MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Consultation document on the proposed amendments to the Listing Policies relating to the preparation of the Financial Soundness Report

[1 Introduction]

Feedback on the Listing Authority Policies dated 6th August 2010 indicated that the parameters set by the Authority in Section [II] "Financial Soundness of Applicants for Admissibility of Listing" required an element of judgement on the financial stability of the Issuer from those required to prepare the Financial Soundness Report which could have resulted in a subjective assessment of the financial stability of the Issuer. The Authority has, as a result, had a number of consultative meetings with representatives from the accounting profession and representatives from the College of Stockbrokers to better define how the requirements of the Authority could be met in this respect. The following documents have been prepared as a result of these discussions.

[2 Preparing the Financial Soundness Suite of Reports]

The term 'Financial Soundness Report' will in future not refer to a single document but to a suite of documents which will collectively analyse the financial position of issuers seeking Admissibility to Listing in fulfilment of the Listing Authority Policies. The suite of reports will consist of four separate documents, each of which is explained below.

A. Due Diligence Report by an Accountant independent of the Issuer.

The Issuer will be expected to mandate an accountant, who is independent of the Issuer, to prepare a Due Diligence Report in respect of the Company, financial statements, forecasts and related information submitted by the Issuer in connection with his Application for Admissibility to Listing. This Report will conform to the document annexed as Document A. This Report will be addressed to the Issuer with a copy being forwarded to the Sponsor who will in turn forward a copy of the Report to the Listing Authority.

The Sponsor will be required to confirm to the Listing Authority that after having reviewed the contents of the Due Diligence Report, all information which is considered relevant for an investor to make an informed decision on the offer and the Issuer's financial position has been included in the Prospectus.

B. Letter of Confirmation by the Reporting Accountant

The reporting accountant will be expected to transmit a letter of confirmation setting out the procedures used in the analysis and verification of financial data and calculations in the draft prospectus. A signed original of this letter should be sent to the Issuer and a second signed original to the Sponsor. A sample of this letter is shown as annexed Document B.

This document will be listed in the Prospectus as a document on display with a copy being sent by the Sponsor to the Listing Authority.

C. The Financial Analysis Summary

The Issuer will be expected to mandate the Sponsor to the issue to prepare a Financial Analysis Summary of the Issuer's financial statements. The information contained in this Summary should be consistent with the financial information contained in the Prospectus.

The Financial Analysis Summary will analyse and comment on the Issuing Company's last three years audited financial accounts together with one year's forecast. Document C sets out the details of what this document should contain but the Financial Analysis Summary should be amplified on where the Sponsor feels that additional information or commentary would be informative. An illustrative example of this document has been drawn up to show how the graphs and explanatory notes described in notes of Document C could be used in the deliverable. This example is appended as Document E. The Sponsor should obtain confirmation from reporting accountant that the information and computations contained in the Summary are consistent with their findings.

The Financial Analysis Summary is to be appended to the Prospectus and posted on the Issuing Company's website at the time of listing. The Issuer will be expected to keep the Financial Analysis Summary posted on its website updated on an annual basis following the publication of the annual accounts. The Sponsor to the issue or a stockbroker should be appointed by the Issuer to carry out this annual update.

D. Covering Letter – Financial Analysis Summary

The Financial Analysis Summary will be forwarded by the Sponsor or the stockbroker to the Issuer with the covering letter shown as Document D. Copies of the Financial Analysis Summary and the Sponsor's covering letter are to be forwarded to the Listing Authority by the Sponsor or the stockbroker.

[3 Role of the Sponsor]

The Sponsor appointed by the Issuer will be expected to review the Due Diligence Report prior to the preparation of the Financial Summary Analysis detailed in paragraph C and be guided in this by the general responsibilities applying to a Sponsor defined in Chapter 2 of the Listing Rules.

The Sponsor will be required to confirm to the Listing Authority that after having reviewed the contents of the Due Diligence Report, all the relevant information which he considers would enable investors to make an informed decision on the offer and the Issuer has been included in the Prospectus.

As with documentation relating to the Offer to be made by the Issuer all communication to the Authority in respect of financial soundness should be made through the Sponsor.

[4 Proposed amendments to the Listing Authority policies]

The Listing Authority is proposing the following changes to the relevant Section of the Listing Policies.

"**[II] Financial Soundness of Applicants for Admissibility to Listing**

Applicants for admissibility to listing of corporate debt securities aimed at local retail investors are to be required to demonstrate their financial soundness and strength to the Listing Authority.

The applicant's financial soundness will demonstrated through a due diligence exercise which is to be carried out by an accountant mandated by but independent of the applicant. The findings will be reported to the applicant in a due diligence report. The reporting account will, in addition, be expected to transmit a letter of confirmation to the applicant setting out the procedures used in the analysis and verification of financial data and calculations in the draft prospectus. This letter is to be made available by the Issuer as a document on display.

The stockbroker appointed as Sponsor by the Issuer will be required to analyse and comment on the Issuer's last three years financial accounts and the forecast for the year following the issue, summarising these in a document entitled the Financial Analysis Summary. The Sponsor will be expected to review the Due Diligence Report prior to the preparation of the Financial Summary Analysis and be guided in this by the general responsibilities applying to a Sponsor defined in Chapter 2 of the Listing Rules. The Sponsor will in addition be required to confirm to the Listing Authority that after having reviewed the contents of the Due Diligence Report all information which is considered relevant for an investor to make an informed decision on the offer and on the Issuer's financial position has been included in the Prospectus.

The Financial Analysis Summary is to be appended to the prospectus relating to the Issue and posted on the Company's website at the time the offer is made. The Issuer will appoint a stockbroker to ensure that the Financial Summary Report is updated annually as soon as practical after the publication of the annual accounts and posted thereafter on the company's web site.

Where the issuer is a special purpose vehicle of a group of companies, which has been established as the financing arm of the group, the due diligence exercise should refer to the situation of the group and in particular the companies within the group which will be feeding the finance arm with income. In the case where the bond issue is guaranteed the due diligence exercise shall be extended to the guarantor.

The reporting accountant undertaking the due diligence exercise and the stockbroker preparing the Financial Analysis Summary must declare their independence from the particular Issuer of debt financial instruments.

The documents relating to Financial Soundness should conform with the documents appended to the Policies."

[5 Consultation period]

The proposed amendments to the Listing Policies are being issued for consultation. The Listing Authority invites comments by not later than the 12th January, 2012 on the proposed document. Interested parties are to send their comments in writing addressed to the Chairman – Listing Committee (e-mail: listcomm@mfsa.com.mt).

Document A

Financial Due Diligence Report to be drawn up by the Reporting Accountant

Indicative Table of Contents

Company background and history

1 Nature, structure and history of business
2 Background of shareholders of the company
3 Broad business goals and objectives
4 Capital structure and gearing
5 Major assets owned by the business
6 Agreements that materially impact the business (eg, agency representations, franchises, etc)
7 A description of the more important accounting policies that impact the measurement of performance, and of assets and liabilities
8 Any changes in auditors in the previous three years and any declared reasons for the change.

Performance

9 A high level statement of business performance over the previous three years
10 The impact of taxation on the company's results, and any major risk factors relating thereto
11 Identification of any factors that materially influence the potential relevance of past results on future earnings, including:

(i) Unusual transactions or events that have influenced the results
(ii) Discontinued activities
(iii) Material non-recurring contracts that have been completed or terminated, or that are expected to be completed or terminated in the three years following the proposed bond issue
(iv) New material contracts that are not reflected in past performance
(v) The impact of any critical accounting estimates on the measurement of results.

Financial position and cash flows

12 An analysis of the company's financial position at the latest balance sheet date
13 Property valuations, showing by whom the valuation was carried out and when
14 The impact of any critical accounting estimates on the amounts at which assets and liabilities are stated
15 An analysis of the company's cash flows during the previous three years
16 A discussion on how the company's gearing has developed during the previous three years
17 A statement of any major financial commitments (eg., bank loans, sinking fund obligations or repayments under earlier bond issues, material contracts) falling due during the previous three years, explaining how settlement was effected
18 A statement of on-going capital expenditure commitments.

The proposed bond issue

19 The objectives of the proposed bond issue and the envisaged use of proceeds
20 Any additional sources of funds required to meet the stated objectives, explaining how these funds have been secured
21 How the Issuer's gearing would be impacted by the proposed bond issue.

The Issuer's financial projections

22 A statement of the Issuer's financial projections covering the duration of the proposed bond (this statement would replace the projections that have on past issues been submitted separately to the Listing Authority)

23 An explanation of the more material assumptions on which the company's projections are based

24 A sensitivity analysis on the more judgmental assumptions, illustrating how these sensitivities would impact on the repayment of the bonds

25 An explanation of the possible mitigating actions that the Issuer's management has identified to counter potential adverse circumstances (e.g., assets available for sale)

Explanatory notes:

(a) The above outline is an indicative one. Reporting accountants are required to apply professional judgment and may need to include headings not noted above; while at the same time avoiding the repetition of matters already included in the draft prospectus, if this would have already been drawn up.

(b) Financial analyses should where appropriate make use of ratios on profitability, shareholder returns, solvency and liquidity that facilitate comparisons between companies and enable a better understanding of the financial situation of the business.

(c) To the extent possible, an Issuer's performance and financial situation should be compared to those of appropriate peer companies (for instance, a hotel's results could be benchmarked against the results of comparable hotels on the basis of published industry studies).

(d) The parameters for the sensitivity analysis referred to in point 23 above should be set by management. The Listing Authority would expect these sensitivities to reflect the risk relating to each material underlying assumption; generally speaking, a higher risk should lead to a larger sensitivity variation being tested. The reporting accountant is expected to relate the sensitivities to the underlying assumptions and to report thereon.

Document B

[Letterhead of reporting accountants]

PRIVATE AND CONFIDENTIAL

The Directors

[Company]

[Address]

[Sponsoring Stockbroker]

[Address]

[Date]

Dear Sirs

Letter confirming the terms of engagement on extraction of data and related computations, re proposed issue of [ ] Bonds [ ] to be listed on the Malta Stock Exchange

Introduction

1. In accordance with our engagement letter dated [date] (the "Engagement Letter") we are writing to report on the procedures we have carried out, as set out below, in respect of: (a) certain historical financial information; and (b) certain computations based on the said financial information, included in the Issuer's draft Prospectus (the 'Prospectus')

2. We have conducted our work in respect of the latest draft of the Prospectus which for the purposes of identification is that dated [*date*] and has printers' proof number [*number*] (the "**Prospectus Proof**").

Extracts from historical financial information and related computations

3. Our engagement was carried out in accordance with International Standard on Related Services (‘ISRS’) 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the International Federation of Accountants (‘IFAC). We have performed the following procedures in respect of the items identified by you on the attached Prospectus Proof. These procedures were applied as indicated by the symbols explained below:

Symbol	*Procedure*
A	We compared the amount with that shown in the relevant source stated in the Prospectus and found it to be in agreement after giving effect to rounding, if applicable. On the basis of this work, we confirm that in our opinion, for the purposes of the Prospectus, the amount has been properly extracted from the stated source.
B	We recomputed the amount derived from the relevant source stated in the Prospectus, and found it to be in agreement, after giving effect to aggregation or rounding, if applicable. On the basis of this work, we confirm that, in our opinion, for the purposes of the Prospectus, the amount has been properly calculated from the stated source.
C	We recomputed the ratios derived from the relevant historical financial information, and found it to be in agreement, after giving effect to aggregation or rounding, if applicable. On the basis of this work, we confirm that, in our opinion, for the purposes of the Prospectus, the relevant ratios has been properly calculated.

General

4. We emphasise the Directors are responsible for the information contained in the Prospectus.

5. Our Services did not constitute an Audit conducted in accordance with any generally accepted auditing standards, an Examination of internal controls, or other Review or Assurance services. Nor do they provide any Assurance that the latest management accounts of the Relevant Entities have been prepared in a reliable manner or on a basis consistent with (a) last year’s management accounts or (b) the Relevant Reference Accounts of the Relevant Entities. There is no guarantee that all matters of significance to you have been disclosed by

our work. Only you can determine what is sufficient for your purposes and whether the areas this letter covers and the extent of verification or other checking underlying this letter is adequate for your purposes and we make no representation in this regard. This letter does not provide any Assurance on financial statements or any other financial information (including prospective financial information), or on operating or internal controls.

6. Our obligations under the Engagement Letter are entirely separate from and our duties are in no way changed by any other role we may have (or may have had) as auditors or otherwise. Nothing in the Engagement Letter, nor anything said or done in the course of or in connection with the Services (including being given access to audit and/or taxation working papers), should be taken to extend any duty of care we may have in our capacity as auditors of any financial statements. Similarly, any role we may have (or may have had) other than under the Engagement Letter, whether as auditors or otherwise, does not in any way change our duties to you in respect of the Services.

7. This letter should not be regarded as necessarily suitable for use in connection with any obligations or responsibilities that you may have under any legislation, regulation and/or rule of law in any territory apart from Malta.

8. This letter is supplied on the understanding that it is solely for your use and benefit and for the purposes of the Prospectus. The Issuer agrees not to pass this letter or details of its contents to third parties or to make it available for inspection by third parties without our prior written consent. Whether or not we have given our consent, we will not accept or assume any liability or responsibility to any third party who may gain access to this letter or details of its contents unless we have otherwise agreed in writing to do so.

Yours faithfully

[Name of reporting accountants]

Document C

Financial Analysis Summary

The Financial Analysis Summary shall be prepared with respect to any bond issue directed at the retail market. This should present, in a concise format, a summary of the key financial information contained in the prospectus, together with a high level ratio analysis of this information. The objective should be that of assisting a retail investor to better form an understanding of the financial standing of the Issuer.

The Analysis would not be required in the case of bond issues made by regulated financial services companies or companies that have obtained a recognised rating.

The Analysis should be drafted with a focus on a company's particular nature and business, and should typically contain the following:

Brief overview of the business

1. A summary of the Company's key activities
2. Directors and key employees
3. Major assets owned by the issuer
4. Any material operational developments in the three years prior to the proposed issue – mergers or acquisitions, divestitures, new products or services, corporate changes and expansions

Performance and Financial Position: 3 year analysis plus current year forecast

5 **Income Statement data**

- Summarised income statement data disclosing total revenues, cost of goods and services, gross profit, operating expenses, operating income and net income

6 **Cash flow data**

- Summarised cash flow data disclosing cash flow from operating activities, cash flow from investing activities, cash from financing activities, net change in cash and free cash flow

7 Balance Sheet data

- Summarised balance sheet data aimed at disclosing the total fixed assets, net current assets or liabilities, long term liabilities (distinguishing between listed and unlisted instruments), provisions (including deferred tax) and shareholders' equity

8 **Profitability ratios, expressed as a % of turnover**

- Gross margin
- Operating profit margin
- Net income margin

9 Efficiency ratios

- Return on equity, computed by reference to the average market capitalisation during the year
- Return on capital employed
- Return on Assets

10 Equity ratios

- Earnings per share
- Dividend cover

11 Key market data

- Setting out the total shares outstanding, year-end share price, enterprise value (the sum of the market capitalisation, minority interest and net debt) and P/E ratio

12 Financial Strength ratios

- Current ratio, reflecting the ratio of current assets to current liabilities
- Interest coverage ratio, reflecting the number of times the Company's operating profit covers its interest expense
- The interest coverage ratio expected after the proposed issue working, in the absence of any projections disclosed in the prospectus, on the forecast results for the current year adjusted to reflect a notional return on the capital being raised in the proposed bond issue (all assumptions to be fully disclosed)
- Net debt to equity ratio (gearing ratio)

13 Related party listed debt and other securities

- A list of all securities listed on the Malta Stock Exchange that have been issued by the company or by any related company. For the purpose of this annex, a company shall be deemed to be related to the issuer if:
  (i) It holds 25% or more of the ordinary shares of the issuer
  (ii) The issuer holds 25% or more of the ordinary shares of the company
  (iii) Both the issuer and the company are at least 25% ultimately owned by the same shareholder or shareholders.

Explanatory Notes:

(a) The list of ratios outlined is an indicative one and should not preclude a company from disclosing other ratios or performance indicators that are considered key to the understanding of its business. The Listing Authority expects to see consistency between the ratios disclosed by an issuer and the key performance indicators identified and commented upon in the financial due diligence report on the issuer drawn by a reporting accountant in terms of the Listing Policies The ratios disclosed will to a degree be conditioned by the industry in which the company operates, and issuers are permitted to vary the above contents to disclose data more relevant to their industry, e.g. a hotel might opt for measures of occupancy and room rates such as RevPAR.

(b) The use of reliable and representative market data, eg., published audited financial statements, that permits the comparison of the issuer with similar companies is encouraged and this point will be given importance by the Listing Authority.

(c) The use of graphs that assist in conveying the results of the analysis and to supplement, not replace, the data in the analysis is encouraged.

(d) The analysis should include explanatory notes setting out in a succinct manner the sources of data used. Any assumptions made should be explained.

(e) Issuers will be required to engage a firm of reporting accountants to verify that all financial data disclosed in the prospectus and in this analysis has been properly extracted from the stated source and, where appropriate, properly computed. The accountants' report on this topic will be addressed to the company's directors and to its sponsoring stockbroker. This report shall be listed in the prospectus as a report available for inspection by third parties.

Document D

Draft covering letter from entity preparing the Financial Analysis Summary

The Board of Directors
Issuer plc

[Date of approval of Prospectus]

Dear Sirs

Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary set out on the following pages and which is being forwarded to you together with this letter

The purpose of the financial analysis is that of summarising key financial data appertaining to Issuer plc. The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the three years ended xxx has been extracted from Issuer plc's audited statutory financial statements for the three years in question.

(b) The forecast data for the financial year ending xxx has been extracted from the forecast financial information set out Part 3, Annex xxx of the Prospectus.

(c) Our commentary on the results of the Issuer and on its financial position is based on the explanations set out by the Issuer in the Prospectus.

(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) The principal relevant market players listed in Part 3 of the document have been identified by management. Relevant financial data in respect of competitors has been extracted from public sources such as the web sites of the companies concerned or financial statements filed with the Registrar of Companies.

The Analysis is meant to assist potential investors by summarising the more important financial data set out in the Prospectus. The Analysis does not contain all data that is relevant to potential investors and is meant to complement, and not replace, the contents of the full Prospectus. The Analysis does not constitute an endorsement by our firm of the proposed Bond Issue and should not be interpreted as a recommendation to invest in the Bonds. We shall not accept any liability for any loss or damage arising out of the use of the Analysis and no representation or warranty is provided in respect of the reliability of the information contained in the Prospectus. As with all bond issues, potential investors are encouraged to seek professional advice before investing in the bonds.

Yours sincerely

Document E

Illustrative Financial Analysis Summary

PART 1

1. Company`s key activities

ABC plc is principally engaged in the production of bread, confectionary, frozen goods, ready-made meals, beverages and other related products and the operation of convenience retail shops. As a food retailer, the group sells approximately 200 products through a network of five convenience stores and on a wholesale basis through groceries and supermarkets.

2. Directors and key employees

The Group is currently managed by a Board consisting of five members. The current directors of the Group are:

Name of Director	Function
Mr. Joe Borg	Chairman
Dr. Michael Calleja	Director
Mr. Mario Muscat	Director
Ms. Sandra Borg	Director
Mr. John Camilleri	Director

The senior management team of the Group consists of:

Name	Function
Mr. Edwin Borg	Chief Executive Officer
Ms. Anna Vella	Financial Controller
Mr. Edwin Attard	Sales and Marketing Manager

As at the date of the prospectus, the Group has 150 employees

3. Major assets owned by the issuer

The Group is the owner of five convenience stores and of an office block that is in the main rented out to third parties. Management is planning to expand the Group's asset base materially, from €4.0 million as at 31 December 2010 to €15.4 million by the end of 2011. This increase reflects the Group`s investment in the building of a new factory that will almost double the Group's manufacturing capacity, and the opening of three new retail outlets. To complement this investment and the growth plan envisaged, management are planning to replace part of the existing plant and machinery and to acquire other specialised equipment that will permit the creation of new products.
The new outlets are expected to become operational towards the end of January 2012, while that the factory is planned for completion by April 2012. It is anticipated that the Group's existing factory will be vacated in June 2012, eliminating an expense that currently amounts to €225,000 per annum.

4. Operational developments

As the Group continues to expand its retail presence, it has entered into discussions with third parties to operate retail stores on a franchise basis. This move will expand turnover and strengthen the company's brand. It will moreover complement the building of the expanded new factory.

PART 2

Performance: 3 year analysis plus current year forecast

Historical figures for Part 1 and 2 have been extracted from the audited financial statements of the Company for the three years ending 31 December 2008, 2009 and 2010. The figures for 2011 have been extracted from the forecast financial information, which can be found in Part E Annex 3 of this Prospectus. The basis of preparation of this forecast financial information and the principal assumptions upon which it is based are included in the same Annex. The Accountants` Report on the forecast financial information is presented in Part E Annex 4 of this Prospectus.

1 Income Statement data

€'000s	2011 Forecast	2010 Audited	2009 Audited	2008 Audited
Total Revenues	17,138	15,053	12,038	11,463
Cost of Good Sold	(12,207)	(11,929)	(10,236)	(9,565)
Gross Profit	4,931	3,124	1,802	1,898
Operating Expenses	(3,067)	(2,874)	(1,766)	(1,752)
Operating Income	86	159	233	152
Net profit before tax	1,950	408	269	298
Taxation	1,717	(264)	(188)	(131)
Profit for the year	3,667	144	81	168

Profitability Ratios *(expressed as a percentage of Total Revenue)*

	2011 Forecast	2010 Audited	2009 Audited	2008 Audited
Gross Margin	28.8%	20.8%	15.0%	16.6%
Operating Margin	13.9%	3.0%	3.0%	3.3%
Net Income Margin	11.4%	2.7%	2.2%	2.6%

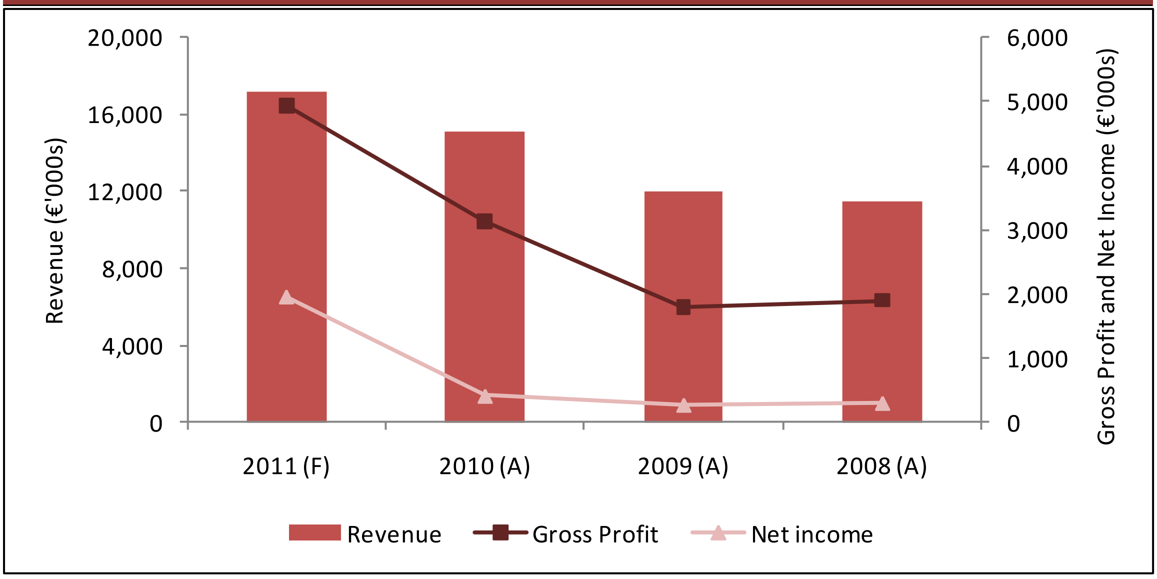
Efficiency ratios

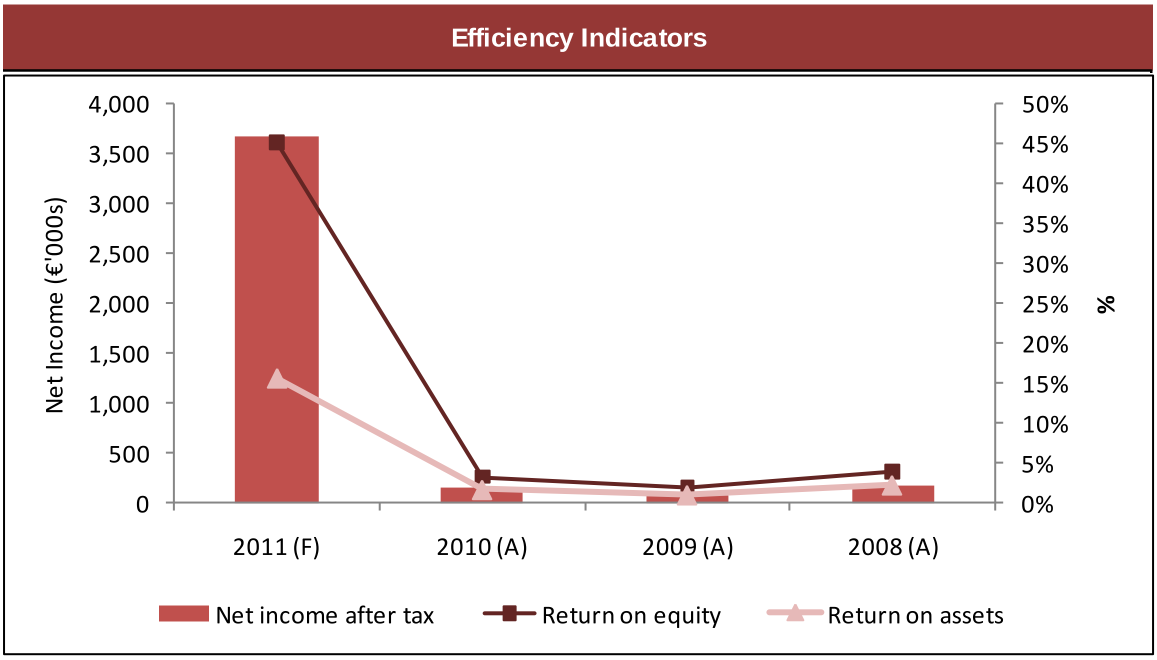
	2011 Forecast	2010 Audited	2009 Audited	2008 Audited
Return on Equity	45.3%	3.2%	1.9%	4.0%
Return on Capital Employed	12.5%	8.5%	6.8%	7.1%
Return on Assets	15.6%	1.7%	1.0%	2.3%

Equity ratios

	2011 Forecast	2010 Audited	2009 Audited	2008 Audited
Earnings per Share (€)	1.83	0.07	0.04	0.08

Revenue to Gross Profit and Net Income





2 Cash flow data

€'000s	2011 Forecast	2010 Audited	2009 Audited	2008 Audited
Cash flow from Operating activities	3,087	494	1,125	323
Cash flow from Investing activities	(10,245)	(927)	(530)	(506)
Cash flow from Financing activities				
Bond Issue	9,927			
Transactions with shareholders	286	(168)	(45)	(97)
Net cash flow	3,055	(602)	550	(280)

Commentary

The Group`s revenues throughout the four year period ended 31 December 2011 relate principally to the operation of its factory and of its retail outlets in the food and beverage industry. This sector in Malta is a highly competitive market with other significant players in the market apart from ABC plc.

The Group expects to register a 14% growth in turnover in 2011, without necessitating added investment or employment, and this is forecast to result in an improvement in its gross, operating and net income margins. In 2010 the gross margin of the Group improved by 5.8%, and this is expected by management to improve by a further 8% in 2011.

As already noted, the Group is looking to grow its business by building a new, larger factory, by acquiring three new outlets and through the franchising of outlets owned and operated by third parties. The factory will add to capacity and will also permit the development of new products in response to customer demand. Beyond 2011, management expects to attain material improvements in operating and net income margins through these investments and initiatives.

The Group's manufacturing activities are conducted by ABC (Mfg) Limited, which is also the Group's principal operating entity and which generates the major part of the profits of the Group. The building of the new factory is forecast to result, during 2011, in expenditure in the region of €6 million that is eligible for the granting of tax credits in terms of the Industrial Development Act. This investment is forecast to result in tax credits totalling €2.4 million. Of this entitlement, the amount of €683,000 is forecast to be utilised during 2011, while that the balance of €1.7 million is expected to be utilised in the period 2012 to 2014.

PART 3

Financial Position: 3 year analysis plus current year forecast

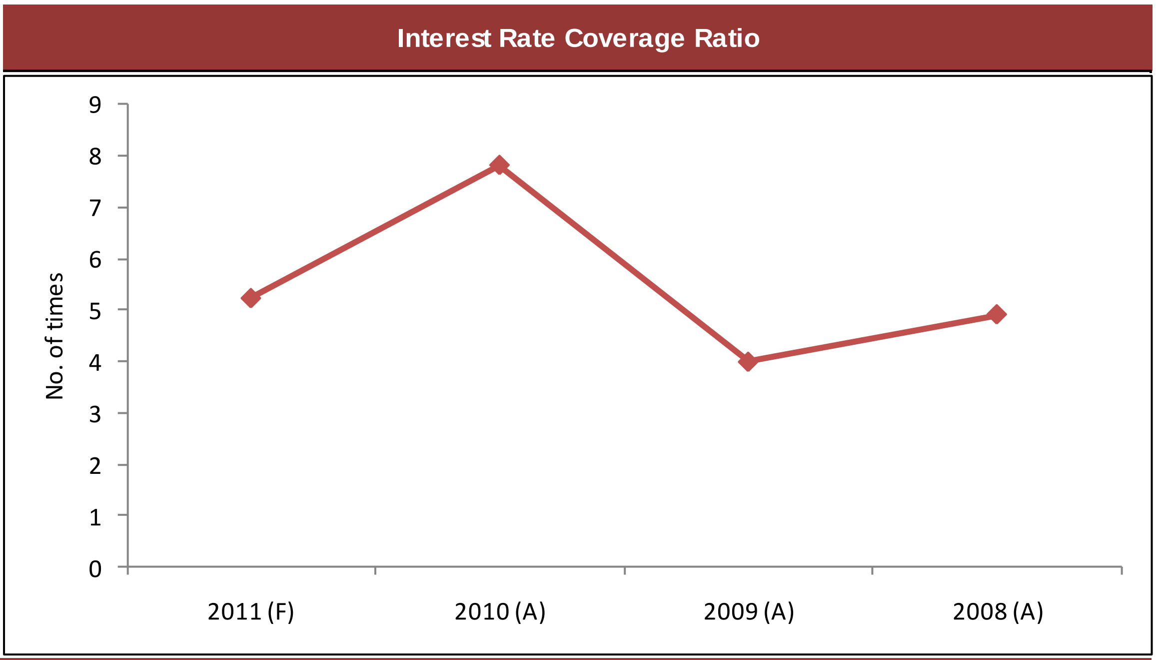
3 Balance Sheet data

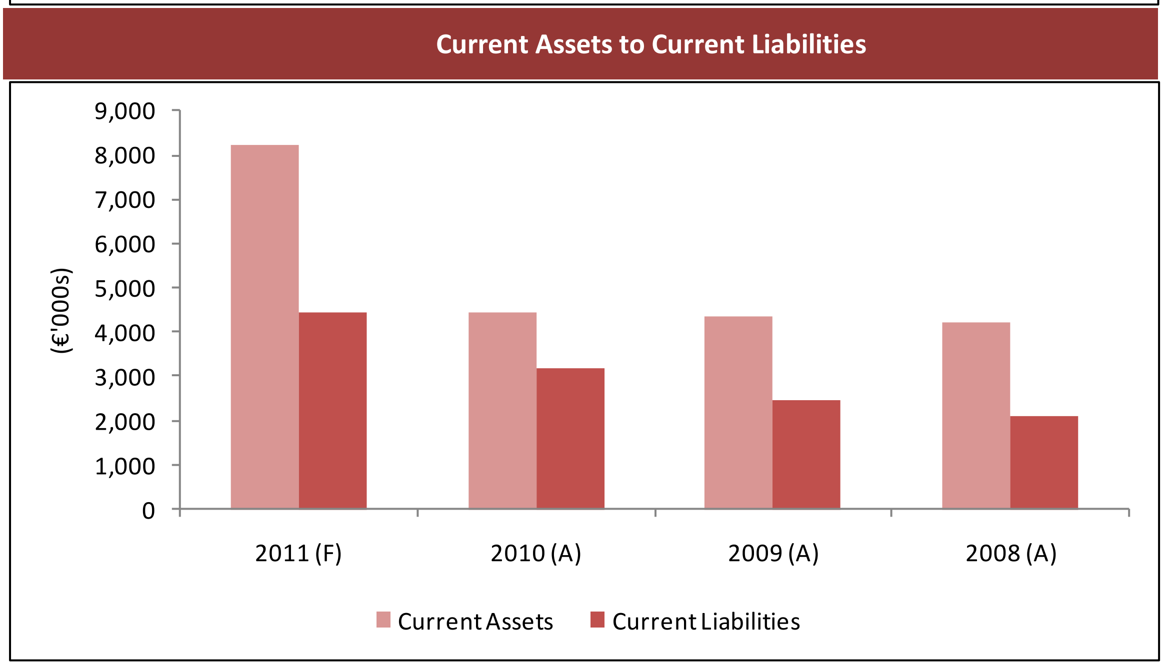
€'000s	2011 Forecast	2010 Audited	2009 Audited	2008 Audited
Fixed Assets	15,354	3,972	3,387	3,152
Net Current Assets	3,776	1,281	1,890	2,089
Current Liabilities	4,440	3,163	2,478	2,107
Long-Term Liabilities - 6% bond (2021)	10,000	-	-	-
Long-Term Liabilities - shareholders	1,025	812	981	1,026
Total Equity	8,106	4,440	4,296	4,215

Financial ratios

	2011 Forecast	2010 Audited	2009 Audited	2008 Audited
Current ratio	1.9	1.4	1.8	2.0
Interest coverage ratio (prior to bond issue)		7.8	4.0	4.9
Interest coverage ratio (after bond issue) (1)	5.2			
Net debt to equity ratio	57.6%	15.5%	18.6%	19.6%

[1] The Interest coverage ratio (after bond issue) is based on the forecast results for 2011, which reflect the interest cost on the proposed bond issue between the date of issue and 31 December 2011. It is to be noted that the benefits of the planned investments will not be reflected in the company's financial statistics until 2012.





[Note -This illustrative example relates to a company whose equity is privately held. Ratios relating to dividends and share price are therefore not relevant.]

Commentary

The capital investment on the new assets is expected to be in the region of €10.2 million, and will be largely financed from the net proceeds of the bond issue.

Cash balances are expected to total €3.4 million at 31 December 2011, an increase of €3.1 million when compared to 2010. As explained in the Prospectus, management expects that a portion of this liquidity will be absorbed in 2012 as the company completes the working capital investment required in the light of the targeted growth, both in terms of added stock and in terms of the financing of trade debt with franchisees. Management does not expect, therefore, that any further borrowings will be required to bring the planned investment into fruition. This business will remain in the main a cash retail operation, with a product base having a relatively short shelf life, and overall levels of working capital are expected to remain low.

In the immediate years ahead, liquidity will also be enhanced through the impacts of the IDA tax credits already commented upon above.

The planned investments and the Bond Issue will bring about a material change in the company's gearing and asset base. The bonds will entail an interest cost of €600,000 per annum (less tax thereon); contributions averaging €500,000 per annum over the life of the Bonds; and the settlement of the balance of the Bonds upon maturity.

These commitments need to be judged in the first place in the context of the business growth that management expects to generate through the investment project, which is described in the Prospectus. Investors need moreover to consider related impacts such as the rental savings anticipated when the existing factory is vacated, and the investment tax credits that the Group's manufacturing subsidiary is entitled to. The Bond commitments also need to be assessed in the context of the existing profitability of the Group and its positive track record in recent years.

The Group's equity is fully held by the Borg family and all earnings have in recent years been retained in the business in order to accelerate its growth. The Borg family has covenanted not to distribute dividends in any one year if the contribution made in that year towards the sinking fund on the Bonds amounts to less than €750,000, the covenant expiring when the Sinking Fund, together with any bond repurchases made, reaches 50% of the amount raised by the Bond issue.

Key market and competitor data

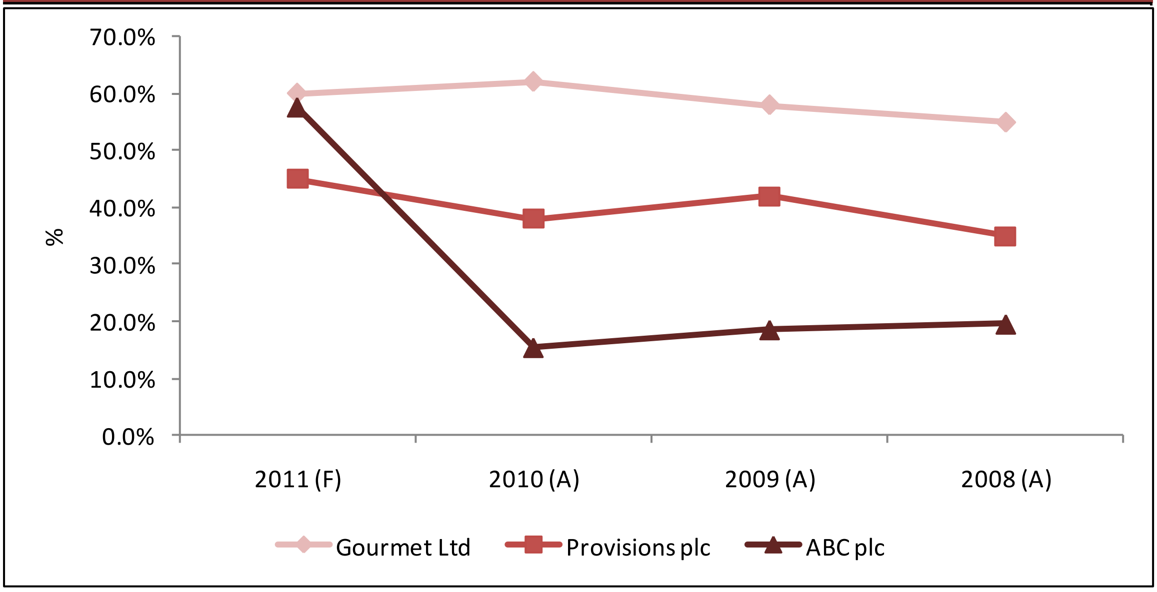
Principal market players				
Company	**Key activities**	**Revenue €'000**	**Unabridged audited accounts available**	**For the year ended**
Gourmet Ltd	Food and beverages production and retailing	15,000	Yes	`December 2010
DHY Food supplies Ltd	Catering	6,000	No	
M&M plc	Production and importation of food supplies	12,000	No	
Provisions plc	Food and beverages production and retailing	30,000	Yes	`September 2010
ABC plc	Food and beverages production and retailing	16,000	Yes	`December 2010

Key market and competitor data

Net profit before tax to turnover	2011 Forecast	2010 Audited	2009 Audited	2008 Audited
Gourmet Ltd	n/a	4.2	1.6	1.7
Provisions plc	n/a	5.4	5.6	7.1
ABC plc	11.4%	2.7%	2.2%	2.6%

Competitors` gearing ratios	2011 Interim	2010 Audited	2009 Audited	2008 Audited
Gourmet Ltd	60.0%	62.0%	58.0%	55.0%
Provisions plc	45.0%	38.0%	42.0%	35.0%
ABC plc	57.6%	15.5%	18.6%	19.6%

Competitor Analysis - Gearing ratios



Listed debt and other securities of the Issuer and its related parties

Issuer/ Related Company	Definition of relationship	List of securities
ABC Finance plc	ABC plc holds 67% of the ordinary shares of ABC Finance plc	5.5% Bonds 2016 – 2018 (€15million); issued in 2008
XYZ Finance plc	XYZ Finance plc holds 30% of the ordinary shares of the Issuer	30,000,000 ordinary shares issued at a nominal value of €0.4cents; issued in 2007
G&M plc	ABC plc holds 50% of the ordinary shares of G&M plc	6% Bonds 2014 – 2016 (€20million); issued in 2006

Part 4 Explanatory definitions

Parameters	Definitions
Income statement	
Total Revenues	Total revenues generated by the company from its business activities such as sale of goods during the financial year.
Cost of Goods Sold (COGS)	COGS include cost of material, labour expenses, and all other direct expenses.
Gross Profit	Gross Profit is the difference between revenue and COGS. It refers to the profit made by the company before deducting selling and distribution and other operating expenses.
Operating Expenses	Operating expenses includes all operating expenses (other than COGS) like selling, general and administration, research & development and other operating expenses.
Non-Operating Income	Non-Operating income refers to the profit made by the company during the financial year from its non-operating activities.
Net Income	Net income is the profit made by the company during the financial year both from its operating as well as non-operating activities.
Profitability ratios	
Gross Margin	Gross margin the difference between revenue and COGS expressed as a percentage of total revenue.
Operating Margin	Operating income expressed as a percentage of total revenue.
Net Income Margin	Net income margin is net income i.e. the profit made by the company during the financial year expressed as a percentage of total revenue.
Efficiency Ratios	
Return on Equity	Return on Equity (ROE) measures the rate of return on the shareholders' equity of the common stock owners, computed by dividing Net Income by Shareholder’s Equity.
Return on Capital Employed	Return on Capital Employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing Operating Profit by Capital Employed.
Return on Assets	Return on Assets (ROA) is computed by dividing Net Income by Total Assets.
Equity Ratios	
Earnings per Share	EPS (Earnings per Share) 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.
Dividend Cover	Dividend cover is the ratio of net income over the dividend paid to shareholders. It is a measure of the ability of a company to maintain the level of dividend paid out.

Cash Flow	
Cash flow from Operating Activities	Cash generated from the principal revenue-producing activities of the company.
Cash from Investing Activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the company.
Cash from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of a company.
Free Cash Flow	Free Cash Flow is arrived at by deducting Capital expenditure from Cash generated from Operating Activities.
Balance Sheet	
Fixed Assets	Fixed assets are long-term tangible assets that a company owns and uses in the production of its income.
Net Current Assets	Net current assets are current assets less current liabilities.
Current Assets	Current assets are all assets of the company, which are realisable within one year from the balance sheet date, this includes accounts receivable, inventory, cash & bank balance.
Total Current Liabilities	All liabilities payable by the company within a period of one year from the balance sheet date, this includes accounts payable and short-term debt.
Long-term Liabilities	A company's long-term liabilities are accounted for by its debt obligations to other parties that last longer than one year.
Provisions	Provisions are liabilities of uncertain timing or amount.
Total Equity	Total equity includes share capital, additional share capital, retained earnings, comprehensive income/loss and treasury stock.
Financial Strength Ratios	
Current ratio	The current ratio is a financial ratio that measures whether or not a firm has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities.
Interest rate coverage ratio	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expenses of the same period.
Net debt to equity ratio	The net debt to equity ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets.
Key Statistics and other Key Ratios	
Total shares outstanding	Total shares outstanding refer to the shares outstanding as on Balance Sheet date.
Year-end Share Price	Year-end Share Price is the closing share price of the company as on the Balance Sheet Date.
P/E multiple	The P/E multiple indicates the number of times the EPS (Earnings per Share) is valued in relation to price per share of the company. It is arrived at by dividing year-end closing share price by Earnings per Share.

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