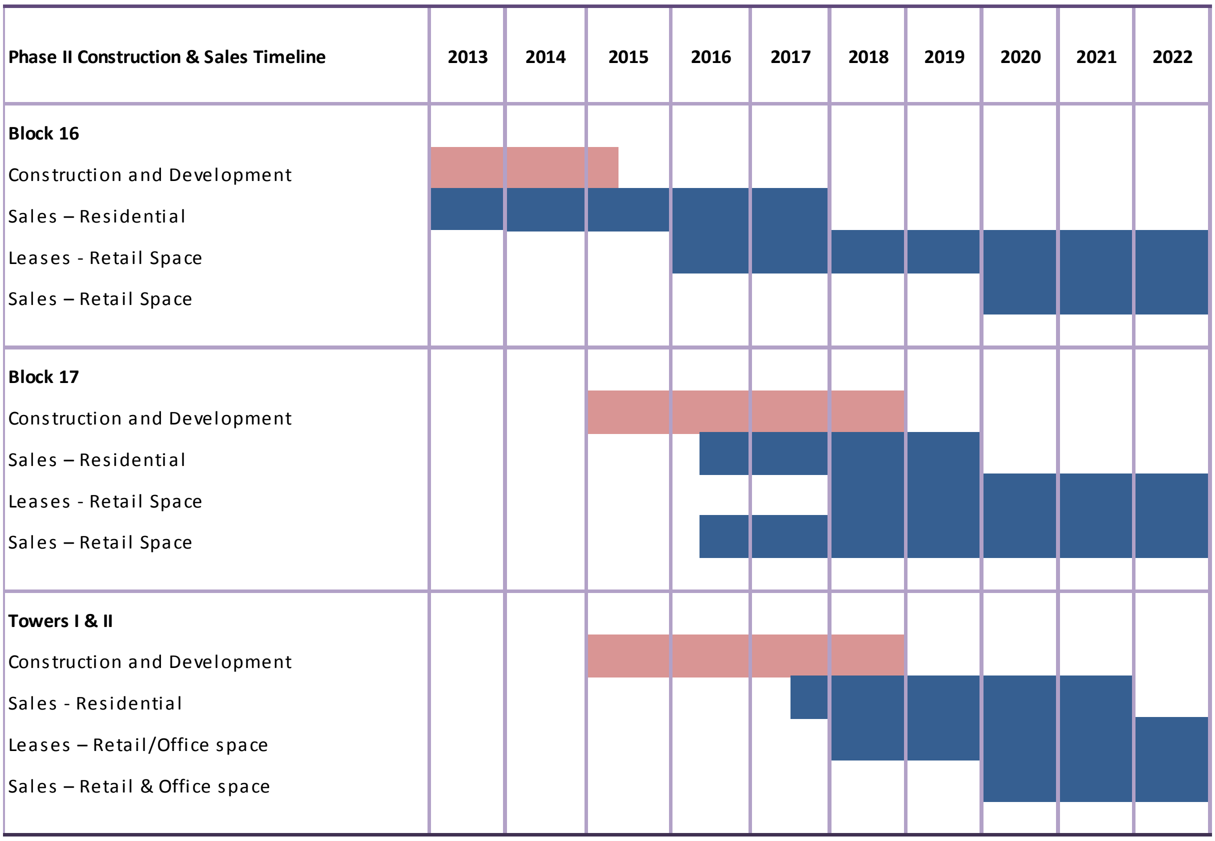
The following table illustrates the projected proceeds from sales and leases of units, net of applicable commissions:

**Phase II**

**Proceeds from sales and leases**

| | **2016** | **2017** | **2018-2022** | **Total** |
|---|---|---|---|---|
| | **€'000** | **€'000** | **€'000** | **€'000** |
| Residential units | 9,042 | - | 38,740 | **47,782** |
| Commercial units & car park spaces | - | 4,390 | 28,015 | **32,405** |
| Commissions | (310) | (53) | (3,745) | **(4,108)** |
| **Total proceeds from sales, net of commissions** | **8,732** | **4,337** | **63,010** | **76,079** |
| Commercial & car park leases | - | - | 5,320 | **5,320** |
| **Total proceeds, net of commissions** | **8,732** | **4,337** | **68,330** | **81,399** |

The expected timeline for completion of each property within Phase II and anticipated sales tempo is provided hereunder.



## 4.4 Phase II – Project Funding

A breakdown of estimated development expenditure to complete Phase II as from 1 January 2016 and expected funding sources thereof is provided below:

| **Completion of Phase II** | |
|---|---|
| | **€'000** |
| **Expenditure programme** | |
| Fixed price contracts: Block 16 (payments to completion) | (1,463) |
| Fixed price contracts: Block 17 and Towers I & II | (28,013) |
| Non refundable VAT on development costs (in development phase) | (3,147) |
| Net finance costs in construction period | (3,936) |
| Operating expenses in construction period | (1,635) |
| **Total estimated cash outflows to completion of Phase II** | **(38,194)** |
| | |
| **Sources of funding** | |
| Cash in hand as at 1 January 2016 | 6,091 |
| Sales proceeds (net of commissions and provisional tax) | 15,551 |
| Funds from sale of investments and Bond Issue proceeds | 16,552 |
| **Total funding requirement** | **38,194** |

Funding requirements for the completion of Phase II are expected to amount to €38.2 million and will be mainly funded from net proceeds from Bond Issue, disposal of investments, and unit sales. The above cash inflows will be utilised principally to settle the remaining balance due on the fixed price contracts entered into with Pender Contracting Limited for the development of Phase II, valued at €29.5 million. As from 1 January 2016 to date of completion of construction, it is expected that the Company will absorb non refundable VAT amounting to €3.1 million and projected net finance costs incurred during the construction period is estimated at €3.9 million.

## 4.5 Property Market

The recovery that began in the construction sector in 2013 extended into 2015. This was reflected in increases in the number of permits issued for the construction of residential dwellings, as well as in the value added and investment generated by the sector. This expansion in activity, in turn, has positive effects on employment income.

The improved performance in the construction sector in 2015 was supported by measures aimed at streamlining the issue of permits. The low interest rate environment, the extension of fiscal incentives for first-time buyers, the Individual Investor Programme (IIP) which fuelled demand for top-end properties, and an inflow of foreign workers have also spurred demand for dwellings.

Over €2 billion worth of property was registered in 15,557 contracts of sale concluded in 2015, a 35% increase over 2013 figures when 12,272 contracts, worth €1.3 billion, were concluded. A total 73,402 promises of sales have been registered since 2008 with an indicated value of close to €11 billion. The lowest number of promises of sale was 7,841 in 2011 with €1.074 billion worth of property.

Almost 1,000 properties, worth €400 million, were sold to foreigners (having obtained an Acquisition of Immovable Property Permit (AIP)) over the last four years (2012 – 2015). In 2015, foreigners acquired 280 properties for an aggregate value of €189.5 million (2014: 208 properties, €70.7 million).

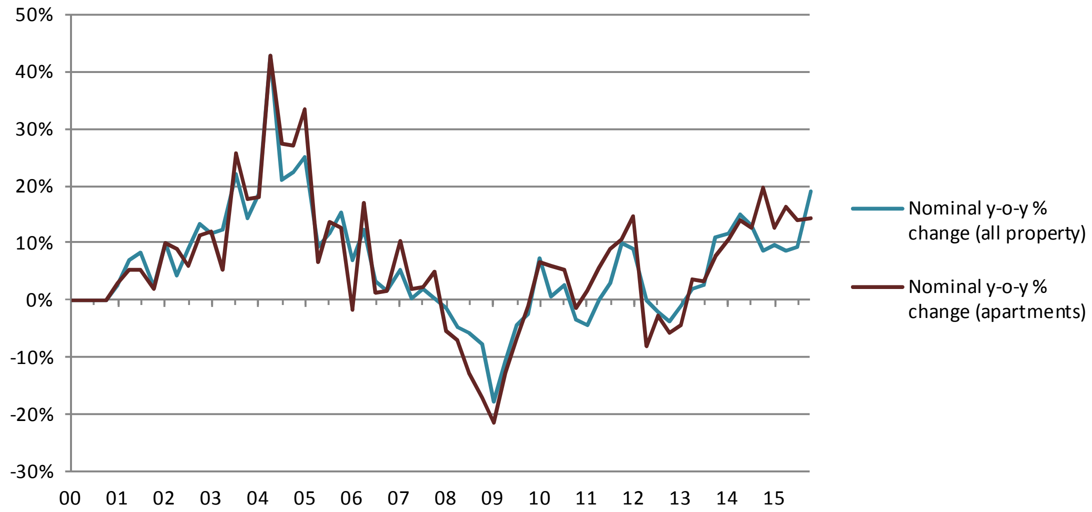
| **Properties Sold to Foreigners** | **2012** | **2013** | **2014** | **2015** | **Total** |
|---|---|---|---|---|---|
| **Southern harbour** | | | | | |
| Number of units | 11 | 20 | 21 | 29 | 81 |
| Value (€) | 3,020,121 | 3,224,753 | 5,737,720 | 24,534,356 | 36,516,950 |
| Average price (€) | 274,556 | 161,238 | 273,225 | 846,012 | 450,827 |
| **Northern harbour** | | | | | |
| Number of units | 112 | 111 | 111 | 148 | 482 |
| Value (€) | 36,260,476 | 25,972,957 | 40,628,063 | 72,529,586 | 175,391,082 |
| Average price (€) | 323,754 | 233,991 | 366,019 | 490,065 | 363,882 |
| **Northern** | | | | | |
| Number of units | 61 | 36 | 36 | 42 | 175 |
| Value (€) | 31,253,259 | 13,699,353 | 7,139,338 | 81,913,504 | 134,005,454 |
| Average price (€) | 512,349 | 380,538 | 198,315 | 1,950,322 | 765,745 |
| **Other** | | | | | |
| Number of units | 62 | 40 | 40 | 61 | 203 |
| Value (€) | 16,510,623 | 9,970,050 | 17,214,324 | 10,489,188 | 54,184,185 |
| Average price (€) | 266,300 | 249,251 | 430,358 | 171,954 | 266,917 |

*Source: Parliamentary Question 23925*

It is to be noted that the above data excludes any foreigners in Malta who have bought immovable property without the need of an “AIP”, which would include those properties sold in Special Designated Areas.

The aforementioned factors also supported the pick-up in house prices (see Chart I below). Residential property prices continued to rise during the fourth quarter of 2015. The Central Bank of Malta's advertised property price index shows that house prices rose at an annual rate of 10.0% in the last quarter of 2015, following a 5.0% increase in the previous quarter. Prices of apartments – the major component – continued to grow strongly in Q4 2015, though at a similar pace as in the previous quarter. Although they indicate trends, advertised property prices may not accurately reflect the prices at which sales actually take place.

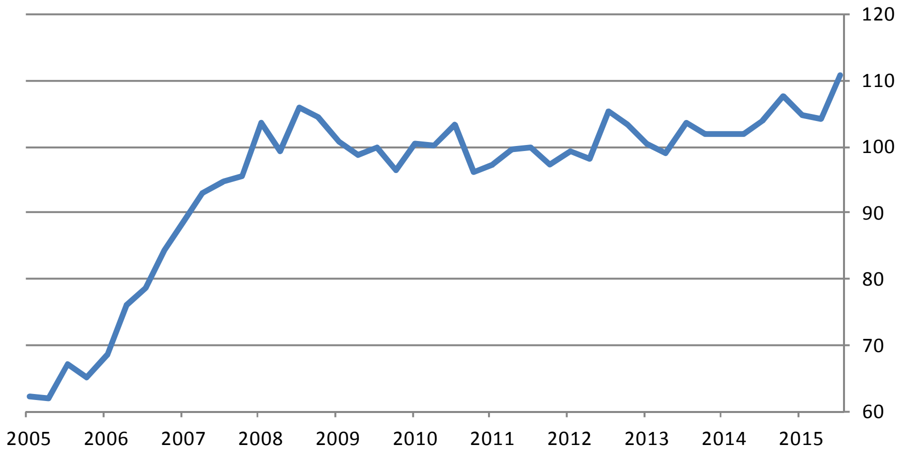
**CHART I: CHANGE IN PROPERTY PRICES**




*Source: Central Bank of Malta*

Eurostat's House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q3 2015 and shows that said prices increased by 6.7% compared with the same quarter of 2014 (*vide* Charts II below).

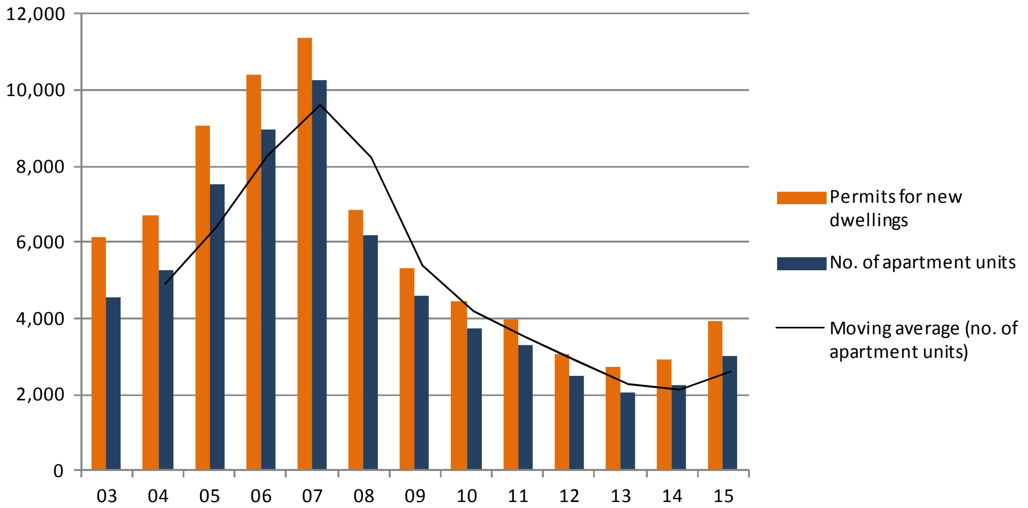
**CHART II: MALTA HOUSE PRICE INDEX**




*Source: Eurostat*

With regard to the number of permits, the Malta Environment and Planning Authority issued 3,947 permits during 2015, over one-third more than in 2014. This followed growth of 8.6% in 2014, marking two consecutive years of growth following a period of decline. The increase in permits issued in 2015 was mostly driven by the largest residential category, namely apartments, which accounted for just over three-fourths of total permits granted.

## CHART III: DEVELOPMENT PERMITS FOR DWELLINGS




*Source: Malta Environment & Planning Authority*

The gross value added of the construction industry rose significantly, going up by 9.0% in nominal terms during 2015 (from €296 million to €322 million), following an increase of just 0.9% in 2014. This reflected robust growth in the output of the construction sector.

As a consequence, the expansion in output in the sector was mirrored in employment data. In the first nine months of 2015, total employment in the construction sector rose compared with the corresponding period average in 2014. As a result, the industry's share in the total gainfully occupied population rose to 6.1% from 5.7% in 2014. Employee compensation in the construction sector rose by 2.5% in 2015, when compared with growth of 1.1% in 2014. Notwithstanding this, the construction sector recorded improved profitability.

| **Construction Activity Indicators**[1] | **2013** | **2014** | **2015** |
|---|---|---|---|
| **Gross value added (€'million)** | **293** | **296** | **322** |
| Share of gross value added in GDP (%) | 3.8 | 3.7 | 3.7 |
| **Total employment**[2] | **11,488** | **9,263** | **10,376** |
| of which private employment | 8,807 | 8,962 | 9,250 |
| Share of total gainfully occupied population (%) | 7.3 | 5.7 | 6.1 |

*[1] Employment data are averages for the first nine months of the year, and are sourced from administrative records.*

*[2] The decline in total employment in the construction sector in 2014 reflects the reclassification of employeess within the public sector following changes in ministerial responsibilities.*

*Source: NSO*

National statistics relating to commercial property in Malta are currently not captured and therefore it is more difficult to gauge the health of this sector. Notwithstanding the lack of such data, general business sentiment and the continued drive to promote Malta as a regional hub for the provision of business related services, notably in the financial, i-gaming, back-office services, information technology, aircraft registration and maritime has continued to generate a positive trend in the commercial property sector, in particular office space. In addition, Malta's highly skilled and competitive labour costs have also been vital in sustaining this success. This view is substantiated when assessing the lack of availability of large office and commercial space, as well as, the number of projects earmarked for development and set to commence in the near future.

# PART 2 – COMPANY PERFORMANCE REVIEW

**The projected financial statements detailed below relate to events in the future and are based on assumptions which the Company 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.**

## 5. FINANCIAL INFORMATION

The following financial information is extracted from the audited financial statements of Pendergardens Developments p.l.c. (the "**Issuer**") for the period 5 November 2012 (being the date of incorporation) to 31 December 2013 and the financial years ended 31 December 2014 and 31 December 2015. The financial information for the year ending 31 December 2016 has been provided by the Company.

| **Pendergardens Developments p.l.c. Income Statement**<br>**for the year ended 31 December** | **2013**<br>**Actual**<br>**€'000** | **2014**<br>**Actual**<br>**€'000** | **2015**<br>**Actual**<br>**€'000** | **2016**<br>**Forecast**<br>**€'000** |
|---|---|---|---|---|
| Revenue, net of commissions | - | - | 8,196 | 9,086 |
| Net operating expenses | (25) | (560) | (8,195) | (8,657) |
| **EBITDA** | **(25)** | **(560)** | **1** | **429** |
| Bond amortisation costs and bank charges | (1) | (321) | - | - |
| Realised gains on financial assets | - | - | 3,394 | - |
| Net finance costs | - | 36 | (57) | (119) |
| **(Loss)/profit before tax** | **(26)** | **(845)** | **3,338** | **310** |
| Taxation | - | - | (189) | (405) |
| **(Loss)//profit for the year** | **(26)** | **(845)** | **3,149** | **(95)** |
| **Other comprehensive income** | | | | |
| Fair value gains on financial investments | - | 2,251 | (1,929) | (322) |
| **Total comprehesive income (expense) for the year net of tax** | **(26)** | **1,406** | **1,220** | **(417)** |

| Pendergardens Developments p.l.c. Cash Flow Statement for the year ended 31 December | 2013 Actual €'000 | 2014 Actual €'000 | 2015 Actual €'000 | 2016 Forecast €'000 |
|---|---|---|---|---|
| Net cash from operating activities | (3,387) | (11,019) | (3,179) | (9,263) |
| Net cash from investing activities | - | (4,895) | - | - |
| Net cash from financing activities | 11,634 | 9,812 | 7,125 | 4,997 |
| **Net movement in cash and cash equivalents** | **8,247** | **(6,102)** | **3,946** | **(4,266)** |
| Cash and cash equivalents at beginning of year | - | 8,247 | 2,145 | 6,091 |
| **Cash and cash equivalents at end of year** | **8,247** | **2,145** | **6,091** | **1,825** |

| Pendergardens Developments p.l.c. Balance Sheet as at 31 December | 2013 Actual €'000 | 2014 Actual €'000 | 2015 Actual €'000 | 2016 Forecast €'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Inventories - development project | 8,718 | 28,913 | 29,816 | 40,331 |
| Trade and other receivables | 1,775 | 8,815 | 5,409 | 4,600 |
| Available-for-sale investments | - | 21,918 | 16,259 | 9,114 |
| Taxation | - | - | 460 | 699 |
| Cash and cash equivalents | 8,247 | 2,145 | 6,091 | 1,825 |
| Sinking fund reserve | - | - | - | 101 |
| **Total assets** | **18,740** | **61,791** | **58,035** | **56,670** |
| **EQUITY** | | | | |
| **Equity and reserves** | **3,274** | **10,459** | **11,679** | **11,261** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings | 11,679 | 41,320 | 41,389 | 41,461 |
| | 11,679 | 41,320 | 41,389 | 41,461 |
| **Current liabilities** | | | | |
| Borrowings | - | 2,015 | - | - |
| Trade and other payables | 3,787 | 7,997 | 4,967 | 3,948 |
| | 3,787 | 10,012 | 4,967 | 3,948 |
| | **15,466** | **51,332** | **46,356** | **45,409** |
| **Total equity and liabilities** | **18,740** | **61,791** | **58,035** | **56,670** |

In FY2015, the Company generated revenue of €8.2 million principally from disposal of residential units in Block 16. Although the value of preliminary sale agreements of Block 16 residential units achieved was higher than projected, the conclusion of contracts of sales was at a slower pace than projected. Therefore net operating expenses for the year was almost equal to said revenue and as such EBITDA amounted to only €1,000. Overall, profit for the year amounted to €3.1 million primarily due to gains of €3.4 million realised on disposal of financial assets. It is observed that during the development phase interest payable is capitalised in the balance sheet as part of property inventory. Since Block 16 was substantially complete at the end of November 2015 interest payable amounting to €57,000 was recognised in the income statement in FY2015

In FY2016, the Company is projecting net revenue of €9.1 million as a result of further sales of Block 16 units, and is expected to register EBITDA of €0.4 million. The Company is forecasting a profit for the year of €0.3 million before accounting for a tax charge of €0.4 million, and a loss for FY2016 of €95,000.

*Variance Analysis*

| **Pendergardens Developments p.l.c. Income Statement for the year ended 31 December** | **2015 Actual €'000** | **2015 Forecast €'000** | **Variance €'000** |
|---|---|---|---|
| Revenue, net of commissions | 8,196 | 10,912 | (2,716) |
| Net operating expenses | (8,195) | (10,515) | 2,320 |
| **EBITDA** | **1** | **397** | **(396)** |
| Bond amortisation costs and bank charges | - | - | - |
| Realised gains on financial assets | 3,394 | 3,387 | 7 |
| Net finance costs | (57) | - | (57) |
| **(Loss)/profit before tax** | **3,338** | **3,784** | (446) |
| Taxation | (189) | (102) | (87) |
| **(Loss)//profit for the year** | **3,149** | **3,682** | **(533)** |
| **Other comprehensive income** | | | - |
| Fair value gains on financial investments | (1,929) | (2,251) | 322 |
| **Total comprehesive income (expense) for the year net of tax** | **1,220** | **1,431** | **(211)** |

As presented in the above table, the Company recognised lower revenue in FY2015 than forecasted by €2.7 million. This was due to the fact that, although the value of signed preliminary sale agreements is higher, contracts of sale were signed at a slower pace than expected As a result actual profit for FY2015 was lower than forecasted by €0.5 million.

Consequently, it is anticipated that revenue for FY2016 will be higher than initially projected as the preliminary sale agreements entered into in FY2015 are converted into sale contracts during the said financial year. Furthermore, it is expected that sale contracts for the remaining residential units in Block 16, other than one unit, will be entered into during FY2016.

The key accounting ratios are set out below:

| Key Accounting Ratios | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|
| Operating profit margin<br>*(EBITDA/revenue)* | n/a | n/a | 0% | 5% |
| Net profit margin<br>*(Profit after tax/revenue)* | n/a | n/a | 38% | -1% |
| Earnings per share (€)[1]<br>*(Profit after tax/number of shares)* | -0.00 | -0.09 | 0.35 | -0.01 |
| Net assets per share (€)[1]<br>*(Net asset value/number of shares)* | 0.36 | 1.15 | 1.29 | 1.24 |
| Asset cover ratio (times)<br>*(Inventories plus receivables less current liabilities/net debt)* | 1.95 | 1.44 | 1.59 | 1.35 |
| Gearing ratio<br>*(Total net debt/net debt and shareholders' equity)* | 51% | 65% | 62% | 73% |

[1] *Calculation is based on the current number of shares in issue of 9,079,000 shares of €1 each.*

*Source: Charts Investment Management Service Limited*

The gearing ratio demonstrates the degree to which the capital employed in a business is funded by external borrowings as compared to shareholders' funds. A company with high leverage tends to be more vulnerable when its business goes through a slowdown. At a leverage of 62%, the Company's capital is funded to a higher degree from external debt as opposed to shareholders' funds. Due to the nature of property companies this ratio is typically on the high side especially in the initial years, when the focus is more on construction rather than sales. Accordingly, the Company's gearing level is projected to increase gradually in 2016 and 2017 as the Company utilises the net bond proceeds in the construction of Phase II. It is expected that leverage will peak at *circa* 79% by the end of 2017 and should gradually decrease thereafter as sales proceeds start accruing from Block 17 and Towers I & II.

As progress is made on the construction of Phase II, the cash balances of the Company will decrease, and as mentioned above, will result in an increase in gearing levels over the next two years. The cash balances will be deployed on construction works and therefore converted to asset value, as illustrated by the asset cover ratio. The ratio measures a company's ability to cover its debt obligations with its assets. In the case of the Company, its debt of €42 million (and hence the amount of available cash net of bond expenses) is earmarked for the development of Phase II and will therefore be reflected in the balance sheet as units held for resale once the said property is completed. The asset cover is projected at 1.35x in FY2016, and should remain stable at this level throughout the construction phase to FY2017. The asset cover will increase on completion of works in FY2018 and thereafter until the redemption of both bonds. The projected asset cover calculations exclude the effect of the expected uplift in property value upon completion of works in FY2018.

# 6. RESERVE ACCOUNT

In terms of the Prospectus, the Company is required, through the Security Trustee, to build a reserve fund the value of which will by the respective redemption date of each Bond be equivalent to 100% of the outstanding value of the Bonds. The transfers to the reserve fund shall be based on a fixed percentage of net sales proceeds received upon the signing of sales contracts (residential and commercial) as detailed below. For the purpose of the reserve fund transfers, net sales proceeds shall constitute the contract value excluding initial deposits received on preliminary sales agreements, and after deducting applicable sales commissions and provisional tax. Other income of the Company including rental income from the lease of commercial units and interest receivable on surplus funds will also be excluded from any obligations in relation to the reserve account.

Transfers to the reserve account shall be made as follows:

- The first €25 million of net sales proceeds will be retained by the Company for the specific purpose of meeting construction costs with respect to Block 17 and Towers I & II;
- The following €25 million of net sales proceeds will be allocated as to 90% to the Security Trustee and 10% to the Company; and
- Any further sales over and above the initial €50 million (detailed above) shall be allocated as to 95% to the Security Trustee and 5% to the Company.

Transfers to the reserve fund are expected to commence as from the second year from the date of issue of the bonds (that is FY2016), and the Company has undertaken to transfer a minimum amount of €100,000 in each of the years irrespective of whether the initial €25 million of net sales proceeds have been accumulated.

The Security Trustee may invest such monies received in the reserve account, subject to the following limitations:

(i) Any amount out of the reserve account may be applied against the re-purchase of the Secured Bonds in the market; and/or

(ii) Investment or re-investment in any in debt securities issued by or guaranteed by the Government of Malta or other member state of the European Union or the EEA or by an OECD sovereign state, without any currency exchange risk;

(iii) Subject to the limitations on amount set out below to deposit with a Bank licensed as a credit institution in Malta or any Member State of the European Union, provided that not more than 50 per cent of any amount standing to the credit of the reserve account, from time to time, shall be deposited with the same institution if the amount of the deposit exceeds the sum of €25 million;

(iv) Amounts not exceeding €10 million may be invested in debt securities admitted to listing and trading on a Regulated market in the European Union, provided that not more than €2 million may be exposed to one or more debt securities issued by the same issuer; and provided that such investment will not expose the reserve account to any currency exchange risk;

(v) An amount not exceeding €2 million may be advanced to any member of the Group, under terms and conditions which are at arm's length, provided that the reserve account remains in credit by at least another €2 million following such advance.

## 7. TREASURY MANAGEMENT

As reflected in the Balance Sheet outlined in section 5 above, the Company holds 'available-for-sale investments', which as at 31 December 2015 amounted to €16.3 million (FY2014: €21.9 million). Such investments are financed from cash balances not yet required for operations and primarily comprise Euro debt securities issued by the Government of Malta.

The Company's investment policy and strategy is set and monitored by an Investment Committee which is chaired by one of the independent Directors. Investments are liquidated whenever required for operating cash flow purposes.

# PART 3 - COMPARABLES

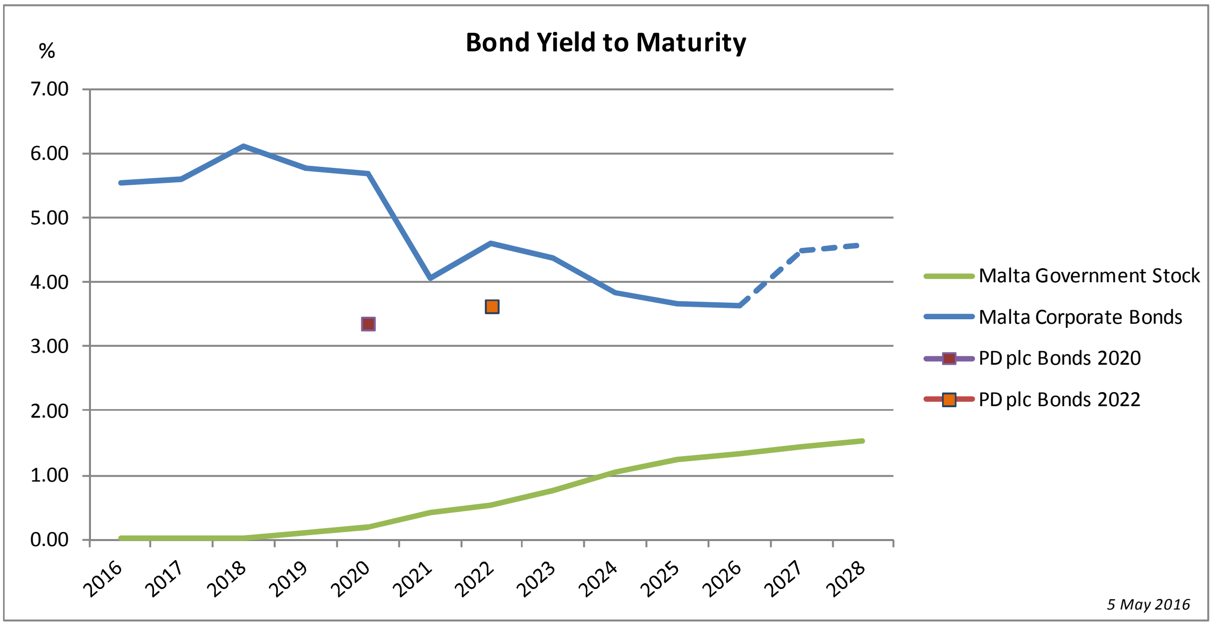
The table below compares the Company and its bond issues to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes all issuers (excluding financial institutions) that have listed bonds maturing in the medium term (within four to ten years). Although there are significant variances between the activities of the Company and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Company's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Company.

| Comparative Analysis | Nominal Value (€) | Yield to Maturity (%) | Interest Cover (times) | Total Assets (€'000) | Net Asset Value (€'000) | Gearing Ratio (%) |
|---|---|---|---|---|---|---|
| 6.8% Premier Capital plc € Bond 2017-2020 | 24,641,000 | 5.61 | 4.58 | 72,208 | 17,739 | 64.59 |
| **5.5% Pendergardens Developments plc Secured € 2020 Series I** | **15,000,000** | **3.36** | **n/a** | **58,098** | **11,734** | **61.87** |
| 6.6% Eden Finance plc 2017-2020 | 13,984,000 | 5.68 | 3.10 | 145,427 | 76,648 | 38.42 |
| **6% Pendergardens Developments plc Secured € 2022 Series II** | **27,000,000** | **3.63** | **n/a** | **58,098** | **11,734** | **61.87** |
| 6% AX Investments Plc € 2024 | 40,000,000 | 4.03 | 2.88 | 206,038 | 111,482 | 36.65 |
| 5.3% Mariner Finance plc Unsecured € 2024 | 35,000,000 | 3.76 | 3.49 | 67,669 | 25,823 | 57.66 |
| 5% Hal Mann Vella Group plc Secured Bonds € 2024 | 30,000,000 | 4.14 | 0.05 | 81,842 | 31,150 | 55.46 |
| 5.1% PTL Holdings plc Unsecured € 2024 | 36,000,000 | 3.84 | 2.32 | 70,543 | 6,592 | 86.78 |
| 4.5% Hili Properties plc Unsecured € 2025 | 37,000,000 | 3.46 | 1.50 | 90,867 | 26,315 | 71.30 |

*5 May'16*

*Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts Investment Management Service Limited*

The Company is engaged in the construction of immovable property and in accordance with international accounting standards, development stock is included in the balance sheet at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the land together with other costs incurred during its subsequent development. Therefore, interest payable attributable to the development phases of the project is not expensed in the profit and loss account but is capitalised and added to current assets. As a result, the interest cover ratio is not applicable in relation to the Company.




To date, there are no corporate bonds which have a redemption date beyond 2026 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

# PART 4 – EXPLANATORY DEFINITIONS

| | |
|---|---|
| **Income Statement** | |
| Revenue | Total revenue generated by the Company from its business activity during the financial year, that is, sale of units at Pendergardens. |
| Operating expenses | Operating expenses include the cost of construction and other related 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. |
| Profit after tax | Profit after tax is the profit made by the Company during the financial year both from its operating as well as non-operating activities. |
| **Profitability Ratios** | |
| 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. |
| **Equity Ratios** | |
| Earnings per share | Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date. |
| **Cash Flow Statement** | |
| Cash flow from operating activities | Cash generated from the principal revenue-producing activities of the Company. |
| Cash flow from investing activities | Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company. |
| Cash flow from financing activities | Cash generated from the activities that result in change in share capital and borrowings of the Company. |
| **Balance Sheet** | |
| Current assets | Current assets are all assets of the Company, which are realisable within one year from the balance sheet date. Such amounts include development stock, accounts receivable, cash and bank balances. |
| Current liabilities | All liabilities payable by the Company within a period of one year from the balance sheet date, and include accounts payable and short-term debt. |

| | |
|---|---|
| Net debt | Borrowings before unamortised issue costs less cash and cash equivalents. |
| Non-current liabilities | The Company’s long-term financial obligations that are not due within the present accounting year. The Company’s non-current liabilities include bonds and capital creditors. |
| Total equity | Total equity includes share capital, reserves & other equity components, and retained earnings. |
| **Financial Strength Ratios** | |
| Asset cover ratio | The asset cover ratio measures the ability of a company to cover its debt obligations with its assets, and is calculated by dividing a company’s inventory plus receivables less current liabilities by net debt. |
| Debt service cover ratio | The debt service cover ratio measures the amount of cash flow available to meet annual interest and capital repayments on debt obligations, and is calculated by dividing cash available for debt service by debt service obligations. |
| Interest cover | The interest coverage ratio is calculated by dividing a company’s operating profit of one period by the company’s interest expense of the same period. |
| Gearing ratio | The gearing ratio indicates the relative proportion of shareholders’ equity and debt used to finance a company’s assets, and is calculated by dividing a company’s net debt by net debt plus shareholders’ equity. |