Financial Analysis Summary

19 June 2018

Issuer

Pendergardens Developments p.l.c.

(C58098)

CHARTS
WEALTH MANAGEMENT ▪ CORPORATE BROKING

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

19 June 2018

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 ("**Analysis**") 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 financial years ended 31 December 2015 to 31 December 2017, has been extracted from the audited financial statements of the Company for the periods in question.

(b) The forecast data of the Company for the year ending 31 December 2018 has been provided by management of the Company.

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

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

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

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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,

Evan Mohnani
Head – Corporate Finance

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PART 1 – COMPANY INFORMATION

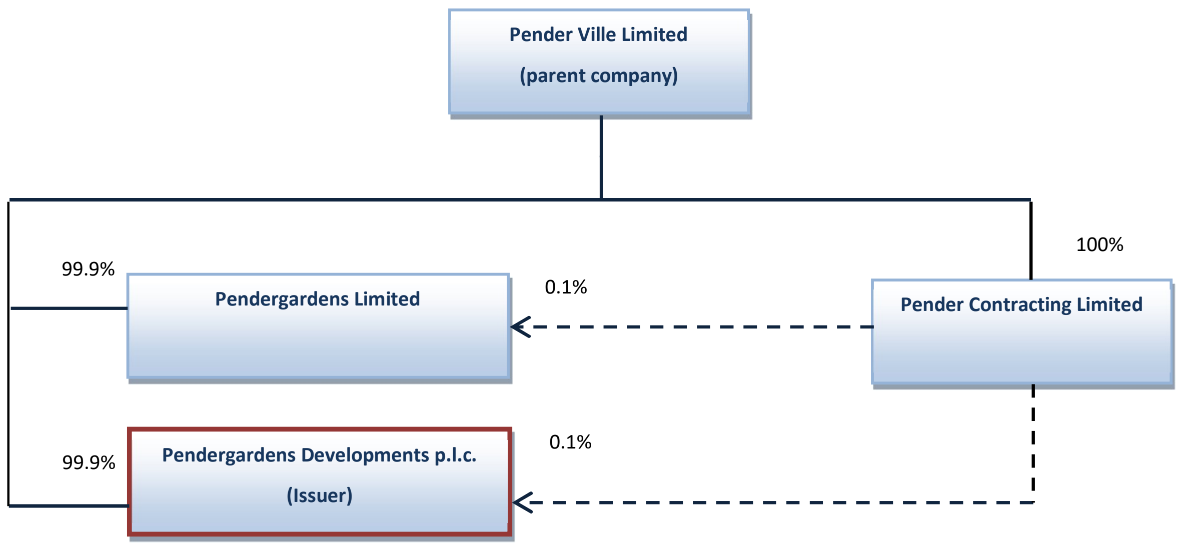
1. KEY ACTIVITIES

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

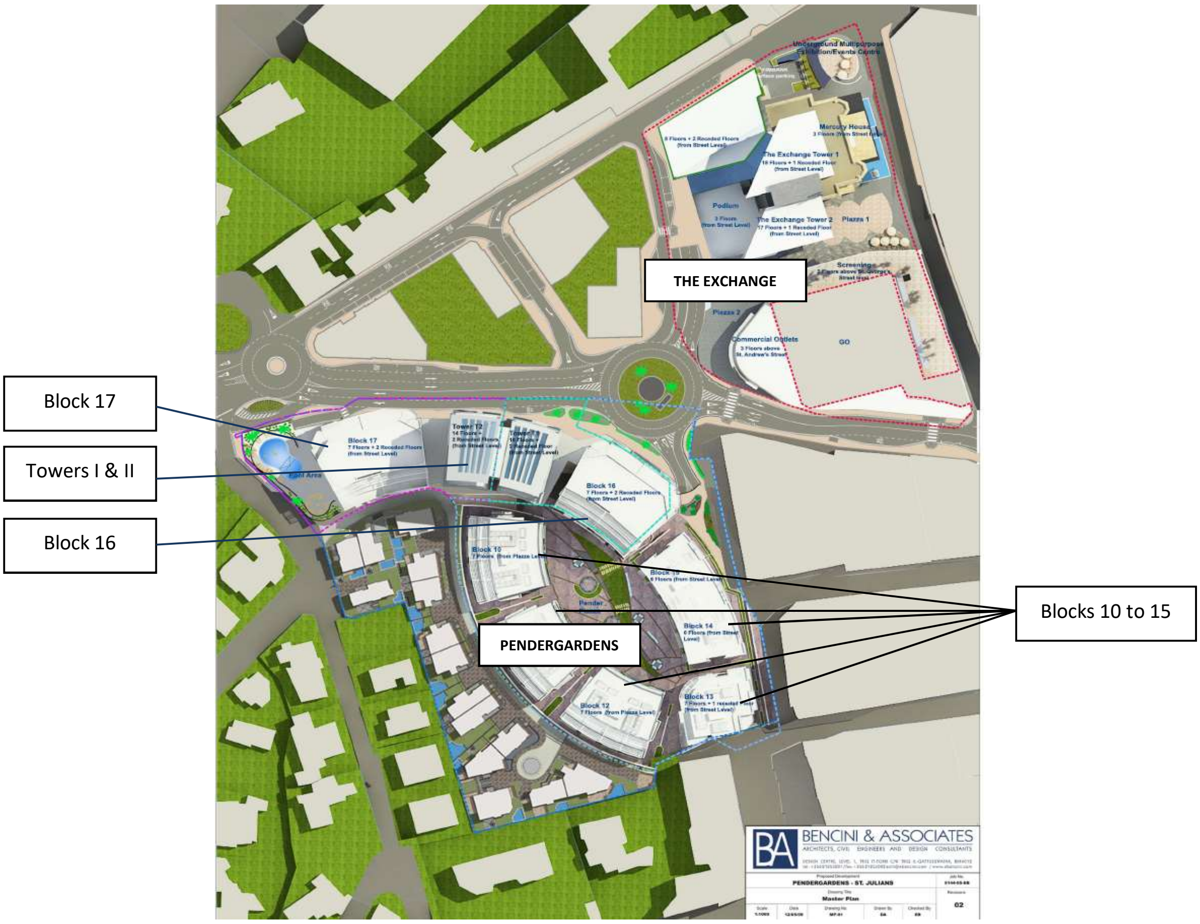
2. PENDERGARDENS GROUP

2.1 Organisational Structure

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



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



Site Plan: Pendergardens and The Exchange

Pender Ville Limited commenced development of 150 residential apartments spread over 6 blocks (known as Blocks 10 to 15) together with underlying car park spaces in the first quarter of 2007. All apartments were sold over a 6-year period, except for one apartment which is being used by the Pendergardens Group as an office. Total sales proceeds generated from the aforementioned sales amounted to €43.7 million.

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

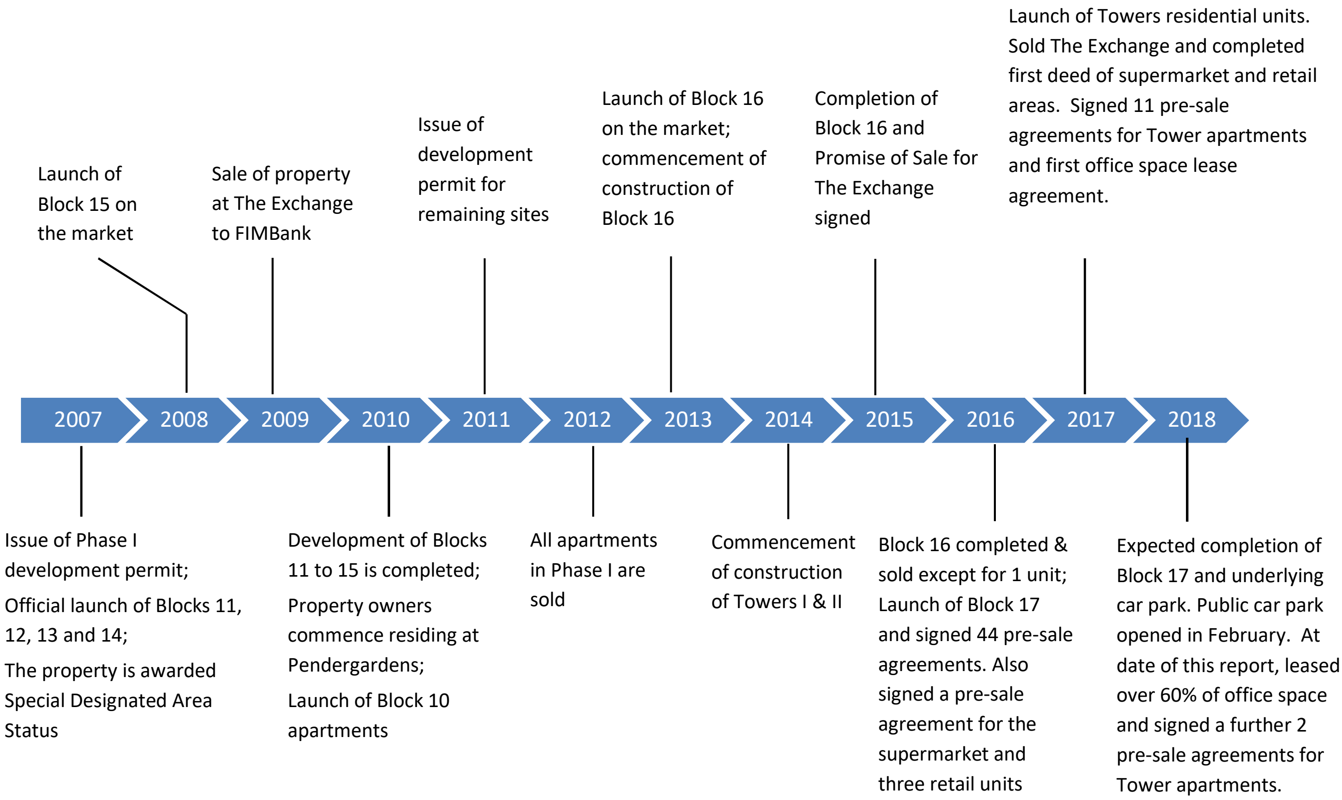
Pursuant to the bond offer in May 2014, which comprised the issuance of €15 million 5.5% Secured Bonds 2020 and €27 million 6% Secured Bonds 2022, the Company redeemed the afore-mentioned debt securities and acquired from Pender Ville Limited the last remaining parcel of land at Pendergardens measuring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

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

Between December 2016 and Q4 2017, Pender Ville Limited completed the sale of the site known as The Exchange to a third party acquirer. Furthermore, a portion of land (*circa* 4,300m^2) earmarked for the development of 15 detached and semi-detached villas, forming part of the Pendergardens development, has to date been sold to third parties, except for one villa plot which is subject to a preliminary sale agreement.

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

2.2 Key Events



3. DIRECTORS AND SENIOR MANAGEMENT

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

Board of Directors

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

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

Senior Management

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

4. CORPORATE GOVERNANCE

4.1 Internal Control

The Board appointed an independent internal auditor, Mr Ivan Fsadni, who attends audit committee meetings.

The Company's Board of Directors and Executive Management are responsible for establishing and maintaining an effective system of internal controls. The Internal Audit was set up as a tool to assess the effectiveness of such implemented controls and to provide to the Company's Board of Directors through the Audit Committee with an opinion on the effectiveness of the internal control and risk management framework within the company.

4.2 Attendance at Meetings

Board Meetings

The Board met formally ten times during the period under review. The number of board meetings attended by Directors during the year ended 31 December 2017 was as follows:

Members	***Attended***
Edmund Gatt Baldacchino	10
Edward Licari	9
John Attard	10
Philip Farrugia	10
Joseph FX Zahra	10

Audit Committee

All Directors of the Company sitting on the Audit Committee are of a non-executive capacity. Philip Farrugia acts as chairman, whilst Joseph FX Zahra and Edmund Gatt Baldacchino act as members. The Committee met ten times during the year ended 31 December 2017 and all members attended all meetings.

Investment Committee

The Investment Committee is made up of Joseph FX Zahra, who is the chairman of the Committee, Philip Farrugia and John Attard. The Committee, which met ten times during 2017, is entrusted with overseeing the Company's investment policy and making recommendations to the Board on the subject matter.

4.3 Other Information

Legal Advisors	Dr Massimo Vella of Vella Zammit McKeon Advocates
Auditors	PricewaterhouseCoopers
Security Trustee	Equinox International Limited

5. MAJOR ASSETS & OPERATIONAL DEVELOPMENT OF THE COMPANY

5.1 Phase II – Block 16

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

Block 16 comprises 46 apartments, 4 levels of underlying car spaces and *circa* 807m^2 of retail area. As at 31 December 2017, a total of 45 contracts of sale were signed having an aggregate sales value of €15.7 million. Only a 3-bedroom duplex penthouse remains available for sale.

5.2 Phase II – Block 17 and Towers I & II

In 2014, Pendergardens resolved to initiate construction of the remaining parcel of land measuring *circa* 3,217m^2 and known as Block 17 and Towers I & II. Both properties will comprise four levels of car park spaces below ground level, and two levels above ground of retail and office space all together totalling *circa* 15,000m^2. As from Level 2, Block 17 will have seven floors of residential units and Towers I & II will include seven levels of office space (lettable area of *circa* 5,200m^2) and a further eight levels of residential units. The top two floors of the Towers will be developed into two duplex penthouses. The offices and residences in Towers I & II will have separate entrances, lobbies and lifts.

As to the level of finishes, Block 17 will be similar to Block 16, whereas Towers I & II will have a level of finish superior to the other blocks.

5.3 Development Progress – Block 17 and Towers I & II

Development works on Towers I & II, Block 17 and the underlying commercial space and car park have been progressing well, but there has been a delay of *circa* 12 months from original timeline. As per the 2017 Financial Analysis Summary, completion of works was expected in 2018. Block 17 and the underlying car park are now expected to be completed by Q4 2018, while Towers I & II is expected to be completed during 2019.

5.4 Phase II – Sales Strategy and Projections

In May 2016, the Company launched on the market the apartments in Block 17 with resounding success. As of 31 December 2017, 44 out of 47 apartments (comprising 20 1-bedroom units, 20 2-bedroom units and 4 3-bedroom units) are subject to preliminary sale agreements, representing total sales revenue of €17.4 million. The remaining 3 apartments available for sale are 3-bedroom units.

In the second half of 2017, the Company launched on the market all of the 28 3-bedroom residential units of Towers I & II. The 2 3-bedroom duplex penthouses have not been placed on the market as yet. As of 31 December 2017, the Company has entered into preliminary sale agreements for 11 of 30 units, representing total sales revenue of €11.1 million. 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.

In addition to residential units, Phase II includes the development of a total commercial gross area of *circa* 16,400m^2. Other than the supermarket and the adjacent 3 retail units sold in 2017, both the office and retail areas of Block 16, Towers I & II and Block 17 are available on the market for sale or lease. As of December 2017, two lease agreements have been signed. One agreement was for a retail unit in Block 16, while the other agreement is in respect of 4 of the 7 office floors in Towers I & II. The Company is presently in negotiation with various interested parties on the remaining available office and retail areas.

In February 2018, the Company opened the public car park which consists of 253 car spaces. In May 2018, the Company acquired an additional 3,548m^2 in the public car park from its parent company, increasing the available car spaces to just over 320.

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

Phase II **Proceeds from sales and leases**	**2018** **€'000**	**2019** **€'000**	**2020-2022** **€'000**	**Total** **€'000**
Residential units & car park spaces	17,832	19,321	7,748	**44,901**
Commercial units & car park spaces	-	800	25,826	**26,626**
Total proceeds from sales, net of commissions	**17,832**	**20,121**	**33,574**	**71,527**
Commercial & car park revenues	164	1,518	4,225	**5,907**
Total proceeds, net of commissions	**17,996**	**21,639**	**37,799**	**77,434**

5.5 Phase II – Project Funding

A breakdown of estimated development expenditure to complete Phase II as from 1 January 2018 and expected funding sources thereof is provided below:

Completion of Phase II	**€'000**
Expenditure programme	
Fixed price contracts: Block 16 (payments to completion)	(57)
Fixed price contracts: Block 17 and Towers I & II (payments to completion)	(16,265)
Non refundable VAT on development costs	(1,758)
Net finance costs in construction period (2018)	(2,425)
Operating expenses in construction period (2018)	(1,151)
Total estimated cash outflows to completion of Phase II	**(21,656)**
Sources of funding	
Cash in hand as at 1 January 2018	13,215
Sales proceeds (net of commissions and provisional tax)	8,441
Total funding requirement	**21,656**

Funding requirements for the completion of Phase II are expected to amount to €21.7 million and will be mainly funded from cash in hand and unit sales. The above cash inflows will be utilised principally to settle the remaining balance of €16.3 million due on the fixed price contracts entered into with Pender Contracting Limited for the development of Phase II. As from 1 January 2018 to date of completion of construction, it is expected that the Company will absorb non-refundable VAT and operating expenses amounting to €1.8 million and €1.2 million respectively, and projected net finance costs incurred during the construction period is estimated at €2.4 million.

5.6 Malta Economic Update[1]

Real Gross Domestic Product ("GDP") grew strongly in the first three quarters of 2017 and continued to surprise on the upside, reaching 7.2%. The external sector, driven by growing services exports, remained the main driver of growth in 2017. Domestic demand was affected by a strong contraction in investment, linked to a high base effect from an extraordinary investment in transport equipment in 2016. Residential construction, by contrast, continued to increase robustly. Following a rebound in imports in the last quarter of the year, real GDP growth is expected to have reached 6.9% for 2017 as a whole, above the rate recorded in 2016. The dynamics in the external sector are pushing up the current account surplus.

Economic growth is projected to slow in 2018 to 5.6%. Private consumption is expected to become the main driver of growth on the back of strong employment growth, improved consumer confidence and growing disposable income. Investment is forecast to recover, led by the residential construction sector, which is expected to continue growing strongly in 2018. Driven by domestic demand, imports of goods and services are gaining momentum, and exports are forecast to continue rising, in line with growing demand in Malta's main trading partners. Overall, the current account surplus is expected to stabilise.

In 2019, real GDP growth is projected to moderate further to 4.5%. Private consumption is projected to remain the main driver of growth, while investment is expected to increase mainly on the back of the construction sector. Net exports are expected to contribute only modestly to GDP growth, as domestic demand fuels imports.

Headline annual harmonised index of consumer prices ("HICP") inflation averaged 1.3% in 2017, slightly lower than the euro area average. Relatively moderate increases in regulated fuel prices have contained overall HICP inflation. Inflation is projected to strengthen to 1.5% in 2018 and 1.8% in 2019. Higher price growth is expected to come mainly from the services component, which is projected to rise in line with growing disposable incomes.

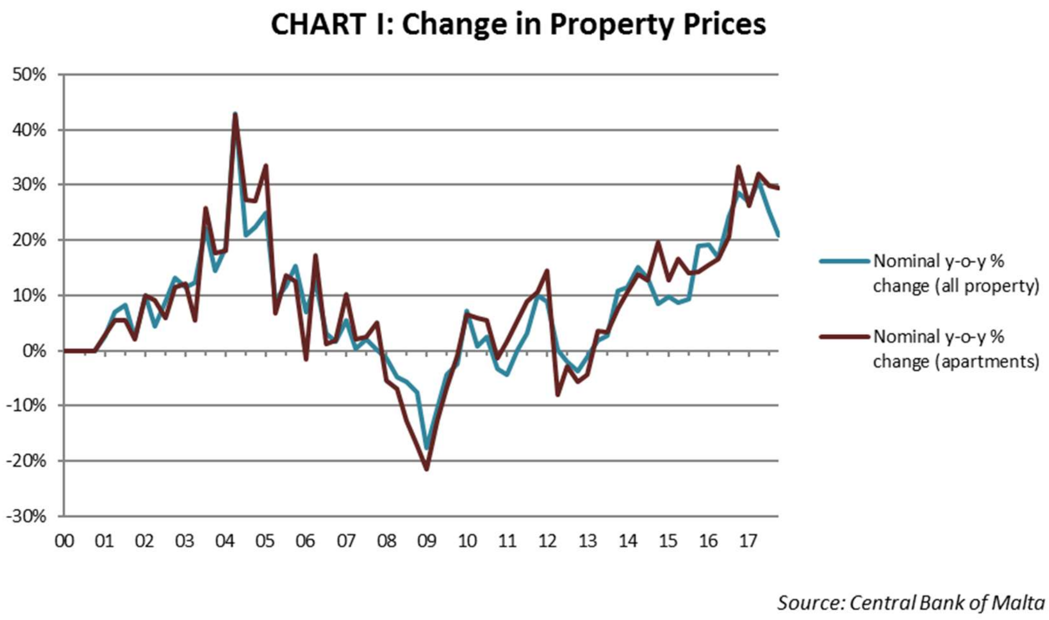
5.7 Property Market & Construction Sector

Residential property prices continued to rise during the fourth quarter of 2017 (see Chart I below) and said prices are being supported by a number of factors, including the Government's scheme for first-time buyers and a low interest rate environment which makes property a more attractive asset. Buoyant labour market conditions and strong growth in disposable income, together with the rise in foreign workers and, to a lesser extent, the Individual Investor Programme, also continue to lift property prices. At the same time, the strong growth in residential permits recorded in recent quarters should take off some of the upward pressure on house prices, as new construction activity counters excess demand for property.

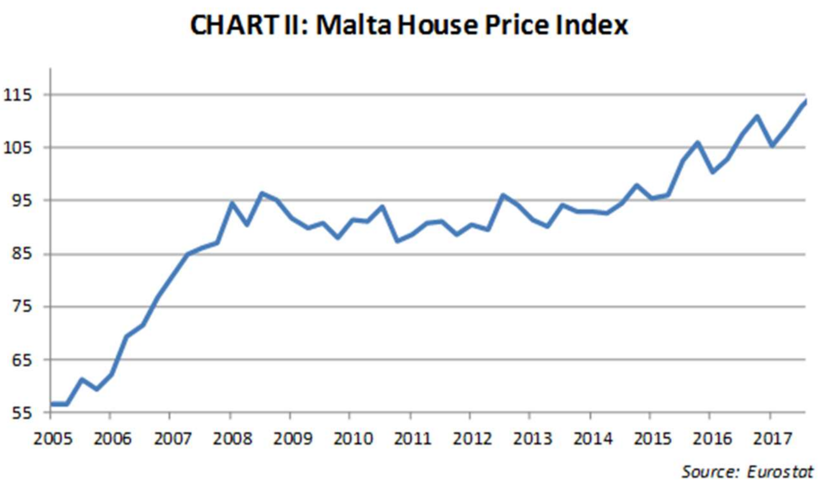
The Central Bank of Malta's advertised property price index shows that house prices rose at an annual rate of 8.8% in the last quarter of 2017. Prices of apartments – the major component – continued to

[1] European Economic Forecast – Winter 2018 (Interim) (European Commission Institutional Paper 073 Feb'18)

grow strongly in Q4 2017 at 7.6% over the previous quarter (such data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place).

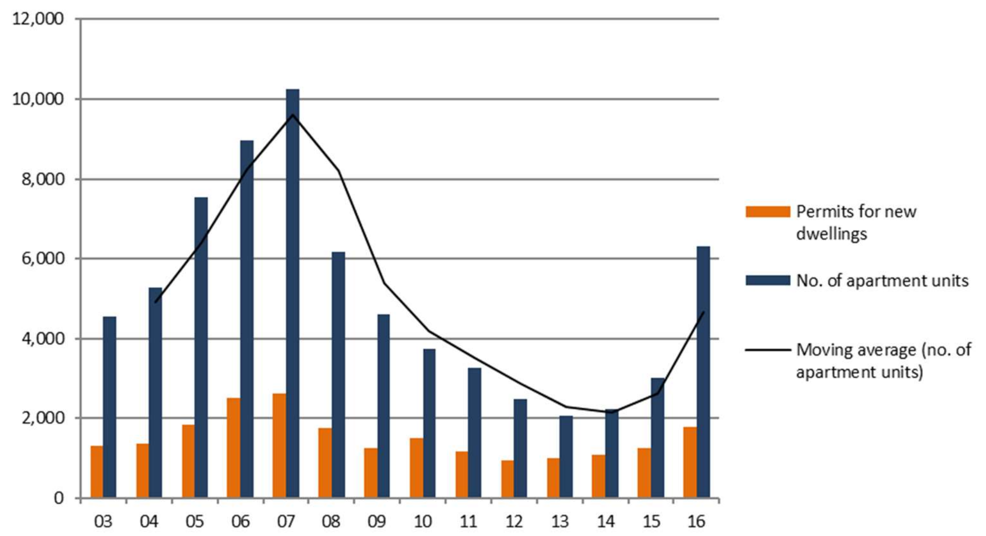


Eurostat's House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q4 2017 and shows that said prices increased by 4.1% compared with the same quarter of 2016 (vide Charts II below).



With regard to the number of permits, Planning Authority issued 7,508 permits during 2016 (statistics for 2017 have yet to be published), just over 90% more than in 2015. This followed growth of 34.4% in 2014, marking three consecutive years of growth following a period of decline. The increase in permits issued in 2016 was mostly driven by the largest residential category, namely apartments, which accounted for 84.1% of total permits granted.

CHART III: Development Permits for Dwellings



Source: Planning Authority

The gross value added from the construction industry rose by 8.3% in 2017 (in nominal terms), from €328.9 million in 2016 to €356.4 million), following a marginal decrease of 0.4% in 2016. During 2015, a y-o-y increase of 8.8% or €26.7 million increase was registered.

Commercial Property

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

PART 2 – COMPANY PERFORMANCE REVIEW

The projected financial statements detailed below relate to events in the future and are based on assumptions which the Company believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

6. FINANCIAL INFORMATION

The following financial information is extracted from the audited financial statements of Pendergardens Developments p.l.c. (the "**Issuer**") for the financial years ended 31 December 2015 to 31 December 2017. The financial information for the year ending 31 December 2018 has been provided by the Company.

Pendergardens Developments p.l.c. Income Statement for the year ended 31 December	2015 Actual €'000	2016 Actual €'000	2017 Actual €'000	2018 Forecast €'000
Revenue, net of commissions	8,196	7,467	4,910	17,996
Net operating expenses	(8,195)	(7,294)	(3,931)	(15,142)
EBITDA	**1**	**173**	**979**	**2,854**
Depreciation	-	-	-	(365)
Realised gains on financial assets	3,394	814	33	-
Fair value movement on investment property	-	-	3,101	-
Net finance costs	(57)	(660)	(654)	(973)
(Loss)/profit before tax	**3,338**	**327**	**3,459**	**1,516**
Taxation	(189)	(253)	(471)	(962)
(Loss)//profit for the year	**3,149**	**74**	**2,988**	**554**
Other comprehensive income				
Fair value gains on financial investments	(1,929)	(265)	(57)	-
Total comprehesive income (expense) for the year net of tax	**1,220**	**(191)**	**2,931**	**554**

Pendergardens Developments p.l.c. Cash Flow Statement for the year ended 31 December	2015 Actual €'000	2016 Actual €'000	2017 Actual €'000	2018 Forecast €'000
Net cash from operating activities	(3,179)	(50)	(9,321)	293
Net cash from investing activities	-	-	-	-
Net cash from financing activities	7,125	15,666	829	(6,389)
Net movement in cash and cash equivalents	**3,946**	**15,616**	**(8,492)**	**(6,096)**
Cash and cash equivalents at beginning of year	2,145	6,091	21,707	13,215
Cash and cash equivalents at end of year	**6,091**	**21,707**	**13,215**	**7,119**

Pendergardens Developments p.l.c. Statement of Financial Position				
as at 31 December	2015	2016	2017	2018
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets				
Property, plant & equipment	-	-	-	10,054
Investment property	-	-	4,545	4,545
Reserve fund	-	150	-	3,964
	-	150	4,545	18,563
Current assets				
Inventory - development project	29,816	33,963	39,391	31,248
Trade and other receivables	5,409	5,576	10,969	4,272
Available-for-sale investments	16,259	1,141	-	-
Taxation	460	736	469	725
Cash and cash equivalents	6,091	21,707	13,215	7,119
	58,035	63,123	64,044	43,364
Total assets	**58,035**	**63,273**	**68,589**	**61,927**
EQUITY				
Equity and reserves	**11,679**	**11,488**	**14,418**	**14,972**
LIABILITIES				
Non-current liabilities				
Borrowings	41,389	41,461	41,250	41,331
Deferred tax liabilities	-	-	227	227
	41,389	41,461	41,477	41,558
Current liabilities				
Trade and other payables	4,967	10,324	12,694	5,397
	4,967	10,324	12,694	5,397
	46,356	**51,785**	**54,171**	**46,955**
Total equity and liabilities	**58,035**	**63,273**	**68,589**	**61,927**

Key Accounting Ratios	FY2015	FY2016	FY2017	FY2018
Operating profit margin *(EBITDA/revenue)*	0%	2%	20%	16%
Net profit margin *(Profit after tax/revenue)*	38%	1%	61%	3%
Earnings per share (€) *(Profit after tax/number of shares)*	0.35	0.01	0.33	0.06
Net assets per share (€) *(Net asset value/number of shares)*	1.29	1.27	1.59	1.65
Asset cover ratio (times) *(Inventories plus receivables less current liabilities/net debt)*	1.59	1.57	1.34	0.88
Gearing ratio *(Total net debt/net debt and shareholders' equity)*	62%	62%	66%	67%

Source: Charts Investment Management Service Limited

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

In **FY2016**, the Company registered net revenue amounting to €7.5 million, which comprise sales of Block 16 units, and EBITDA of €0.2 million. After accounting for realised gains on financial assets of €0.8 million and net interest costs of €0.7 million, the Company reported a profit before tax of €0.3 million and a profit for the year of €74,000.

During **FY2017**, the Company generated revenue from the sale of one Block 16 apartment, three car spaces and the sale of the ground floor commercial area underlying Block 17, including three adjacent retail outlets. Net operating expenses amounted to €3.9 million and the resultant EBITDA amounted to €979,000. In FY2017, Block 16 commercial property was transferred from inventory (development project) to investment property at fair value (€4.5 million) as determined by an independent architect. As such, a gain on fair value movement of €3.1 million was accounted for in the income statement. Overall, the Company registered a profit for the year of €3.0 million (FY2016: €74,000) and total comprehensive income of €2.9 million (FY2016: loss of €191,000).

The above described investment property amounting to €4.5 million is included as a non-current asset in the statement of financial position as at 31 December 2017. Current assets on same date amounted to €64.0 million and mainly consist of: inventory – development project relating to construction works on Block 17 and Towers I & II amounting to €39.4 million; advance payments to fellow subsidiary in connection with construction works and receivables on sale of commercial property amounting to €7.6 million (classified as trade and other receivables); and cash and cash equivalents of €13.2 million.

Current liabilities of €12.7 million mainly comprise deposits on promise of sale agreements and accruals. Non-current liabilities of €41.3 million include the listed bonds of the Company – 5.5% Secured Bonds 2020 and 6% Secured Bonds 2022. During 2017, the Company repurchased and cancelled €288,700 of 5.5% Secured Bonds 2020.

During **FY2018**, the Company is projecting to generate revenue of €18.0 million, primarily from the sale of residential units of Block 17. Also expected during the reviewed year is the sale of the last remaining 3-bedroom duplex penthouse in Block 16. Consequently, EBITDA is forecasted to increase from €0.98 million in FY2017 to €2.85 million in FY2018. After accounting for depreciation, net finance costs and taxation, totalling €2.30 million, profit for the year is expected to amount to €0.55 million (FY2017: €2.93 million). The lower FY2018 profit when compared to the amount registered in prior year is due to the uplift in investment property of €3.1 million recorded in FY2017.

Total assets as at 31 December 2018 is expected to amount to €61.9 million, including the public car park valued at €10.1 million (property, plant & equipment), inventory amounting to €31.2 million and cash balances of €7.1 million. The reserve fund which was set up for the repayment of the Bonds is projected to amount to €4.0 million. Total liabilities are forecasted to amount to €47.0 million, principally comprising the outstanding Secured Bonds of €41.3 million.

Variance Analysis

Pendergardens Developments p.l.c. Income Statement for the year ended 31 December	2017 Actual €'000	2017 as Forecasted €'000	Variance €'000
Revenue, net of commissions	4,910	5,655	(745)
Net operating expenses	(3,931)	(5,097)	1,166
EBITDA	**979**	**558**	**421**
Realised gains on financial assets	33	33	-
Fair value movement on investment property	3,101	-	3,101
Net finance costs	(654)	(660)	6
(Loss)/profit before tax	**3,459**	**(69)**	**3,528**
Taxation	(471)	(282)	(189)
(Loss)//profit for the year	**2,988**	**(351)**	**3,339**
Other comprehensive income			-
Fair value gains on financial investments	(57)	-	(57)
Total comprehesive income (expense) for the year net of tax	**2,931**	**(351)**	**3,282**

As presented in the above table, the Company recognised lower revenue in FY2017 than forecasted by €745,000, due to the fact that a lower number of sale contracts were concluded during the year than initially anticipated. The decrease in revenue did not however adversely impact actual EBITDA, which was higher than projected by €421,000.

Audited financial results were positively impacted by a gain in fair value movement on investment property of €3.1 million, whilst taxation was higher by €189,000 principally due to deferred tax expense on same investment property. Overall, total comprehensive income in FY2017 amounted to €2.9 million as compared to a projected expense of €351,000.

7. 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.

In terms of the prospectus, the Company has undertaken to transfer a minimum amount of €100,000 in each of the years 2016 and 2017, irrespective of whether the initial €25 million of net sales proceeds have been accumulated. During the year ended 31 December 2017, the Company transferred the amount of €138,700 to the sinking fund reserve and thereafter, the accumulated balance of €288,700 was used to repurchase and cancel the equivalent amount of 5.5% Secured Bonds 2020.

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.

8. TREASURY MANAGEMENT

In January 2017, the Company sold all 'available-for-sale investments', which at 31 December 2016 had a value of €1.1 million, and realised a profit on disposal of €33,334. As at 31 December 2017, the Company had no 'available-for-sale investments'.

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

PART 3 - COMPARABLES

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

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.5% Pendergardens Dev. plc Secured € 2020 Series I	**15,000,000**	**2.44**	**6.29**	**68,589**	**14,418**	**66.04**
6% Pendergardens Dev. plc Secured € 2022 Series II	**27,000,000**	**3.23**	**6.29**	**68,589**	**14,418**	**66.04**
4.25% Gap Group plc Secured € 2023	40,000,000	3.47	2.61	56,906	6,696	85.08
5.3% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.14	1.19	21,625	4,844	69.04
6% AX Investments Plc Unsecured € 2024	40,000,000	3.47	4.44	286,318	173,323	26.09
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	3.45	4.42	77,088	38,701	45.62
5% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	3.74	3.05	107,801	39,813	54.01
5.1% 1923 Investments plc Unsecured € 2024	36,000,000	4.38	1.79	118,490	33,711	58.11
4.5% Hili Properties plc Unsecured € 2025	37,000,000	3.47	1.26	135,879	38,358	69.11
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.51	2.59	1,765,072	901,595	40.43
4.0% International Hotel Invest. plc Secured € 2026	55,000,000	3.43	3.03	1,602,317	884,632	36.36
4.0% MIDI plc Secured € 2026	50,000,000	3.28	- 0.98	235,302	86,621	39.27
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.12	7.90	161,128	47,607	57.32
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.63	39.11	17,088	5,835	30.63
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.74	5.46	217,599	65,698	47.74
4.0% Eden Finance plc Unsecured 2027	40,000,000	3.46	4.46	169,936	90,162	36.52
4% Stivala Group Finance plc Secured 2027	45,000,000	3.40	6.21	199,560	121,041	31.54

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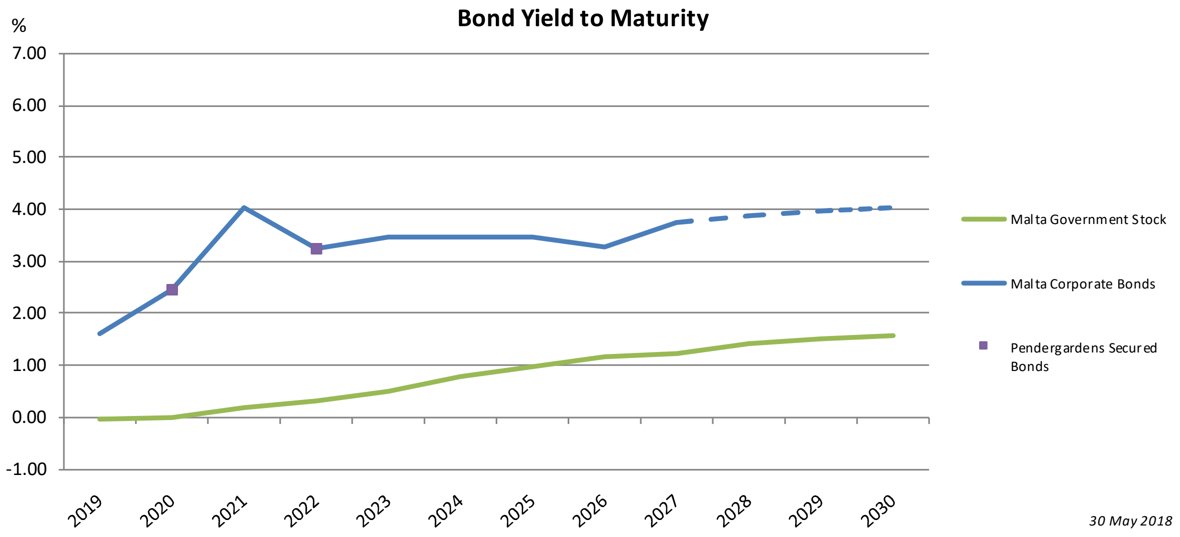

To date, there are no corporate bonds which have a redemption date beyond 2027 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

PART 4 – EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Company from its business activity during the financial year, that is, sale of units at Pendergardens.
Operating expenses	Operating expenses include the cost of construction and other related expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Profit after tax	Profit after tax is the profit made by the Company during the financial year both from its operating as well as non-operating activities.
Profitability Ratios	
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Company.
Cash flow from investing activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Company.
Balance Sheet	
Current assets	Current assets are all assets of the Company, which are realisable within one year from the balance sheet date. Such amounts include development stock, accounts receivable, cash and bank balances.
Current liabilities	All liabilities payable by the Company within a period of one year from the balance sheet date, and include accounts payable and short-term debt.

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