PENDERGARDENS DEVELOPMENTS PLC

Annual Report and Financial Statements
31 December 2014

Company Registration Number: C 58098

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2014.

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', 'Block17', and 'Towers I & II' at Pendergardens in St. Julians, Malta.

Review of the business

In May 2014 the company issued a dual series bond of €42million (Series I: €15m 5.5% secured 2020; Series II: €27m 6% secured 2022). The bond was oversubscribed. Holders of the €12 million Bonds issued in 2013 converted €10 million from the said bond into the Series II Bond. The remaining €2 million worth of 2013 bonds were redeemed at the earliest redemption during January 2015. The dual series 2014 Bond is listed on the Malta Stock Exchange and trading commenced in June 2014.

The 2014 Bond is being used to finance the completion of Pendergardens Phase II which includes the acquisition of the underlying land from Pender Ville Limited, the completion of Block 16, and the development of Pendergardens Towers I & II and Block 17. A Design and Build Fixed Sum Contract has been entered into with Pender Contracting Limited to deliver these completed works whilst the deed of acquisition for the underlying land from Pender Ville Limited was signed in June 2014. Security on the land in favour of the Bond Trustee has been completed. In line with the Prospectus, on 31st July 2014 the Company increased its equity of €3.3 million by a further €5.779 million through the conversion of outstanding debt with Pender Ville Limited reaching a total of €9.079 million.

Work on Block 16 has continued throughout the year under review and the first delivery date of units within the block is projected for the end of August 2015. Sales on plan of units within Block 16 have continued to be ahead of projections and as at end December 2014, 33 Preliminary Agreements, with a total value of €10 million have been signed. These represent 72% of the available residential units in Block 16. Interest in the commercial units is positive and the company is currently negotiating with various interested parties. Work on Towers I & II and Block 17 commenced in October 2014, the completion date of which is expected to be in 2018.

In March 2014 independent director Frank Xerri de Caro resigned as director due to his position held on the Listing Committee of the Malta Financial Services Authority. Mr Joseph F.X. Zahra was appointed as an independent director in March 2014. He also sits on the Audit Committee.

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 year were:

Mr. Edmund Gatt Baldacchino - Chairman
Mr. Edward Licari – Deputy Chairman
Mr. John Attard
Mr. Philip Farrugia
Mr. Joseph F. X. Zahra - appointed on 3 March 2014
Mr. Frank Xerri de Caro - resigned 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 year ended 31 December 2014 are included in the Annual Report 2014, which is published in hard-copy printed form and is 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 share capital amounts to €9,100,000 divided into 9,100,000 Ordinary shares of €1 each and its issued share capital amounts to €9,079,000 divided into 9,079,000 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 2014, Pender Ville Limited and Pender Contracting Limited held 9,074,959 and 4,041 shares, respectively, equivalent to 99.96% and 0.04% 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 2014.

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

29 April 2015

Corporate Governance – Statement of Compliance

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 2014, the Company had listed bonds in issue. 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 year under review, the Board regularly monitors performance on the project. The Company has in place systems whereby the directors obtain timely information from the Chief Executive Officer of the Pender Group, 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.

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. Philip Farrugia
Mr. Joseph F. X. Zahra - appointed on 3 March 2014
Mr. Frank Xerri De Caro - resigned 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 forms part. 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 16 times during the period under review. The number of board meetings attended by directors for the period ended 31 December 2014 is as follows:

Members	Attended
Edmund Gatt Baldacchino	15
Edward Licari	16
John Attard	16
Philip Farrugia	15
Joseph F. X. Zahra	11 (appointed as director on 3 March 2014)
Frank Xerri De Caro	3 (resigned 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 Global Payments Limited.

The Committee met 14 times during the year to 31 December 2014.

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 €52,000 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 €38,667 (2013: €18,667) in aggregate for services rendered during the period ended 31 December 2014.

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 29 April 2015 by:

Mr. Philip Farrugia
Director and Chairman of the Audit Committee

Mr. Edmund Gatt Baldacchino
Chairman of the Board

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Independent auditor's report

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

Report on the Financial Statements for the year ended 31 December 2014

We have audited the financial statements of Pendergardens Developments p.l.c. on pages 11 to 34 which comprise the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 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 in 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 of financial statements that give a true and fair view 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 2014, 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

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

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 for the year ended 31 December 2014

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

29 April 2015

Statement of financial position

	Notes	As at 31 December 2014 €	2013 €
ASSETS			
Current assets			
Inventory – development project	4	**28,912,929**	8,718,031
Available-for-sale investments	5	**21,918,365**	-
Trade and other receivables	6	**8,814,411**	1,774,873
Cash and cash equivalents	7	**2,145,458**	8,247,141
Total assets		**61,791,163**	18,740,045
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	**9,079,000**	3,300,000
Fair value reserve	8	**2,250,735**	-
Retained earnings		**(871,229)**	(26,227)
Total equity		**10,458,506**	3,273,773
Non-current liabilities			
Borrowings	9	**41,320,147**	11,679,237
Total non-current liabilities		**41,320,147**	11,679,237
Current liabilities			
Borrowings	9	**2,015,000**	-
Trade and other payables	10	**7,997,510**	3,787,035
Total current liabilities		**10,012,510**	3,787,035
Total liabilities		**51,332,657**	15,466,272
Total equity and liabilities		**61,791,163**	18,740,045

The notes on pages 15 to 34 are an integral part of these financial statements.

The financial statements on pages 11 to 34 were authorised for issue by the board of directors on 29 April 2015 and were signed on its behalf by:

Mr Edmund Gatt Baldacchino
Chairman

Mr Edward Licari
Deputy Chairman

Statement of comprehensive income

	Notes	**Year ended 31 December 2014 €**	Period from 5 November 2012 to 31 December 2013 €
Continuing operations			
Administrative expenses	11	**(560,486)**	(26,042)
Investment income	13	**36,086**	-
Operating loss		**(524,400)**	(26,042)
Finance income	13	**866**	-
Finance costs	13	**(321,468)**	(185)
Net finance costs		**(320,602)**	(185)
Loss for the year/period		**(845,002)**	(26,227)
Other comprehensive income			
Loss for the year/period		**(845,002)**	(26,227)
Items that are or may be reclassified to profit or loss:			
Net change in fair value of available-for-sale investments	8	**2,250,735**	-
Net fair value changes during the year		**2,250,735**	-
Total comprehensive income		**1,405,733**	(26,227)
Earnings per share	15	**(0.15)**	(0.01)

The notes on pages 15 to 34 are an integral part of these financial statements.

Statement of changes in equity

	Note	Share capital €	Fair value Reserve €	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	8	3,300,000	-	-	3,300,000
Balance at 31 December 2013		**3,300,000**	**-**	**(26,227)**	**3,273,773**
Balance at 1 January 2014					
Comprehensive income					
Loss for the year		-	-	(845,002)	(845,002)
Other comprehensive income:					
Fair value gains on available-for sale investments	8	-	2,250,735	-	2,250,735
Total comprehensive income		**-**	**2,250,735**	**(845,002)**	**1,405,733**
Transactions with owners					
Issue of share capital	8	5,779,000	-	-	5,779,000
Total transactions with owners		**5,779,000**	**-**	**-**	**5,779,000**
Balance at 31 December 2014		**9,079,000**	**2,250,735**	**(871,229)**	**10,458,506**

The notes on pages 15 to 34 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2014 €	Period from 5 November 2012 to 31 December 2013 €
Cash flows from operating activities			
Cash used in operations	16	**(11,018,903)**	(3,386,325)
Interest received / (paid)		**161**	(185)
Net cash used in operating activities		**(11,018,742)**	(3,386,510)
Cash flows from investing activities			
Acquisition of land		**(4,894,966)**	-
Net cash used in investing activities		**(4,894,966)**	-
Cash flows from financing activities			
Proceeds from issue of shares		**-**	5,540
Proceeds from issue of bonds	9	**32,015,000**	12,000,000
Bond issue costs	9	**(744,412)**	(371,889)
Acquisition of available-for-sale investments		**(20,237,330)**	-
Disposal of available-for-sale investments		**605,821**	-
Advances to related party		**(1,827,054)**	-
Net cash generated from financing activities		**9,812,025**	11,633,651
Net movement in cash and cash equivalents		**(6,101,683)**	8,247,141
Cash and cash equivalents at beginning of the year/period		**8,247,141**	-
Cash and cash equivalents at end of the year/period	7	**2,145,458**	8,247,141

The notes on pages 15 to 34 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, as modified by the fair valuation of the available-for-sale financial assets.

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 2014

In 2014, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2014. 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.

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 2014. 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.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates 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 company is yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9, subject to endorsement by the EU, no later than the accounting period beginning on or after 1 January 2018.

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

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 the 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 in the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

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).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investments. They are included in current assets unless the asset matures or management intends to dispose of it after twelve months from the end of the reporting period.

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. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the Company. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

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

1.4 Financial assets - continued

1.4.2 Recognition and measurement - continued

Financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables 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 asset.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss within 'investment and other related income'.

Interest on available-for-sale investments, calculated using the effective interest method is recognised in profit or loss within 'investment and other related income'. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 Company first assesses whether objective evidence of impairment exists. The criteria that the Company 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.

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

1.4 Financial assets - continued

1.4.3 Impairment - continued

(a) Assets carried at amortised cost

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.

(b) Assets classified as available-for-sale

In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investments below its cost is considered an indicator that the securities are impaired. If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

1.5 Inventory – development project

The main object of the company is the development of two plots of land known as 'block 16' and 'block 17, Towers I and II'. 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 and permit compliance costs.

(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 net of investment income from available-for-sale investments, attributable to the development phases of the project.

The purchase cost of acquiring the land represents the cash and debt equivalent value of the public deed.

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

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

1.6 Trade and other receivables

Trade receivables are amounts due from customers for units 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.

1.7 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call 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. **Summary of significant accounting policies** - continued

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 units 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.

(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 are reported within current liabilities.

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. Summary of significant accounting policies - continued

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 substantively 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.

1.15 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 currency risk since 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 investments in fixed interest available-for-sale investments. As at 31 December 2013, the Company held significant fixed and floating rate interest-bearing deposits with local banks (Note 7).

In the year ending 31 December 2013, the Company's interest rate risk principally arose from bank deposits which were subject to floating interest rates. Interest rates on these financial instruments were 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.

Borrowings are subject to fixed interest rates and principally consist of Bonds (Note 9).

Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift 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:

	2014	2013
	€	€
Available-for-sale investments (Note 5)	**21,918,365**	-
Trade and other receivables (Note 6)	**8,814,414**	1,774,873
Cash and cash equivalents (Note 7)	**2,145,458**	8,247,141
	32,878,237	10,022,014

2. Financial risk management - continued

2.1 Financial risk factors – continued

(b) Credit risk - continued

Credit risk on available-for-sale investments is limited as these mainly represent Malta Government Stocks and a limited amount of €0.7 million represent corporate listed bonds.

The company principally banks with local financial institutions of high quality standing. At 31 December 2014 the Company held substantially its cash and cash equivalents of €2.15 million with a local bank, with an investment grade credit rating of BBB+ (Fitch).

The Company manages its credit risk exposure in relation to receivables actively and in a practicable manner. The Company's receivables principally comprise an advance payment to the main contractor, a fellow subsidiary within the Pender Group for construction works being performed, and an amount receivable from its parent company. The Board considers these receivables to be fully receivable. At the end of the reporting period, the Company also had an amount of €2,015,000 held by the trustee in preparation for redemption of part of the Bonds 2015 - 2019 that were not rolled forward to the new issue of Bonds 2020 - 2022.

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 10) and borrowings (refer to Note 9). 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 financial obligations.

The Company's main objective is to effectively and efficiently manage the construction and financing of Block 16, Towers I & II and Block 17 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 property prices and other economic and social factors affecting demand for real estate in general. 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.

2. Financial risk management - continued

2.1 Financial risk factors – continued

(c) Liquidity risk - continued

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-Dec-14							
Bonds (Note 9)	43,335,147	61,925,000	-	4,460,000	2,445,000	7,335,000	47,685,000
Trade and other payables (Note 10)	7,997,510	7,997,510	7,997,510	-	-	-	-
Total	**51,332,657**	**69,922,510**	**7,997,510**	**4,460,000**	**2,445,000**	**7,335,000**	**47,685,000**

		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-Dec-13							
Bonds (Note 9)	11,679,237	17,040,000	-	840,000	840,000	2,520,000	12,840,000
Trade and other payables (Note 10)	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 2014 and 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 bonds in issue. 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 2015 to 2022. After making enquiries, the Directors have ascertained that no further financing facilities are required in addition to the existing Bonds for the completion of Block 16, Towers I & II and Block 17 since funding for the construction and finishing of the property has been secured by means of the Bonds currently in issue.

The Company's equity, as disclosed in 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 available-for-sale investments and cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

	2014	2013
	€	€
Total borrowings (Bonds outstanding Note 9)	**44,015,000**	12,000,000
Less: Available-for-sale investments(Note 5)	**(21,918,365)**	-
Less: cash and cash equivalents (Note 7)	**(2,145,458)**	(8,247,141)
Net debt	**19,951,177**	3,752,859
Total equity	**10,458,506**	3,273,773
Total capital	**30,409,683**	7,026,632
Gearing ratio	**65.61%**	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

	2014	2013
	€	€
Purchase cost of land and related development costs	**13,968,429**	4,755,460
Cost of design works and other studies, excavation, construction works, including borrowing costs	**13,777,272**	3,518,609
Non-recoverable value added tax	**1,167,228**	443,962
At 31 December	**28,912,929**	8,718,031

5. Available-for-sale investments

	€
At 1 January 2014	-
Acquisitions during the year	20,237,330
Disposals during the year	(605,821)
Net fair value changes during the year	2,250,735
Fair value released on disposal	36,121
At 31 December 2014	**21,918,365**

	Cost price	Interest rate	Redemption date	**Fair value at at 31.12.2014**
	€			**€**
Izola bank plc	734,033	5.35%	2015	**730,355**
Malta Government Stocks	18,933,598	4.45% - 5.25%	2028 - 2033	**21,188,010**
	19,667,631			**21,918,365**

The Company's exposure to credit, foreign exchange and interest rate risks and fair value information related to other investments are disclosed in note 2.

6. Trade and other receivables

	2014	2013
	€	€
Current		
Accrued income	**296,674**	137,343
Amount receivable from parent company	**2,292,749**	-
Advance payments to fellow subsidiary	**3,413,567**	1,586,513
Commissioner of value added tax	**678,138**	51,017
Other receivables	**2,133,286**	-
	8,814,414	1,774,873

Amounts due from the parent company and the fellow subsidiary, the latter being the main contractor of the development project, are unsecured and interest free.

7. Cash and cash equivalents

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

	2014	2013
	€	€
Cash at bank	**2,145,458**	8,247,141

Cash and cash equivalents earn interest as follows:

	2014	2013
	€	€
At floating rates	-	1,861,933
At fixed rates	-	6,385,208
	-	8,247,141

8. Equity

8.1 Share Capital

	2014	2013
	€	€
Authorised: 9,100,000 ordinary shares of €1.00 each (2013: 3,300,000 ordinary shares of €1.00 each)	**9,100,000**	3,300,000
Issued and fully paid up: 9,079,000 ordinary shares of €1.00 each (2013: 3,300,000 ordinary shares of €1.00 each)	**9,079,000**	3,300,000

8. **Equity** - continued

8.1 **Share Capital** - continued

On 5 November 2012, the company issued and allotted to Pender Ville Limited 1,500 ordinary shares with a nominal value of €1,500. 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 Limited and 4,041 ordinary shares with a nominal value of €1 each to Pender Contracting Limited. This resulted in a total share capital of €3,300,000 as at 31 December 2013.

On 31 July 2014 the company issued and allotted a further 5,779,000 ordinary shares to Pender Ville Limited with a nominal value of €5,779,000, resulting in a total share capital of €9,079,000 as at reporting date.

8.2 Fair value reserve

The fair value reserve represents the cumulative net change in the fair value of available-for-sale investments held by the Company (Note 5).

	2014	2013
	€	€
Fair value gains on available-for-sale investments	**2,250,735**	-

9. Borrowings

	2014	2013
	€	€
Non-current		
Bonds 2020 - 2022	**41,320,147**	-
Bonds 2015 - 2019	**-**	11,679,237
	41,320,147	11,679,237
Current		
Bonds 2015 - 2019	**2,015,000**	-
	43,335,147	11,679,237

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

	2014	2013
At a fixed rate		
Bonds 2015 - 2019	**7.0%**	7.0%
Bonds 2020	**5.5%**	-
Bonds 2022	**6.0%**	-

9. **Borrowings** - continued

Maturity of long term borrowings:

	2014	2013
	€	€
Within 1 year	**2,015,000**	
After more than 5 years	**41,320,147**	11,679,237
	43,335,147	11,679,237

	2014	2013
	€	€
Bonds outstanding - proceeds	**44,015,000**	12,000,000
Gross amount of bond issue costs	**744,412**	371,889
Amortised during the year	**(64,559)**	(51,126)
	679,853	320,763
Amortised cost and carrying amount	**43,335,147**	11,679,237

	2014	2013
	€	€
Bonds in issue	**44,015,000**	12,000,000
Rollover of the €12 million 2013 bonds	**(9,985,000)**	-
Funds withheld by the trustee for redemption of the 2013 bond (note 19)	**(2,015,000)**	-
Bond proceeds	**32,015,000**	12,000,000

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 was due and payable annually in arrears on 14 January of each year. The net proceeds were being used for the development of Block 16. The 2013 Bond Prospectus specified that payment of the principal and interests thereon shall be secured by a general hypothec over all resent and future assets of the Company and a special hypothec over the Hypothecated Property.

In May 2014, the Company issued a dual series bond of €42 million (Series I: €15m 5.5% secured 2020; Series II: €27m 6% secured 2022). Holders of the €12 million 2013 Bonds converted €9,985,000 from the said Bond into the Series II Bond. The remaining €2,015,000 worth of 2013 bonds were redeemed in January 2015 being the earliest redemption date of the said bonds. The 2014 Bonds are listed on the Malta Stock Exchange. Interest on the notes is due and payable annually in arrears on 31 May (Series I) and on 31 July (Series II) of each year. The net proceeds are being used for the development of Block 16, Towers I & II and Block 17.

9. Borrowings - continued

The 2014 bonds are secured by:

(i) First-ranking general hypothec over all the Company's assets present and future for the amount of €42 million, interest thereon and any other amounts due under the Bonds.

(ii) First-ranking special hypothec over the Hypothecated Property for the amount of €42 million, interest thereon and any other amounts due under the Bonds.

10. Trade and other payables

	2014 €	2013 €
Current		
Trade payables	**13,789**	25,812
Amounts due to parent company	**-**	1,461,000
Amounts due to fellow subsidiary	**3,280,733**	22,712
Deposits on promise of sale agreements	**1,668,566**	650,600
Accruals	**3,034,422**	1,626,911
	7,997,510	3,787,035

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

11. Administrative expenses

The operating loss is stated after charging the following:

	2014 €	2013 €
Wages and salaries recharged from a group company	**281,134**	-
Directors remuneration	**38,667**	18,667
Professional fees	**23,699**	3,250
Registration fee	**-**	2,310
Legal fees	**52,386**	-
Annual listing fees	**11,967**	-
Advertising expenses	**30,079**	-
Insurance expenses	**25,998**	-
Other general expenses	**96,556**	1,815
	560,486	26,042

11. Administrative expenses - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial year/period ended 31 December 2014 and 2013 relate to the following:

	2014	2013
	€	€
Annual statutory audit	**3,505**	2,750
	3,505	2,750

12. Directors' remuneration

	2014	2013
	€	€
Fees and other emoluments	**38,667**	18,667
	38,667	18,667

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

13. Net finance costs

	2014	2013
	€	€
Interest received	**866**	-
Finance income	**866**	-
Bond issue costs written-off	**(320,763)**	-
Bank charges	**(705)**	(185)
Finance costs	**(321,468)**	(185)
Net finance costs	**(284,516)**	(185)

During the year, the Company disposed of available-for-sale investments and realised a gain of €36,086.

14. 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:

	2014 €	2013 €
Loss before tax	**(845,002)**	(26,227)
Tax on loss at 35%	**(295,751)**	(9,179)
Disallowed expenses	**295,751**	9,179
Tax income	**-**	-

15. 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.

	2014 €	2013 €
Loss for the year/period	**845,002**	26,227
Weighted average shares in issue	**5,738,263**	3,300,000
Loss per share	**(0.15)**	(0.01)

16. Cash used in operations

Reconciliation of loss for the year / period to cash used in operations:

	2014 €	2013 €
Loss for the year / period	**(845,002)**	(26,227)
Adjustments for:		
Amortisation/write-off of Bond issue costs	**385,322**	51,126
Gain on disposal of available-for-sale investments	**(36,121)**	-
Other net finance costs	**(161)**	185
Changes in working capital:		
Trade and other receivables	**(2,919,738)**	(188,360)
Trade and other payables	**2,413,454**	2,303,323
Inventory – development project	**(10,981,929)**	(3,962,571)
Related party balances	**965,272**	(1,563,801)
Cash used in operations	**(11,018,903)**	(3,386,325)

16. Cash used in operations - continued

Non-cash transactions

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

17. Capital commitments

The company has entered into capital commitments with various contractors for the development of Block 16, Tower I & II and Block 17. Outstanding contractual commitments as at period end amount to €41,778,677 (2013: €6,468,717). Further amounts relating to the contracted project have been capitalised during 2014 within Inventory (Note 4).

18. Related party transactions

The company is owned by Pender Ville Limited and Pender Contracting Limited (Note 8) 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 non-executive Directors of the Company during the current period are disclosed in note 12. 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:

	2014	2013
	€	€
Purchases of goods and services		
- Purchase of land and related development costs from ultimate parent	**9,212,969**	4,755,460
- Purchase of construction services from fellow subsidiary	**8,637,265**	2,686,749
Other		
- Advance payment to fellow subsidiary	**3,156,774**	-

Year-end balances with related parties, arising principally from the transactions referred to previously, are disclosed in Notes 5 and 10 to these financial statements. Bonds of the Company held by directors at 31 December 2014 amounted to €424,500 (2013: €27,000).

19. Subsequent events

In January 2015 the Company redeemed €2,015,000 of the €12 million 2013 Bonds on the earliest redemption date of the bonds.

20. 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 Pender Ville Limited.