Pendergardens Developments p.l.c.

Financial Analysis Summary

31 July 2015

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

31 July 2015

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 year ended 31 December 2014 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 years ending 31 December 2015 and 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.

CHARTS

WEALTH MANAGEMENT ▪ CORPORATE BROKING

(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

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PART 1

1. COMPANY'S KEY ACTIVITIES

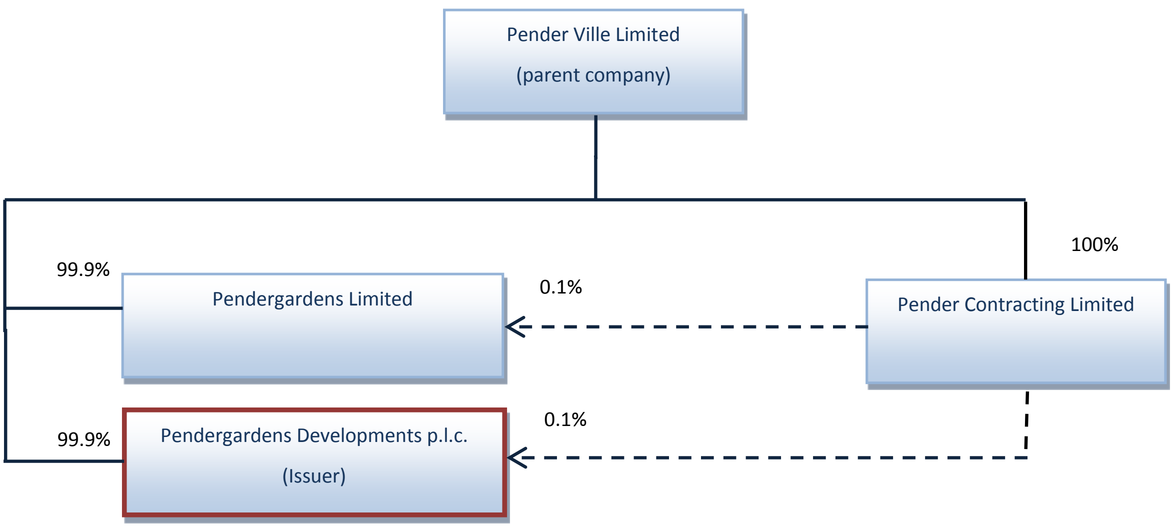
The principal activity of the Pendergardens Developments p.l.c. (the "**Company**" or "**Issuer**") is to carry on the business of a property development company. In January 2013, the Company acquired a plot of land forming part of Pendergardens and measuring *circa* 1,379m^2. Following the issuance of €12 million in debt securities in February 2013, the Company proceeded with the construction on said site of 46 residential apartments, 950m^2 of retail area and car park spaces ("**Block 16**").

Pursuant to a prospectus dated 5 May 2014, the Company raised €42 million to redeem the above-mentioned securities and to acquire a second parcel of land adjacent to Block 16 (having a footprint of 3,217m^2). Construction is currently underway to erect on said site two properties known as Block 17 and Towers I & II, and will include once completed 73 residential apartments, 7 floors of office space, commercial premises and car park spaces.

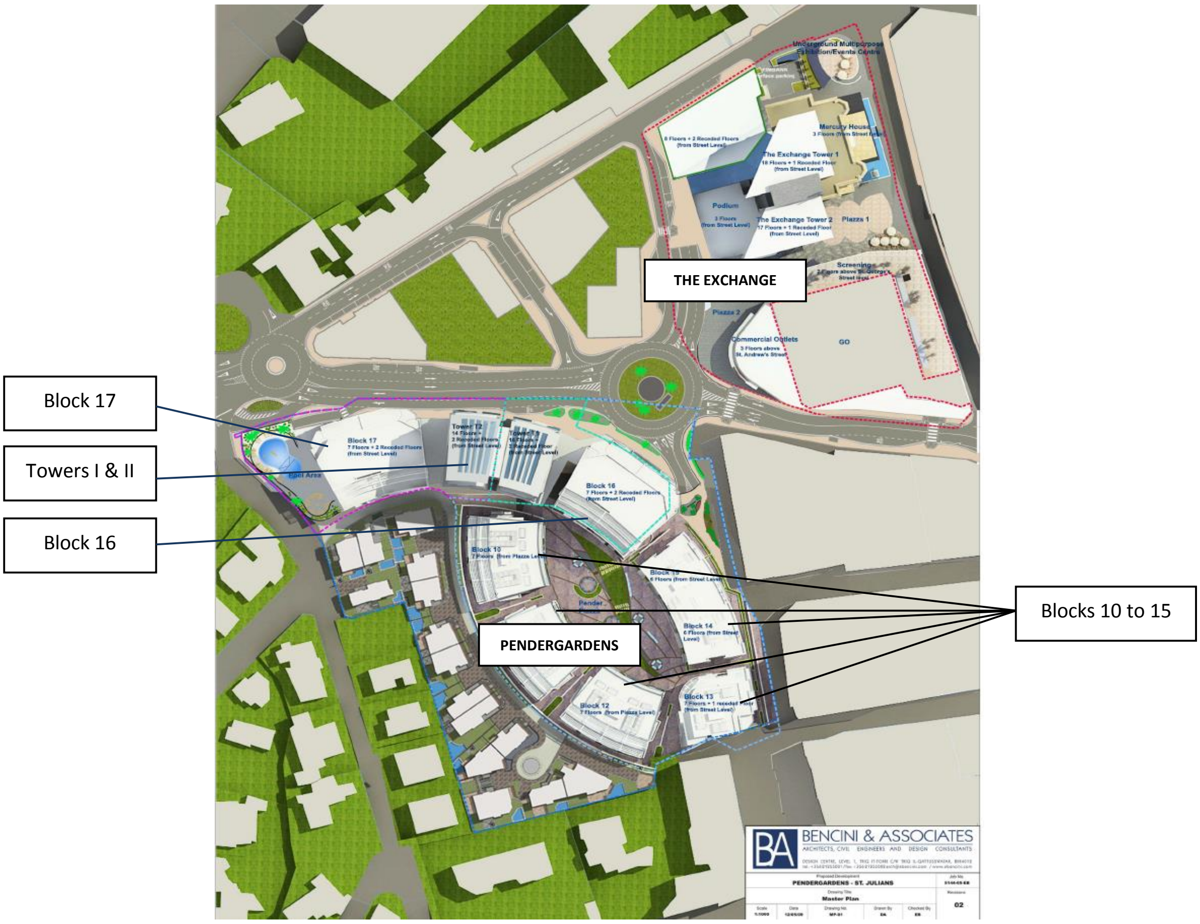
2. PENDERGARDENS GROUP

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 was not placed on the market due to its proximity to the Towers I & II which are yet to be built. It is currently being used by the Pendergardens Group as its head 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 was transferred in December 2012 to Pendergardens Developments p.l.c. The Company issued €12 million in debt securities and initiated construction of Block 16 in the first quarter of 2013.

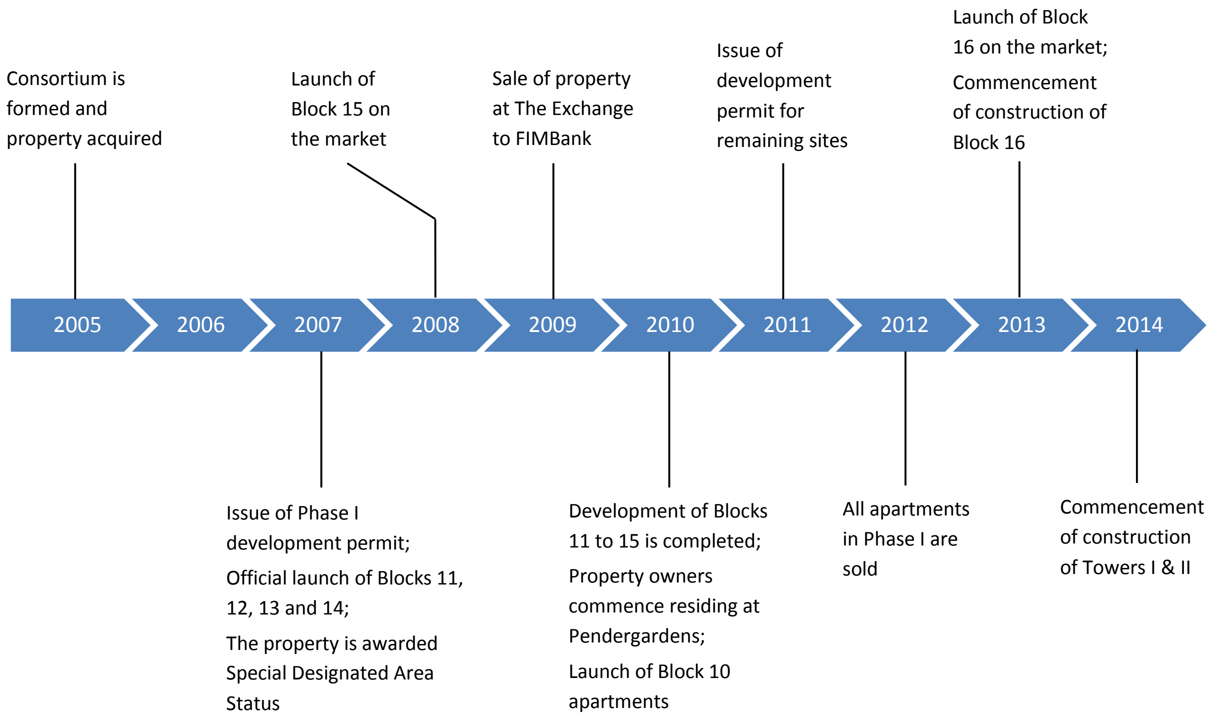
Pursuant to the bond offer in May 2014, which consisted of the issuance of €15 million 5.5% Secured Bonds 2020 and €27 million 6% Secured Bonds 2022, the Company acquired from Pender Ville Limited the last remaining parcel of land at Pendergardens measuring 3,217m^2 to construct and develop Block 17 and Towers I & II.

The Exchange is earmarked for commercial use and will be promoted as a financial and business centre. It will consist of 16,700m^2 of office space within two towers and 10,800m^2 of retail and leisure outlets fronting a large public piazza. In 2009, an area measuring 950m^2 was sold to FIMBank plc and the Pendergardens Group was entrusted with the construction of the property which was completed in 2012.

Pendergardens Limited is a subsidiary company of the Pendergardens Group and owns a portion of land measuring 4,300m^2 forming part of Pendergardens. 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 and The Exchange. Currently, the company is involved in the construction of Block 16 which is expected to be completed in 2015, and has initiated development of Block 17 and Towers I & II in the third quarter of 2014.

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 made available 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 Abela	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

Pendergardens Developments p.l.c. was incorporated in November 2012 to acquire from its parent company, Pender Ville Limited, a parcel of land measuring 1,379m^2 for the purpose of constructing and developing Block 16. The acquisition took place on 8 January 2013 for a total amount of €4,755,460. In consideration, the Company issued ordinary shares amounting to €3,294,460 and transferred the balance of €1,461,000 to a shareholder's loan account, which is unsecured and interest free.

In February 2013, the Company raised €12 million through an issuance of debt securities and entered into a fixed price contract with a fellow subsidiary, Pender Contracting Limited, for €10.02 million (excluding VAT) to construct and develop Block 16 over a period of 30 months.

When completed in September 2015, Block 16 will comprise 46 apartments, 4 levels of underlying car spaces and *circa* 950m^2 of retail area which will be split into a number of retail outlets depending on the requirements and specifications of prospective tenants. In aggregate, Block 16 will have a gross floor area of 16,404m^2.

Interest from prospective investors in Block 16 units has been positive and as at the date of this report, the Company has entered into preliminary sale agreements for 36 units, equivalent to final sales proceeds of €11.2 million (being 66% of expected revenue from Block 16). 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**	**PSA[1]**	**Remaining units**
1-bedroom unit	10	10	-
2-bedroom unit	16	16	-
2-bedroom duplex unit	2	-	2
3-bedroom duplex penthouse	2	-	2
3-bedroom duplex unit	14	8	6
3-bedroom penthouse	2	2	-
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	46	**36**	**10**
	====	====	====

[1] Units subject to preliminary sale agreements.

4.2 PHASE II – BLOCK 17 AND TOWERS I & II

Following the encouraging response received from the real estate market with the launch of Block 16 in 2013, the promoters of Pendergardens resolved in 2014 to proceed with the construction of the remaining parcel of land measuring 3,217m^2, known as Block 17 and Towers I & II, to complete the Pendergardens project.

In 2014, the Company entered into the following agreements:

- An agreement has been entered with Pender Ville Limited to acquire from Pender Ville Limited the site on which Block 17 and Towers I & II is being developed, and a novation agreement has been entered with Pender Ville Limited and Pender Contracting Limited to settle for works carried out on the subject site by Pender Contracting Limited, for an aggregate consideration of €13.27 million. The cash consideration amounted to €8.95 million and was settled out of the proceeds of the bond offer described in the Securities Note dated 5 May 2014. The remaining balance for the execution of the transaction of €4.32 million was settled through the issue of ordinary shares of the Company;
- A fixed price contract was concluded with Pender Contracting Limited for the construction and development of Block 17 and Towers I & II for an aggregate amount of €35.85 million. Pursuant to this contract, the stipulated price cannot be amended and accordingly, any cost overruns will be borne by Pender Contracting Limited;
- An agreement has been entered between the Company and Pender Ville Limited, whereby it was agreed that a shareholder's loan amounting to €1.46 million due to Pender Ville Limited is settled through the issue of ordinary shares to Pender Ville Limited in the Company.

Construction of Block 17 and Towers I & II is expected to be completed in the first semester of 2018. Both properties will have four levels of car park spaces below ground level, and two levels above ground of commercial and retail space totalling 14,637m^2. As from Level 1, Block 17 will comprise eight floors of residential units and Towers I & II will include seven levels of office space (6,564m^2) and a further eight levels of residential units. Tower II will extend for an additional two floors, which will be developed as duplex units. It is planned that the offices and residences in Towers I & II will maintain 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 as it will be marketed to a higher segment of client.

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	21		21
3-bedroom unit		28	28
3-bedroom duplex penthouse	2	2	4
	------	------	------
	43	**30**	**73**
	====	====	====

4.3 PHASE II – SALES STRATEGY AND PROJECTIONS

Phase II in the development of Pendergardens encompasses Block 16, Block 17 and Towers I & II. Block 16 and Block 17 residences will include 89 apartments ranging from 1-bedroom units to 3-bedroom duplex penthouses, while 28 3-bedroom units and 2 3-bedroom duplex penthouses are planned for Towers I & II.

Marketing of Block 16 units commenced in 2013 and as outlined in section 4.1 above, 36 out of 46 units are subject to preliminary sale agreements. As to the price range of units and level of finishes, the Directors were guided by the experience obtained in the past 6 years whilst marketing 149 apartments in Phase I. The launch of Block 17 residences, which is earmarked to take place in Q4 2015, will be based on the same strategy adopted for Block 16.

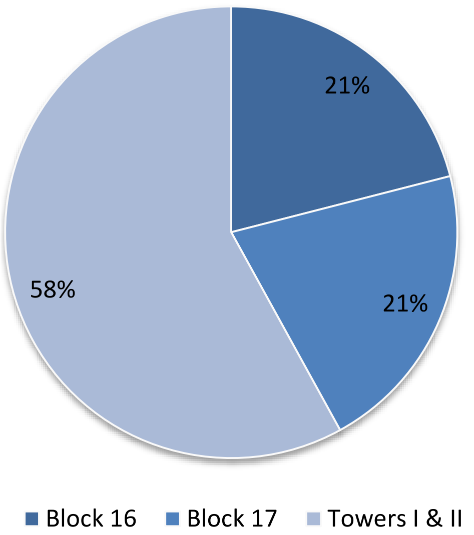
The pricing strategy for Towers I & II residences has been devised to target the higher-end of the market and the level of finish will be significantly superior to other part of the development, reflective of market expectations for such apartments. It is expected that Towers I & II apartments will be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

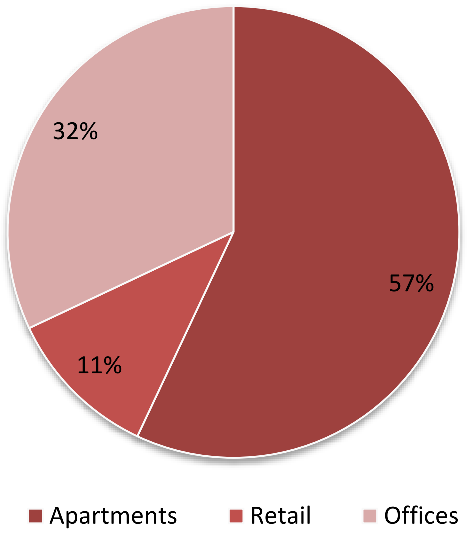
In addition to residential units, Phase II includes the development of a total commercial gross area of 15,973m^2. Block 16 and 17 will offer 7,189m^2 of gross retail space which will be segregated into retail outlets according to requirements of respective tenants. Towers I & II will encompass retail outlets (gross area of 2,220m^2) and 6,564m^2 (gross area) of office space spread on 8 floors. As the flagship property of Pendergardens, all common and external areas will be finished to a very high level and generators will be installed to provide power supply to the offices in the event of grid power failure.

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 137 car park spaces will be rented to a third party car park operator for use by the general public.

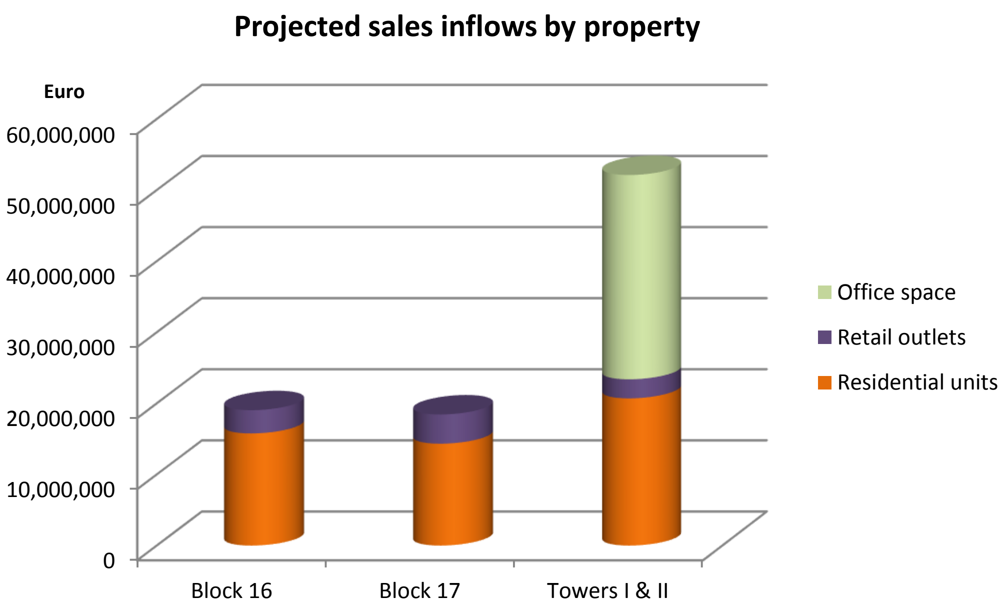
In total Phase II will comprise, when complete, 119 residential apartments, *circa* 4,500m^2 (net area) of commercial/retail area, *circa* 6,000m^2 (net area) of office space and 367 car park spaces, of which, 137 car park spaces will be leased to a third party operator. If this stock, excluding 137 car park spaces assigned for public parking, achieves the indicative sales prices formulated by management, the Company would generate from its realisation, total sales revenue of €84.86 million after deducting sales commissions. In the interim period until the office space is fully sold, the projections assume that the Company will offer such area on a lease basis and will generate revenue in the region of €3.67 million. The Company will also generate €1.09 million through the leasing of car park spaces.

The pie-charts below provide a segmental analysis of projected proceeds from sales & leases. The first pie-chart shows that of the 3 properties to be developed, the Company expects to generate 58% of total revenue from Towers I & II, whereas Block 16 and Block 17 are projected to contribute the same percentage amount of revenue (21%). As to the second pie-chart, the Company will be reliant mostly on sales of residential apartments (57%), followed by office space (32%) and retail space (11%).





On a per property basis, revenue generated from Block 16 and 17 will be predominantly derived from sales of residential units, as shown in the chart below. With respect to Towers I & II, sales revenue is largely expected to be realised from the disposal of apartments (40%) and office space (55%). In aggregate, revenue generated from the sale of retail outlets is expected to represent 11% of total income.



The following table illustrates the projected proceeds from sales and leases of units, net of applicable commissions, generated from Phase II.

PHASE II **Proceeds from sales and leases**	**2015** **€'000**	**2016** **€'000**	**2017-22** **€'000**	**Total** **€'000**
Apartments& car spaces	10,912	5,022	35,441	**51,375**
Commercial area & car spaces	-	1,063	32,416	**33,479**
	-----------	-----------	-----------	-----------
Total proceeds from sales (net of commissions)	**10,912**	**6,085**	**67,857**	**84,854**
Commercial leases	-	-	4,764	**4,764**
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Total proceeds (net of commissions)	**10,912**	**6,085**	**72,621**	**89,618**
	=======	=======	=======	======

The table below outlines the timeline for the construction of each of the three properties relating to Phase II of Pendergardens, and the expected sales tempo thereof.

4.4 PHASE II – PROJECT FUNDING

A breakdown of estimated development expenditure to complete Phase II as from 1 January 2015 and expected funding sources thereof is provided below:

Completion of Phase II	€'000
Expenditure programme	
Fixed price contracts: Block 16 (payments to completion)	(5,659)
Fixed price contracts: Block 17 and Towers I & II	(32,129)
Non refundable VAT on development costs (in development phase)	(4,198)
Net finance costs in construction period (2015-17)	(6,381)
Operating expenses in construction period (2015-17)	(251)
Total estimated cash outflows to completion of Phase II	**(48,619)**
Sources of funding	
Own funds – cash in hand as at 1 January 2015	2,145
Sales proceeds (net of commissions and provisional tax)	23,441
Net proceeds from Bond Issue	23,033
Total funding requirement	**48,619**

Funding requirements for the completion of Phase II are expected to amount to €48.62 million and will be mainly funded from net proceeds from Bond Issue, disposal of investments, own funds 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 €37.79 million. As from 1 January 2015 to date of completion of construction, it is expected that the Company will absorb non refundable VAT amounting to €4.20 million and projected net finance costs incurred during the construction period is estimated at €6.39 million.

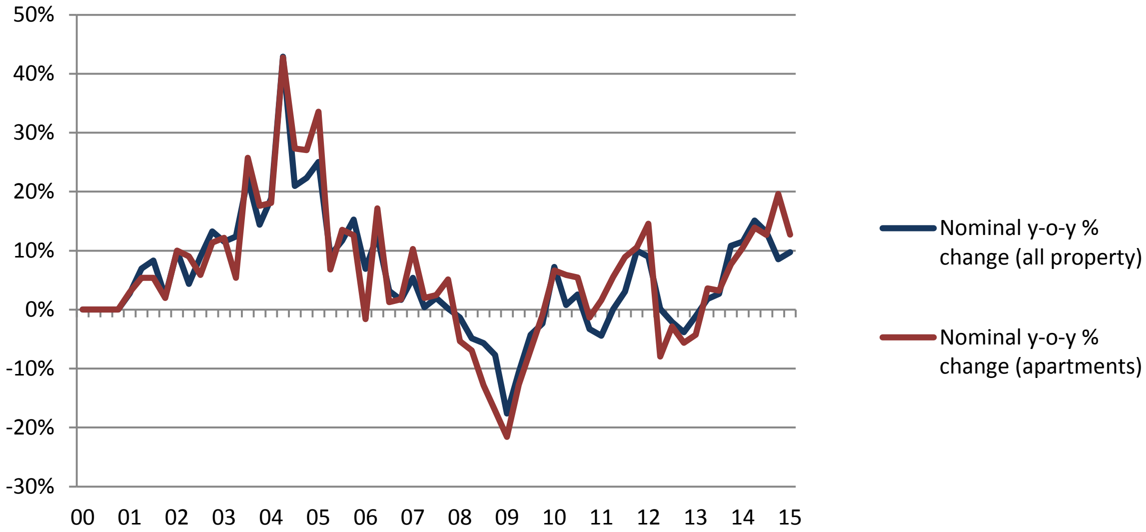
4.5 PROPERTY MARKET

Performance of the property market in Malta has been modest in the past few years and has not fully recovered from the sharp fall registered in 2009. However, certain niche areas such as higher quality properties were more resilient and continue to perform reasonably well, partly due to various incentives implemented by Government to encourage purchases by foreign investors.

Malta experienced a brief housing boom between 2002 and 2005, and continued to grow at a more normalised rate from 2005 to 2007. Similar to other European countries, the Maltese property market declined considerably in the following two years as a result of the global financial crisis. Performance in the years 2010 to 2013 was relatively stable but still significantly below activity levels registered in 2007.

An analysis of property price movements is shown in Chart I below and is based on the Central Bank of Malta's residential property price index, which tracks movements in advertised residential property prices. Maltese property prices have been rising for the past 7 quarters, after a short slump in late 2012. Malta's house price index rose by 14.1%, since Q4 2012 to Q1 2015, and apartment price index increased by 18.3% in the same period. On a yearly basis, property prices rose by 5.3% during the first quarter of 2015 (% change over the comparable quarter). Apartments and maisonettes experienced price hikes of 6.8% and 10.4% respectively, whilst terraced houses and other (consisting of townhouses, houses of character and villas) had a price drop of 5.41% and 1.54% respectively.

Chart I: Change in property prices



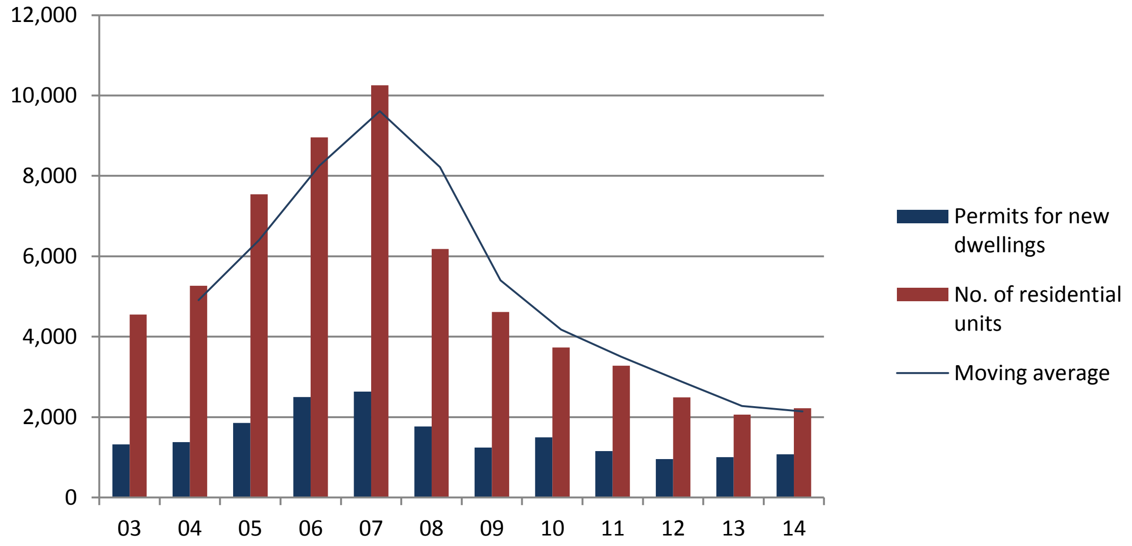
Source: Central Bank of Malta

New dwelling permits peaked in 2007, as depicted in Chart II below, with 2,636 permits issued during the said year, but declined thereafter at a constant rate to a ten-year low of 958 permits in 2012. A modest recovery was registered thereafter as permits increased by 12.1% to 1,074 in 2014. This increase was mostly driven by a rise in the largest residential category, namely apartments, which account for just over three-fourths of total permits issued. Permits for this type of property went up by 159, or 7.7% in 2014. On the other hand, permits for construction of the remaining property categories rose by 73 on aggregate. The total number of new dwelling permits is an indicator of the health of the construction sector, which is expected to remain weak but stable at least in the near term.

Over 2014, output in the construction sector reversed its declining trend as it rose by 1.4% in nominal terms compared with a drop of 3.2% in the previous year. Intermediate consumption, which includes purchases of materials for the industry, also recovered, though to a lesser extent. As a result, the gross value added of the construction industry rose by 1.6% compared with a decline of 2.0% in 2013.

Within the sector employees' compensation, consisting of wages & salaries and employers' social contributions, rose by 2.6% in 2014 compared with a decline of 2.3% in 2013. Moreover, the profit element rose by 1.0% against a decline of 2.8% in 2013.

Chart II: Development permits for dwellings



Source: Malta Environment & Planning Authority

National statistics relating to commercial property in Malta is currently not captured and therefore 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

5. 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.

5.1 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 year ended 31 December 2014. The financial information for the years ending 31 December 2015 and 31 December 2016 has been provided by the Company.

Income Statement (€'000)	**FY2016 Projection**	**FY2015 Forecast**	**FY2014 Actual**	**FP2013 Actual**
Revenue (net of sales commissions)	6,085	10,912	-	-
Net operating expenses	(5,615)	(10,515)	(560)	(25)
EBITDA	**470**	**397**	**(560)**	**(25)**
Bond amortisation costs and bank charges		-	(321)	(1)
Realised gains on financial assets	-	3,387	-	-
Net finance costs	(87)	-	36	-
Profit/(loss) before tax	**383**	**3,784**	**(845)**	**(26)**
Taxation	(322)	(102)	-	-
Profit/(loss) after tax	**61**	**3,682**	**(845)**	**(26)**
Other comprehensive income:				
Fair value gain on financial investments	-	(2,251)	2,251	-
Total comprehensive income	**61**	**1,431**	**1,406**	**-**

The key accounting ratios are set out below:

	FY2016	**FY2015**	**FY2014**	**FP2013**
Operating profit margin *(EBITDA/revenue)*	8%	4%	-	-
Net profit margin *(Profit after tax/revenue)*	1%	34%	-	-

Source: Charts Investment Management Service Limited

Statement of financial position (€'000)	31 Dec'16 Projection	31 Dec'15 Forecast	31 Dec'14 Actual	31 Dec'13 Actual
ASSETS				
Current assets				
Inventory – development project	40,040	30,485	28,913	8,718
Trade and other receivables	1,889	3,221	8,815	1,775
Available-for-sale investments	-	-	21,918	-
Cash and cash equivalents	15,927	23,148	2,145	8,247
Sinking fund reserve	101	-	-	-
Total current assets	**57,957**	**56,854**	**61,791**	**18,740**
EQUITY AND LIABILITIES				
Equity	**11,950**	**11,889**	**10,459**	**3,274**
Liabilities				
Non-current liabilities	41,503	41,409	41,320	11,679
Current liabilities	4,504	3,556	10,012	3,787
Total liabilities	**46,007**	**44,965**	**51,332**	**15,466**
Total equity and liabilities	**57,957**	**56,854**	**61,791**	**18,740**

The key accounting ratios are set out below:

	FY2016	FY2015	FY2014	FP2013
Net assets per share (€)	1.32	1.31	1.15	0.99
(Net asset value/number of shares)				
Gearing ratio (%)	68	61	65	53
(Net debt/net debt + shareholders' equity)				
Asset cover ratio (times)	1.44	1.60	1.44	1.79
(Inventory plus receivables less current liabilities/net debt)				

Source: Charts Investment Management Service Limited

The gearing ratio (net debt/net debt + equity) 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 65%, 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 between 2015 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* 75% 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 three 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 1.60x in FY2015 and 1.44x 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.

Cash Flow Statement (€'000)	FY2016 Projection	FY2015 Forecast	FY2014 Actual	FP2013 Actual
Net cash from operating activities	(5,248)	(1,987)	(11,019)	(3,387)
Net cash from investing activities	-	-	(4,895)	-
Net cash from financing activities	(1,973)	19,016	9,812	11,634
Net movement in cash and cash equivalents	**(7,221)**	**21,003**	**(6,102)**	**8,247**
Cash and cash equivalents at beginning of period	23,148	2,145	8,247	-
Cash and cash equivalents at end of period	**15,927**	**23,148**	**2,145**	**8,247**

Income Statement

The Company was incorporated on 5 November 2012 principally to develop and market Phase II of the Pendergardens project.

The Company incurred losses of €26,227 in its first period of operations and €845,002 in FY2014. This is typical of real estate companies set up purposely for the development and eventual sale of real estate property. The initial years of this Company have been characterised by losses given that properties were under construction and not released through a contract of sale. It is expected that Block 16 will be completed in FY2015 and as a result, the Company is expected to proceed with completing a number of sale contracts.

The Company is projecting that in FY2015 revenue generated from sale of residential units (Block 16), net of commissions, will amount to €10.9 million. In addition, during the said financial year the Company will register a realised gain on disposal of financial assets of €3.4 million. It is observed that during the development phase interest payable is capitalised in the balance sheet as part of property inventory, and as such has no impact on the income statement. Overall, it is expected that profit for the year (FY2015) will amount to €3.7 million.

In FY2016, the Company is projecting net revenue of €6.1 million, but after accounting for operating and finance costs, it is expected that profits will be negligible at €60,953.

Statement of financial position

The Company's statement of financial position as at 31 December 2014 indicates total assets, all of which are current, amounting to €61.8 million, made up of the following components: (i) inventory relating to the project under development (Block 16) at a carrying value of €28.9 million; (ii) trade and other receivables of €8.8 million; (iii) available-for-sale investments of €21.9 million; and (iv) cash and cash equivalents amounting to €2.1 million.

During the year ending 31 December 2015, a number of sale contracts are expected to be concluded on Block 16 as construction works come to an end. This will lead to a reduction in inventory of €9.8 million, representing the direct costs associated with the disposal of residential units affected in FY2015 and charged to the income statement. Conversely, construction of Block 17 and Towers I & II is projected to be well underway in the financial year under review and therefore an amount of €11.4 million in development costs is expected to be added to inventory, thus resulting in a net increase of €1.6 million. As at 31 December 2015, no material change is projected in equity and liabilities when compared to the previous year.

In FY2016, inventory is projected to decrease by €4.9 million as a result of property sales, and added value in inventory (further property development) should amount to €14.4 million.

Statement of cash flows

Net cash from operating activities in FP2013 to FY2016 principally comprise cash outflows relating to the construction of Phase II, and cash inflows on sale of residential units. Net cash used in investing activities in FY2014 represents acquisition of land of €4.9 million.

Net cash from financing activities includes the issuance of €12 million and €42 million in debt securities in FP2013 and FY2014 respectively. The principal outflows relate to the redemption of €12 million secured notes and acquisition of financial assets of €20.2 million. In FY2015 and FY2016, principal movements are expected to include the disposal of investments of €23.0 million and interest expense of €5.5 million.

5.2 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, 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 Company's projections envisage the receipt of *circa* €69 million in net sales proceeds between 2014 and 2022, of which, an aggregate amount of €42 million is required to meet the capital repayments of the two Bonds on their respective redemption dates.

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.

5.3 DEBT SERVICE COVER

The table below analyses the Company's projected cover on its debt service obligations:

Pendergardens Developments p.l.c. **Debt Service Cover** **(€'000)**	**Redemption of Bond I** **31 May 2020**	**Redemption of Bond II** **31 July 2022**
Projected net revenue	55,593	33,094
Net project outflows	(43,732)	(5,027)
Net proceeds from Bonds and sale of investments	23,033	-
Bond re-purchases[1], net of interest income	(1,140)	(850)
	--------	--------
Net cash flows for the period	**33,754**	**27,217**
Opening cash balance	2,145	9,502
Balance in reserve account	2,191	-
	--------	--------
Cash available for debt service	**38,091**	**36,719**
	--------	--------
Interest payable on Bonds	(13,589)	(4,592)
Redemption of Bond I	(15,000)	-
Redemption of Bond II (net of buybacks)	-	(23,871)
	--------	--------
Debt service obligations	**(28,589)**	**(28,463)**
	--------	--------
Debt service cover	**9,502**	**8,256**
	=====	=====
Debt service cover ratio	**1.33x**	**1.29x**
	=====	=====

[1] It has been assumed that the Company, through the Security Trustee, will buy-back an amount of €3.1 million of Bond II from the market with reserve fund proceeds.

The debt service cover ratio measures the ability of a company to service debt obligations from available cash flows. The analysis above indicates a surplus of €9.5 million on the Company's debt service obligations in the five year period to the redemption of Bond I on 31 May 2020, equivalent to a debt service cover ratio of 1.33x. In the subsequent two year period leading to the redemption of Bond II on 31 July 2022, the surplus on the Company's debt service obligations is expected to amount to €8.3 million, which is equivalent to a debt service cover ratio of 1.29x.

PART 3

6. COMPARABLES

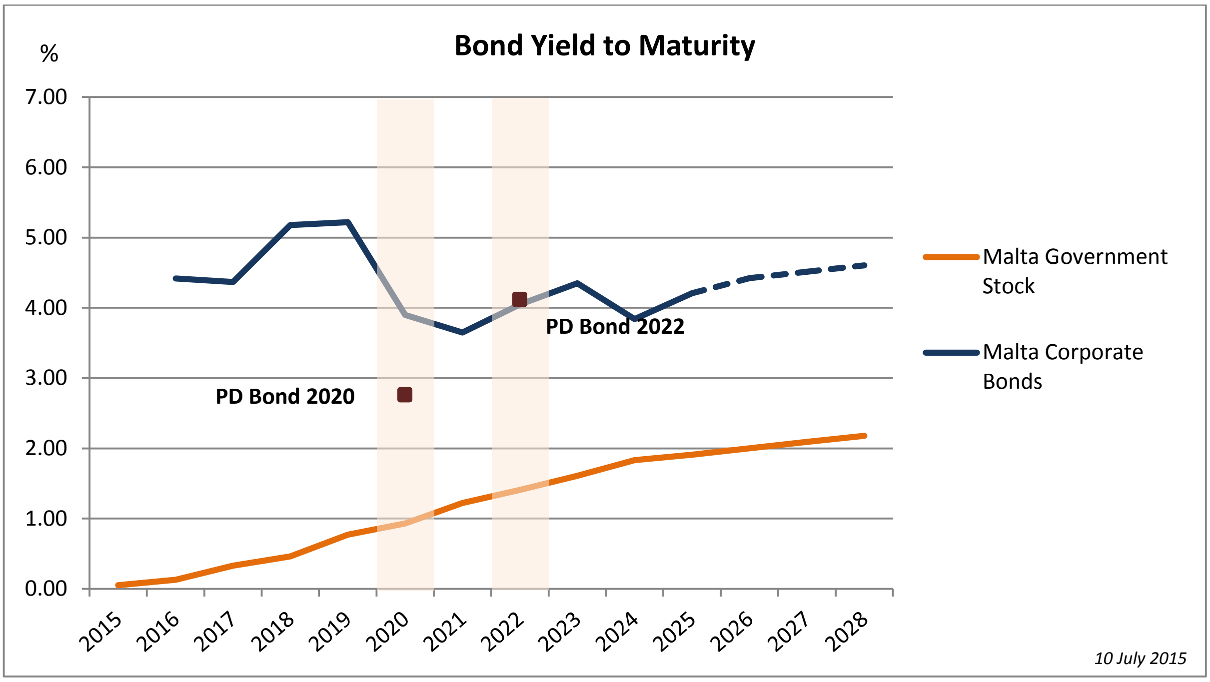
The table below compares the Company and its proposed bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes all issuers (excluding financial institutions) that have listed bonds maturing in the medium term (within five to seven years), similar to the duration of the Company's bonds. 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 (€'000)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'million)	Net Asset Value (€'million)	Gearing Ratio (%)
7% Midi plc 2016/18	31,703	5.18	n/a	191.67	60.43	87.12
6.8% Premier Cap. plc 2017/20	24,641	4.37	4.00	69.98	17.01	65.74
6.0% S. Farsons Cisk plc 2017/20	15,000	3.91	10.48	148.76	100.24	16.48
6.6% Eden Finance plc 2017/20	13,984	4.68	2.98	103.75	44.22	94.14
4.9% Gasan Finance plc 2019/21	25,000	3.65	1.93	187.81	83.93	37.68
6.0% Medserv plc 2020/23	20,000	4.35	5.36	80.84	9.47	72.44
5.5% Pendergardens Dev plc 2020	**15,000**	**2.84**	**n/a**	**61.79**	**10.46**	**64.82**
6.0% Pendergardens Dev plc 2022	**27,000**	**4.05**	**n/a**	**61.79**	**10.46**	**64.82**
5.8% IHI plc 2023	10,000	4.01	2.21	1,012.04	594.81	50.31

10 July 2015

Source: Malta Stock Exchange, Charts Investment Management Service Limited
Annual Accounts: Midi plc (YE 31/12/14), Eden Leisure Group Ltd (YE 31/12/14), International Hotel Investments plc (YE 31/12/2014), Simonds Farsons Cisk plc (YE 31/01/15), Premier Capital plc (YE 31/12/14),Gasan Group Ltd (YE 31/12/14), Medserv plc (YE 31/12/14), Pendergardens Developments plc (YE 31/12/14)

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. In replacement of the interest cover ratio, the debt service cover ratio is deemed more appropriate, as it measures the amount of cash flow available to meet annual interest and capital repayments on debt obligations. The debt service cover of the Company is analysed in section 5.3 above.



To date, there are no corporate bonds which have a redemption date beyond 2025 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. The premium over Malta Government Stock has been assumed at 242 basis points, which is the average premium for medium term corporate bonds. The PD 5.5% Bonds 2020 and PD 6.0% Bonds 2022 are currently trading at 191 and 264 basis points respectively above Malta Government Stock.

PART 4

7. 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.