PENDERGARDENS DEVELOPMENTS PLC

Annual Report and Financial Statements for the period ended 31 December 2013

Company Registration Number: C 58098

Directors' report

The directors present their report and the audited financial statements for the period ended 31 December 2013.

Incorporation

The company was incorporated on 5 November 2012 under the terms of the Maltese Companies Act, 1995. Accordingly, the financial statements of the company reflect the period from the date of incorporation to 31 December 2013.

On 22 January 2013, by way of a shareholders' resolution dated 16 January 2013, the company changed its status from that of a private company to that of a public limited company. Also with effect from such date, the company name changed from Pendergardens Developments Limited to Pendergardens Development p.l.c..

Principal activities

The company's principal activities are to acquire, develop and dispose of the immovable property or rights over such immovable property consisting of land and buildings known as 'Block 16' at Pendergardens in St. Julians, Malta.

Review of the business

In January 2013 the company acquired a parcel of land known as Block 16 and measuring 1,379m2 from Pender Ville Limited and awarded the 'Design and Build' construction contract for civil works to Pender Contracting Limited. Throughout the year several other finishing works contracts were negotiated and concluded. On the 6 February 2013 a non-listed secured Bond amounting to €12 million at an interest rate of 7% (2015-2019), was issued by the company and was over-subscribed.

In the first quarter of the year the company launched its sales and marketing campaign to place the development on the market and sell apartments and car spaces 'on plan'. By the end of 2013 twenty three (23) Preliminary agreements, with a total value of over € 6.5 million, were signed. These represent 50% of the available residential units. This is well ahead of projections.

Works on site continued throughout 2013 and at year end progress was according to schedule.

The Company is in currently in advanced negotiations to acquire land from a group company for the development of Block 17 and Towers I & II. The Company has plans to fund this development by a further issue of Bonds.

Results and dividends

The income statement is set out on page 12. The directors do not recommend the payment of a dividend.

Directors

The directors of the company who held office during the period were:

Mr Edmund Gatt Baldacchino - Chairman
Mr Edward Licari – Deputy Chairman
Mr John Attard
Mr Frank Xerri de Caro - resigned on 3 March 2014
Mr Philip Farrugia
Mr. Joseph F. X. Zahra - appointed on 3 March 2014

The company's Articles of Association do not require any directors to retire.

Directors' report - continued

Statement of directors' responsibilities for the Financial Statements

The directors are required by the Companies Act, 1995 to prepare Financial Statements which give a true and fair view of the state of affairs of the company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the Financial Statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Financial Statements of Pendergardens Developments plc for the period 5 November 2012 to 31 December 2013 are included in the Annual Report 2013, which is published in hard-copy printed form and may be made available on the company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of Financial Statements may differ from requirements or practice in Malta.

Going concern statement pursuant to Listing Rule 5.62

The Directors have a reasonable expectation, at the time of approving the Financial Statements, that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in the preparation of the Financial Statements.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in the office and a resolution for their re-appointment will be proposed at the Annual General meeting.

Directors' report - continued

Disclosures in terms of the Listing Rules

Pursuant to Listing Rule 5.64

Share capital structure

The Company's authorised and issued share capital amounts to €3,300,000 divided into 3,300,000 Ordinary shares of €1 each. The share capital consists of one class of ordinary shares with equal voting rights attached. No restrictions apply to the transfer of shares.

Holding in Excess of 5% of the Share Capital

On the basis of the information available to the Company as at 31 December 2013, Pender Ville Limited and Pender Contracting Limited held 3,295,959 and 4,041 shares, respectively, equivalent to 99.9% and 0.1% of the Company's issued share capital.

Shareholders holding at least 20% of the issued share capital having voting rights or a number of shareholders who between them hold not less than 20% of the issued share capital of the Company having voting rights, shall be entitled to appoint one director for every 20% holding. Other limitations of the voting rights of holders are contained in the Company's Articles of Association, Clause 55.

Appointment and Replacement of Directors

Board members are appointed for one year and are eligible for re-appointment at the Annual General Meeting.

Board Member Powers

The powers of the Board members are contained in Article 66 of the Company's Articles of Association.

The Articles of Association grant the Company the power to buy back its own shares in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta).

Contracts with Board Members and Employees

The Company has no contract with any of its Board members that includes a severance payment clause. The Company had no employees during the period ended 31 December 2013.

No disclosures are being made pursuant to listing Rules 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 as these are not applicable to the Company.

Directors' report - continued

Disclosure in terms of the Listing Rules - continued

Pursuant to Listing Rule 5.68

Statement by the Directors on the Financial Statements and Other Information included in the Annual Report

The directors declare that to the best of their knowledge, the financial statements included in the Annual Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit of the Company and that this report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

Mr. Edmund Gatt Baldacchino Chairman	Mr. Edward Licari Deputy Chairman

Registered office:
GB Buildings
Triq il-Watar
Ta' Xbiex XBX 1301
Malta

17 April 2014

Corporate Governance – Statement of Compliance

As at the date of signing of these financial statements, the Company's Bonds were not listed, however the directors have opted to prepare a Statement of Compliance in preparation for the issue of listed financial instruments during 2014. The Listing Rules issued by the Listing Authority of the Malta Financial Services Authority, require listed companies to observe The Code of Principles of Good Corporate Governance (the "Code"). Although the adoption of the Code is not obligatory, Listed Companies are required to include, in their Annual Report, a Directors' Statement of Compliance which deals with the extent to which the Company has adopted the Code of Principles of Good Corporate Governance and the effective measures that the Company has taken to ensure compliance with the Code, accompanied by a report of the auditors thereon.

Compliance

The Board of Directors (the "Board") of Pendergardens Developments p.l.c (the "Company") believe in the adoption of the Code and has endorsed them except where the size and/or particular circumstances of the Company are deemed by the Board not to warrant the implementation of specific recommendations. In this context it is relevant to note that as at 31 December 2013, the Company had issued bonds in the form of a private placement and plans to issue listed bonds during 2014. Furthermore, the Company has no employees. Accordingly some of the provisions of the Code are not applicable whilst others are applicable to a limited extent.

The Board

The Board of Directors is entrusted with the Company's day-to-day management, and is responsible for the execution of the Company's investments and the funding thereof, and the awarding of project contracts for the development of the Company's properties. It is also responsible for reviewing internal control procedures, financial performance and business risks facing the Company. The Board is also responsible for decisions relating to the redemption of the Bond, and for monitoring that its operations are in conformity with the Prospectus and all relevant rules and regulations.

Throughout the period under review, the Board regularly reviewed management performance. The Company has in place systems whereby the directors obtain timely information from the Chief Executive Officer, not only at meetings of the Board but at regular intervals or when the need arises.

Chairman and Chief Executive Officer

The functions of the Chairman and Chief Executive Officer are vested in separate individuals as recommended by the Code. The Chairman's main function is to lead the board, set the agenda and ensure that all board members partake in discussions of complex and contentious issues.

The Chief Executive Officer has specific authorities from the Board to manage the Company's operational activities within the strategy and parameters set by it.

Complement of the Board

The Board is composed of three non-executive directors and two independent non-executive directors, as listed below. The directors were appointed at the date of incorporation of the Company.

Corporate Governance – Statement of Compliance - continued

Non-Executive Directors

Mr Edmund Gatt Baldacchino - Chairman
Mr Edward Licari - Deputy chairman
Mr John Attard

Independent, Non-Executive Directors

Mr Frank Xerri De Caro - resigned on 3 March 2014
Mr Philip Farrugia
Mr. Joseph F. X. Zahra - appointed on 3 March 2014

Edmund Gatt Baldacchino, Edward Licari and John Attard hold similar non-executive positions with other companies of the Pender Group of which the Company is a member. For the purpose of the provisions of the Code, the Board considers Frank Xerri De Caro, Philip Farrugia and Joseph F.X. Zahra as independent.

Directors are appointed during the Company's Annual General Meeting for periods of one year, at the end of which term they may stand again for re-election. The Articles of Association of the Company clearly set out the procedures to be followed in the appointment of directors.

Internal Control

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to achieve business objectives and to manage rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material error, losses or fraud.

Authority to manage the Company is delegated to the Chief Executive Officer within the limits set by the Board of Directors. Systems and procedures are in place for the Company to control, report, monitor and assess risks and their financial implications, and to take timely corrective actions where necessary. Regular financial budgets and strategic plans are prepared, and performance against these plans is actively monitored and reported to the directors on a regular basis.

Directors' Attendance at Board Meetings

The Board believes that it has systems in place to fully comply with the principles of the Code. Directors meet regularly, mainly to review the financial performance of the Company and to review internal control processes. Board members are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting Board papers, which are circulated well in advance of the meeting. All the directors have access to independent professional advise at the Company's expense should they so require.

By virtue of the Memorandum and Articles of Association, the Directors are obliged to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with that of the Company. The Board member concerned shall not take part in the assessment by the Board as to whether a conflict of interest exists. A Director shall not vote in respect of any contract, arrangement, transaction or proposal in which he has a material interest.

Corporate Governance – Statement of Compliance - continued

Directors' Attendance at Board Meetings - continued

The Board met formally 8 times during the period under review. The number of board meetings attended by directors for the period ended 31 December 2013 is as follows:

Members	**Attended**
Edmund Gatt Baldacchino	8
Edward Licari	8
John Attard	8
Frank Xerri De Caro	8
Philip Farrugia	8
Joseph F. X. Zahra	- (appointed as director on 3 March 2014)

Committees

The directors believe that, due to the Company's size and operation, the remuneration, evaluation and nominations committees that are suggested in the Code are not required, and that the function of these can efficiently be undertaken by the board itself. However, the Board on an annual basis undertakes a review of the remuneration paid to the directors, and carries out an evaluation of their performance and of the audit committee. The shareholders approve the remuneration paid to the directors at the annual general meeting.

Audit Committee

The Board established an Audit Committee (the "Committee") and has formally set out Terms of Reference as outlined in the Principles laid out in the Listing Rules. The purpose of the Committee is to protect the interest of the Company's share and bond holders and assist the directors in conducting their role effectively. In the absence of an internal audit department, the Audit Committee also monitors the financial reporting process, the effectiveness of internal control, the audit of the annual financial statements and preserving the company's assets by understanding the company's risk environment and determining how to deal with those risks. Additionally it is responsible for monitoring that budgets are achieved and if not corrective action is taken as necessary. It also has the role and function of scrutinising and evaluating any proposed transaction to be entered into by the Company and a related party, to ensure that the execution of any such transaction is at arm's length and on a commercial basis and ultimately in the best interests of the Company.

The Members of the Audit Committee

All Directors of the Issuer sitting on the Audit Committee are of a non-executive capacity. Philip Farrugia acts as chairman, whilst Frank Xerri De Caro (until 3 March 2014), Joseph F.X. Zahra (from 3 March 2014) and Edmund Gatt Baldacchino act as members. In compliance with the Listing Rules, Philip Farrugia is the independent Non-Executive Director who is competent in accounting and/or auditing matters.

Philip Farrugia held senior management positions at HSBC Bank Malta p.l.c. including that of director of HSBC Home Loans (Malta) Ltd between 2000 and 2003 and executive director and chief technology and services officer of HSBC Bank Malta p.l.c. until his retirement in May 2012. During his employment with HSBC Bank Malta p.l.c. he sat on various senior bank committees. He is a non-executive director of HSBC Life Insurance (Malta) Limited and of HSBC Merchant Services Limited.

The Committee met 9 times during the period to 31 December 2013.

Corporate Governance – Statement of Compliance - continued

Remuneration Statement

In terms of the Company's Memorandum and Articles of Association, it is the shareholders of the Company in General Meeting who determine the maximum annual aggregate remuneration of the directors. The aggregate amount approved for this purpose during the last Annual General Meeting was €16,000 per annum.

None of the directors is employed or has a service contract with the Company.

No part of the remuneration paid to the directors is performance based, and the Chief Executive Officer of the Pender Group receives no additional remuneration. None of the directors, in their capacity as a Director of the Company, is entitled to profit sharing, share options or pension benefits

The directors received €18,667 in aggregate for services rendered during the period ended 31 December 2013.

Relations with bondholders and the market

The Company prepares annual financial statements. Following listing of the Company's financial instruments during 2014, the Company will publish its financial statements and when required will also publish company announcements. The Board feels these will provide the market with adequate information about its activities.

Conflicts of Interest

On joining the Board and regularly thereafter, directors and officers of the Company are informed and reminded of their obligations on dealing in securities of the Company within the parameters of law and Listing Rules. The Company has also set reporting procedures in line with the Listing Rules, Code of Principles, and internal code of dealing.

Signed on behalf of the Board of Directors on 17 April 2014 by:

Mr. Philip Farrugia
Director and Chairman of the Audit Committee

Mr. Edmund Gatt Baldacchino
Chairman

pwc

Independent auditor's report

To the Shareholders of Pendergardens Developments p.l.c.

Report on the Financial Statements for the period ended 31 December 2013

We have audited the financial statements of Pendergardens Developments p.l.c. on pages 11 to 29 which comprise the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements
As explained more comprehensively in the statement of directors' responsibilities for the financial statements on page 2, the directors are responsible for the preparation of financial statements that give true and fair view accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion the financial statements

- give a true and fair view of the financial position of the company as at 31 December 2013, and of its financial performance and its cash flows for the period then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

Report on Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the Directors.

Independent auditor's report - continued

Report on Corporate Governance - continued

We read the Statement of Compliance and considered the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the annual return.

We are not required to, and we do not, consider whether the board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 5 to 8 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

We also read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. Our responsibilities do not extend to any other information.

Report on Other Legal and Regulatory Requirements

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- The information given in the directors' report is not consistent with the financial statements.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers

78 Mill Street
Qormi
Malta

David Valenzia
Partner

17 April 2014

Statement of financial position

	Notes	As at 31 December 2013 €
ASSETS		
Current assets		
Inventory – development project	4	8,718,031
Trade and other receivables	5	1,774,873
Cash and cash equivalents	6	8,247,141
Total current assets		18,740,045
Total assets		18,740,045
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	7	3,300,000
Retained earnings		(26,227)
Total equity		3,273,773
Non-current liabilities		
Borrowings	8	11,679,237
Total non-current liabilities		11,679,237
Current liabilities		
Trade and other payables	9	3,787,035
Total current liabilities		3,787,035
Total liabilities		15,466,272
Total equity and liabilities		18,740,045

The notes on pages 15 to 29 are an integral part of these financial statements.

The financial statements on pages 11 to 29 were authorised for issue by the board of directors on 17 April 2014 and were signed on its behalf by:

Mr Edmund Gatt Baldacchino
Chairman

Mr Edward Licari
Deputy Chairman

Statement of comprehensive income

	Notes	Period from 5 November 2012 to 31 December 2013 €
Administrative expenses	10	(26,042)
Operating loss		(26,042)
Finance costs		(185)
Loss for the period – total comprehensive income		(26,227)
Earnings per share	13	(0.01)

The notes on pages 15 to 29 are an integral part of these financial statements.

Statement of changes in equity

	Note	Share capital €	Retained earnings €	Total €
Balance at 5 November 2012		-	-	-
Comprehensive income				
Loss for the period – total comprehensive income		-	(26,227)	(26,227)
Transactions with owners				
Proceeds from issue of share capital	7	3,300,000	-	3,300,000
Balance at 31 December 2013		**3,300,000**	**(26,227)**	**3,273,773**

The notes on pages 15 to 29 are an integral part of these financial statements.

Statement of cash flows

	Notes	Period ended 31 December 2013 €
Cash flows from operating activities		
Cash used in operations	14	(3,386,325)
Interest paid		(185)
Net cash used in operating activities		(3,386,510)
Cash flows from financing activities		
Proceeds from issue of shares		5,540
Proceeds from issue of bonds	8	12,000,000
Bond issue costs	8	(371,889)
Net cash used in financing activities		11,633,651
Net movement in cash and cash equivalents		(8,247,141)
Cash and cash equivalents at beginning of the period		-
Cash and cash equivalents at end of the period	6	**(8,247,141)**

The notes on pages 15 to 29 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

1.1 Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and comply with the Companies Act, 1995. The Financial Statements have been prepared under the historical cost convention.

The preparation of Financial Statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgment in the process of applying the companies' accounting policies (see Note 3 – Critical accounting estimates and judgments).

Standards, interpretations and amendments to published standards effective in 2013

In 2013, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2013. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies. The following standards have been adopted by the company during the current financial period:

Amendment to IAS 1, 'Financial statements presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether subsequently, they are potentially reclassifiable to profit or loss (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Company's accounting periods beginning after 1 January 2013. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact. The company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

1.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the board of directors, responsible for making strategic decisions. The board of directors considers the Company to be made up of one segment, that is raising financial resources from capital markets to finance the capital projects of the Company. All the Company's revenue and expenses are generated in Malta and revenue is mainly earned from the development of immovable property.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in these Financial Statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These Financial Statements are presented in euro, which is the company's functional currency and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary items, such as equities, are reported as part of the fair value gain or loss.

1.4 Financial assets

1.4.1 Classification

The company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets where acquired. Management determines the classification of its financial assets at initial recognition. The directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation at the end of each reporting period.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets - continued

1.4.1 Classification - continued

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Note 1.6 and 1.7).

1.4.2 Recognition and measurement

The company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Loans and receivables are initially recognised at fair value plus transaction costs. They are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

1.4.3 Impairment

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The group first assesses whether objective evidence of impairment exists. The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1. **Summary of significant accounting policies** - continued

1.5 Inventory – development project

The main object of the company is the development of a plot of land known as 'block 16'. This development is intended in the main for resale purposes, and is accordingly classified in the financial statements as inventory. Any elements of the project which are identified for business operation or long-term investment properties are transferred at their carrying amount to property, plant and equipment or investment property when such identification is made and the cost thereof can reliably be segregated.

The development is carried 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, including:

(i) The costs incurred on development works, including site clearance, excavation, construction, etc., together with the costs of ancillary activities such as site security.

(ii) The cost of various design and other studies conducted in connection with the project, together with all other expenses incurred in connection therewith.

(iii) Any borrowing costs, attributable to the development phases of the project.

The purchase cost of acquiring the land represents the cash equivalent value of the contracted price.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

1.6 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income.

1. **Summary of significant accounting policies** - continued

1.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and collateral accounts with banks.

1.8 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.9 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.10 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.12 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.13 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

1. **Summary of significant accounting policies** - continued

1.13 Revenue recognition - continued

(a) Sales of services

Revenue from services is generally recognised in the period the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

(b) Property related income

Property sales are recognised when the significant risks and rewards of ownership of the property being sold are effectively transferred to the buyer. This is generally considered to occur at the later of the contract of sale and the date when all the group's obligations relating to the property are completed and the possession of the property can be transferred in the manner stipulated by the contract of sale.

Amounts received in respect of sales that have not yet been recognised in the financial statements, due to the fact the significant risks and rewards of ownership still rest with the Company, are treated as payments received in advance and included with creditors: amounts falling due within one year.

Rentals receivable charged to tenants of immovable property are recognised in the period when the property is occupied.

(c) Interest income

Interest income is recognised for all interest-bearing instruments using the effective interest method.

1.14 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1. Summary of significant accounting policies - continued

1.15 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

1.16 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing inventory are capitalised as part of its cost. Borrowing costs are capitalized while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use or sale. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the Company's interest-bearing borrowings.

2. Financial risk management

2.1 Financial risk factors

The Company's activities potentially expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company did not make use of derivative financial instruments to hedge risk exposures during the current and preceding financial years. The board provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. The Company has no significant currency risk since substantially all assets and liabilities are denominated in Euro.

(ii) Cash flow and fair value interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its interest bearing financial instruments.

As at the reporting date, the Company holds significant fixed and floating rate interest-bearing deposits with local banks (Note 6).

The Company's interest rate risk principally arises from bank deposits subject to floating interest rates. Interest rates on these financial instruments are linked to reference rates such as Euribor or the respective banker's base rate. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments taking into consideration alternative positions at renewal date.

2. **Financial risk management** - continued

2.1 Financial risk factors – continued

(a) Market risk - continued

(ii) Cash flow and fair value interest rate risk - continued

Based on the analysis referred to above, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period as a measure of cash flow interest rate risk. An increase/decrease of 100 basis points would have increased/decreased the loss for the Company by €14,679 which principally takes into account the impact of this shift on the interest amounts arising on variable interest deposits as at 31 December 2013.

Borrowings are subject to fixed interest rates and principally consist of Bonds (Note 8).

Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be quite contained.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, investments, as well as credit exposures to customers, including outstanding receivables and committed transactions. The company's exposures to credit risk are analysed as follows:

	2013 €
Trade and other receivables (Note 5)	1,774,873
Cash and cash equivalents (Note 6)	8,247,141

The company banks only with local financial institutions with high quality standing. At 31 December 2013 the Company held €779k with two banks which had a rating of at least BB as per Fitch Rating agency and the rest of the cash and cash equivalents were held with a bank which is not rated.

At the period end, cash and cash equivalents amounting to €7,467,973 and which relate to proceeds from the Bond issue were held with Mediterranean Bank p.l.c. in the form of fixed term deposits and savings accounts. This material exposure is monitored frequently and rigorously by the board of directors.

The Company manages credit limits and exposures with debtors actively in a practicable manner. The Company's receivables principally comprise of an advance payment to the main contractor, a fellow subsidiary within the Pender Group for construction works being performed. Such amounts are fully performing and are not impaired.

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed in the respective notes to the financial statements. The Company does not hold any collateral as security in this respect.

(c) Liquidity risk

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally trade and other payables (refer to Note 9) and borrowings (refer to Note 8). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the company's obligations.

2. Financial risk management - continued

2.1 Financial risk factors – continued

(c) Liquidity risk - continued

The Company's main objective is to effectively and efficiently manage the construction and financing of Block 16 within the Pendergardens Development. In this regard, the Company is subject to the general market and economic risks which are beyond its control and that may have a significant impact on the Project and its timely completion. These risks include, but are not limited to factors such as the health of the local property market, inflation and fluctuations in interest rates, exchange rates, property prices and other economic and social factors affecting demand for real estate generally. In the event that these risks were to materialise they could have a significant impact on the liquidity and financial position of the Company. Within this context, the directors have evaluated the risks and continue to monitor closely the impact of events as they take place in the local and global economy and how these impact the business of the Company.

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows from the development and operation of the project. This includes reviewing the matching or otherwise of expected cash inflows and outflows arising from expected maturities of financial instruments in relation to the project. On the basis of these forecasts, management ensures that no financing facilities, additional to the existing Bonds and financing from the shareholders, are expected to be required in respect of the project. Liquidity risk is not deemed significant due to the Group's committed borrowing facilities that it can access to meet liquidity needs, coupled with financing from the shareholders as outlined above.

The Company's trade and other payables are principally repayable within one year from the end of the reporting period. Payments received on account under promise of sale agreements will be utilised upon delivery of the finished apartments.

The carrying amounts of the Company's assets and liabilities are analysed into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date in the respective notes to the financial statements.

	Expected cash flows (undiscounted)						
	Carrying amount	Contractual cash flows	On demand	Due within one year	Between 1 and 2 Years	Between 2 and 5 years	After more Than 5 Years
	€	€	€	€	€	€	€
31 December 2013							
Bonds (Note 8)	11,679,237	17,040,000	-	840,000	840,000	2,520,000	12,840,000
Trade and other payables (Note 9)	3,787,035	3,787,035	3,787,035	-	-	-	-
Total	**15,466,272**	**20,827,035**	**3,787,035**	**840,000**	**840,000**	**2,520,000**	**12,840,000**

The Company continues to assess its funding requirements to ensure that adequate funds are in place to meet its financial liabilities when they fall due.

2.2 Fair value estimation

At 31 December 2013 the carrying amounts of cash at bank, investments, receivables, payables, and accrued expenses approximated their fair values in view of the nature of the instruments or their short-term maturity.

The fair value of non-current borrowings is based on amortised cost representing proceeds received net of transaction costs incurred. The amortisation of transaction costs is calculated using the effective interest method.

2. Financial risk management - continued

2.3 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to comply with requirements of the Prospectus issued in relation to the 7% 2015 – 2019 bonds. In order to maintain or adjust the capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, or sell assets to reduce debt.

In preparing these financial statements the directors of the Company have made reference to the cash flow forecast of the Company covering the years 2013 to 2022. After making enquiries the Directors have ascertained that no further financing facilities are required in addition to the existing Bonds and financing from shareholders for the completion of Block 16 since funding for the construction and finishing of the block has been secured by means of the Bonds currently in issue.

The Company's equity, as disclosed on the face of the statement of financial position, constitutes its capital. The Company maintains its level of capital by reference to its financial obligations and commitments arising from operational requirements, taking cognisance of the level of gearing.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

	2013 €
Total borrowings (Bonds outstanding Note 8)	12,000,000
Less: cash and cash equivalents (Note 6)	(8,247,141)
Net debt	3,752,859
Total equity	3,273,773
Total capital	7,026,632
Gearing ratio	53.41%

The Company manages the relationship between equity injections from shareholders and borrowings, being the constituent elements of capital, as reflected above with a view to managing the cost of capital. The Company maintains its level of capital by reference to its financial obligations and commitments arising from operational requirements in relation to the different phases of the development project. In view of the nature of the Company's activities, the development stage of the distinct phase and the extent of borrowings or financing, the capital level as at the end of the reporting period is also deemed adequate by the directors.

3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgments made in the course of preparing these Financial Statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

4. Inventory – development project

	2013 €
Purchase cost of land and related development costs	4,755,460
Cost of design works and other studies, excavation, construction works, including borrowing costs	3,518,609
Non-recoverable value added tax	443,962
At 31 December 2013	8,718,031

5. Trade and other receivables

	2013 €
Current	
Accrued income	137,343
Advance payments – fellow subsidiary	1,586,513
Commissioner of value added tax	51,017
	1,774,873

Balances with the fellow subsidiary, the main contractor of the development project are unsecured and interest free.

6. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2013 €
Cash at bank	8,247,141

Cash and cash equivalents earn interest as follows:

	2013 €
At floating rates	1,861,933
At fixed rates	6,385,208
	8,247,141

7. Share capital

	2013
	€
Authorised, issued and fully paid up	
3,300,000 ordinary shares of €1.00 each	3,300,000

On 5 November 2012, the company issued and allotted to Pender Ville Ltd 1,500 ordinary shares with a nominal value of €1,500.

Subsequently, on 14 January 2013, by way of a shareholders' resolution, the Company issued 3,294,459 ordinary shares with a nominal value of €1 each to Pender Ville Ltd and 4,041 ordinary shares with a nominal value of €1 each to Pender Contracting Ltd. This resulted in a total share capital of €3,300,000.

8. Borrowings

	2013
	€
Non-current	
Bonds 2015 – 2019	11,679,237

The interest rate exposure of the company's borrowings is as follows:

	2013
At a fixed rate	
Bonds 2015 – 2019	7.0%

Maturity of long term borrowings:

	2013
	€
After more than 5 years	11,679,237
	11,679,237

	2013
	€
Bonds outstanding - proceeds	12,000,000
Gross amount of bond issue costs	371,889
	(51,126)
	320,763
Amortised cost and carrying amount	11,679,237

8. Borrowings - continued

In February 2013, the Company issued €12,000,000 7% Secured Bonds of a nominal value of €1,000 each, redeemable at par between 2015 and 2019 in the form of a private placement. Interest on the Notes is due and payable annually in arrears on 14 January of each year. The net proceeds are being used for the development of Block 16.

The Prospectus specifies that payment of the principal and interests thereon shall be secured by a general hypothec over all present and future assets of the Company and a special hypothec over the Hypothecated Property.

9. Trade and other payables

	2013
	€
Current	
Trade payables	25,812
Amounts due to parent	1,461,000
Amounts due to fellow subsidiary	22,712
Deposits on promise of sale agreements	650,600
Accruals	1,626,911
	3,787,035

Amounts due to the parent and fellow subsidiary are unsecured, interest free and are repayable on demand.

10. Expenses by nature

The operating loss is stated after charging the following:

	2013
	€
Directors remuneration	18,667
Professional fees	3,250
Stationery, printing & postages	1,815
Registration fee	2,310
	26,042

Auditor's fees

Fees charged by the auditor for services rendered during the financial period ended 31 December 2013 relate to the following:

	2013
	€
Annual statutory audit	2,750
	2,750

11. Directors' remuneration

	2013
	€
Salaries and other emoluments	18,667
	18,667

Directors' remuneration is paid to the Company's independent non executive directors.

12. Tax expense

No provision for Malta income tax has been made in these financial statements in view of the tax losses incurred.

The tax on the company's loss before tax differs from the theoretical amount that would arise using the basic tax rate applicable as follows:

	2013
	€
Loss before tax	(26,227)
Tax on loss at 35%	(9,179)
Disallowed expenses	9,179
Tax income	-

13. Earnings per share

Earnings per share is calculated by dividing the result attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2013
	€
Loss per share	(0.01)

14. Cash used in operations

Reconciliation of operating loss to cash used in operations:

	2013
	€
Operating loss	(26,042)
Adjustments for:	
Amortisation of Bond issue costs	51,126
Changes in working capital:	
Trade and other receivables	(1,774,873)
Trade and other payables	2,326,035
Inventory – development project	(3,962,571)
Cash used in operations	(3,386,325)

14. Cash used in operations - continued

Non-cash transactions
The principal non-cash transaction is the issue of shares as consideration for the acquisition of land and related development costs (Note 4).

15. Capital commitments

During the period ended 31 December 2013 the company has entered into capital commitments with various contractors for the development of Block 16. Outstanding contractual commitments as at period end amount to €6,468,717. Further amounts relating to the contracted project have been capitalised during 2013 within Inventory (Note 4).

16. Related party transactions

The company is owned by Pender Ville Limited and Pender Contracting Limited (Note 7) who are in turn ultimately owned and jointly controlled by United Group Limited, Silverline Investments Limited, B.S.&C. Investments Limited, Hal Mann Vellsix Group Limited, Kreativ Developments Limited and MICJON Company Limited. These entities and all the subsidiaries of the Pender Group are considered by the directors to be related parties.

In the ordinary course of its operations, the company purchases goods and services from companies forming part of the Pender Group. Remuneration paid to the independent non-executive Directors of the Company during the current period are disclosed in note 11. There were no loans advanced to the Directors during the current period.

Except for transactions disclosed or referred to previously, the following significant operating transactions, which were carried out principally with related parties, have a material effect on the operating results and financial position of the company:

	2013 €
Purchases of goods and services	
- Purchase of land and related development costs from ultimate parent	4,755,460
- Purchase of construction services from fellow subsidiary	2,686,749

Year-end balances with related parties, arising principally from the transactions referred to previously, are disclosed in Notes 5 and 9 to these financial statements. Bonds of the Company held by directors at 31 December 2013 amounted to €27,000.

17. Statutory information

Pendergardens Developments p.l.c. is a limited liability company and is incorporated in Malta.

The company's ultimate parent is Pender Ville Limited, a company registered in Malta, with its registered address at GB Buildings, 2nd Floor, 28, Watar Street, Ta' Xbiex XBX 1310, Malta.

The financial statements of the Company are included in the consolidated financial statements prepared by the Pender Ville Limited.