



## COMPANY ANNOUNCEMENT

The following is a company announcement issued by Pendergardens Developments plc (“the Company”) pursuant to the Malta Financial Services Authority Listing Rules.

Quote

### **Approval of Annual Report and Financial Statements 2020**

The Company's Board of Directors have today the 28<sup>th</sup> April 2021 approved the Company's Annual Report and Financial Statements for the financial year ended 31 December 2020.

The said Annual Report and Financial Statements are attached to this Announcement and are available for viewing in the Investors' Section of the Company's website at <http://pendergardens.com/investors/financial-reports/>

Unquote



Dr. Massimo Vella  
Company Secretary

28<sup>th</sup> April 2021

PENDERGARDENS DEVELOPMENTS P.L.C.

Annual Report and Financial Statements  
31 December 2020

PENDERGARDENS DEVELOPMENTS P.L.C.  
Annual Report and Financial Statements - 31 December 2020

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## Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2020.

### 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 'Pendergardens Tower' at Pendergardens in St. Julians, Malta.

### Review of the business

Works on Block 16 were completed in 2015. All properties within this Block had been sold by the end of 2019.

Block 17 was completed at the end of October 2018. In 2020, 3 contracts of sale were signed in relation to this Block, generating a total sales revenue of €2.1 million. These sales represented the disposal of the last three remaining units within this Block, together with 3 car spaces.

Pendergardens Tower was completed in May 2020. Of the 30 residences available, 9 units and a penthouse were already sold in 2019. In 2020 a further 9 properties and 10 car spaces were sold, contributing a total of €9.2 million in sales revenues. At 31 December 2020 a further 4 units were subject to preliminary agreements, representing sales revenue of €3.7 million including the associated car spaces.

The operations of the public car park were strongly impacted by COVID-19 restrictions since entertainment venues in the area were on lockdown for several weeks in 2020. Besides, demand for parking space during office hours also experienced a downturn due to remote working. Nonetheless, overall occupancy and financial results showed an improvement over 2019, reflecting the Company's commitment to remain competitive and improve occupancy levels.

All the office and retail spaces of Block 16, Block 17 and Pendergardens Tower are available on the market for sale or lease. As of 31 December 2020, seven lease agreements have been signed. Four agreements are for retail units, three within Block 16 and one within Pendergardens Tower. Three other agreements are in respect of 5 floors out of the 7 floors available within Pendergardens Tower. The company has intensified its efforts to lease the remaining office and retail areas.

During the year ended 31 December 2020, the Company generated a profit before tax of €1,276,127 (2019: €4,343,683). After accounting for taxation, the Company generated a profit for the year of €1,148,038 (2019: €2,630,953).

Revenue of €11,305,536 (2019: €21,409,125) was generated from the sale of 3 apartments in Block 17, 9 apartments in Pendergardens Tower and 13 car spaces in the residential car park. The corresponding cost of sales amounted to €7,815,691 (2019: €13,922,968).

Selling expenses of €472,548 (2019: €931,712) relate to estate agents' commissions paid upon the sale of the apartments and car spaces. Administrative expenses include salary costs recharged by the parent company of €413,599 (2019: €513,067). Administrative expenses are further analysed in Note 15 to the financial statements.

Finance costs mainly consist of bond interest payable of €1,979,348 (2019: €1,717,741). In prior years, a portion of the interest was capitalised as part of the property cost while construction was still underway. This was discontinued in 2020 as the Tower Residences were already substantially complete as at 31 December 2019.

## Directors' report - continued

### Financial Performance

In 2017 the cost of commercial property included within Block 16 was transferred from Inventory - Development Project to Investment Property. Furthermore, in 2018 all the remaining commercial property including that of Block 17 and Pendergardens Tower, was transferred from Inventory - Development Project to Investment Property (Notes 4 and 6). The entire commercial property classified as Investment Property was valued by an independent architect at €32,800,000 (2019: €32,800,000). At 31 December 2020 cumulative changes in the fair value of investment property of €17,800,981 (2019: €17,800,981) represented the increase to fair value of all commercial areas in Block 16, Block 17 and Pendergardens Tower.

The performance of the Company is consistent with expectations, and the Directors, basing their assessments on the latest budgets and projections, expect the Company to continue to be profitable in the foreseeable future.

### Financial Position

Total assets as at 31 December 2020 stood at €60,578,027 (2019: €82,918,351), a decrease of €22,340,324 over the previous year. This movement is explained as follows:

- The decrease in borrowings upon repayment of the outstanding balance on the Series I €15 million 5.5% Secured Bonds 2020 on 31 May 2020, and the repurchase for cancellation of €5,035,900 of the Series II €27m 6% Secured Bonds 2022;
- The net decrease in the reserve account linked to the bond repayment resulting in a balance of €4,992,185 at 31 December 2020 (2019: €16,642,786);
- The decrease in the value of inventory to €7,396,525 (2019: €12,583,326), stemming from the sales of apartments and car spaces;
- The decrease in lower amounts owed by related parties.

At 31 December 2020 the Revaluation Reserve of €16,160,981 was unchanged from the previous year-end. The balance represents the difference between the historical cost and the fair value of the investment property, net of deferred tax. Deferred tax liabilities of €940,000 (2018: €940,000) represent temporary differences on fair valuation of investment property and impairment of property, plant and equipment.

The Borrowings of €21,705,927 (2019: €41,339,307) relate entirely to the outstanding amount on the Series II €27 million 6% Secured Bonds 2022 since the Series I €15 million 5.5% Secured Bonds 2020 were redeemed. During 2020, the Company repurchased and subsequently cancelled €5,035,900 of the outstanding 6% Secured Bonds 2022 (Note 11). The total value of cancelled 6% Secured Bonds at 31 December 2020 amounted to €5,114,700.

Current liabilities of €7,068,666 (2019: €25,613,148) mainly comprise deposits on promise of sale agreements and amounts due to a fellow subsidiary in relation to construction and finishing works on Pendergardens Tower as detailed in Note 12 to the financial statements.

## **Directors' report** - continued

### **Principal risks and uncertainties**

The company is subject to the general market and economic risks that may have a significant impact on the development project, its timely completion and budgetary constraints. These include factors such as the state of the local property market, inflation and fluctuations in interest rates, property prices and other economic and social factors affecting demand for real estate in general.

A detailed review of the risk management policies employed by the company is included in Note 2 to the financial statements.

### **Financial risk management**

The company's activities expose it to a variety of financial risks, including market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. Refer to note 2 in the financial statements.

### **Results and dividends**

The statement of comprehensive income is set out on page 25. The directors do not recommend the payment of a dividend. The directors have proposed that the balance of retained earnings amounting to €4,251,253 (2019: €3,103,215) for the company be carried forward to the next financial year.

### **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

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

### **Statement of directors' responsibilities for the financial statements**

The directors are required by the Maltese Companies Act (Cap. 386) 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.

## **Directors' report** - continued

### **Statement of directors' responsibilities for the financial statements** - continued

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 an internal control system as is deemed 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 Maltese Companies Act (Cap. 386). 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 p.l.c. for the year ended 31 December 2020 are included in the Annual Report 2020, 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 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 Ordinary shares of €1 each and its issued share capital amounts to €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 2020, 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.

##### *Share capital structure - continued*

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 Maltese Companies Act (Cap. 386).

##### *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 year ended 31 December 2020.

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

**Disclosures 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:  
Pendergardens Business Centre,  
14 Level 1,  
Pendergardens,  
St. Andrews Road,  
St. Julians  
Malta

28 April 2021

## **Corporate Governance - Statement of Compliance**

### **A. Introduction**

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.

### **B. 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 2020, 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.

#### **Principle 1: 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 monitored performance on the project. The Company has in place systems whereby the directors obtain timely information from the Chief Operating Officer of the Pender Group, not only at meetings of the Board but at regular intervals or when the need arises.

#### **Principle 2: Chairman and Chief Operating Officer**

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

#### **Principle 3: Composition of the Board**

The Board is composed of three non-executive directors and two independent non-executive directors, as listed below.

#### **Non-executive Directors**

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

## **Corporate Governance - Statement of Compliance** - continued

### **B. Compliance** - continued

#### **Principle 3: Composition of the Board** - continued

##### **Independent, non-executive Directors**

Mr. Philip Farrugia  
Mr. Joseph F. X. Zahra

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 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.

#### **Principle 4 and 5: The responsibilities of the Board and Board meetings**

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 Operating 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.

The Board appointed an independent internal auditor who attends Audit Committee meetings.

The Internal Auditor's role is to assess the effectiveness of implemented internal controls and to provide to the Company's Board of Directors through the Audit Committee with an opinion on the effectiveness of the internal control and risk management framework within the Company.

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 advice 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

### **B. Compliance** - continued

#### **Principles 4 and 5: The responsibilities of the Board and Board meetings** - continued

The Board met formally 9 times during the period under review. The number of board meetings attended by directors for the year ended 31 December 2020 is as follows:

| <b>Members</b>          | <b>Attended</b> |
|-------------------------|-----------------|
| Edmund Gatt Baldacchino | 9               |
| Edward Licari           | 9               |
| John Attard             | 9               |
| Philip Farrugia         | 9               |
| Joseph F. X. Zahra      | 9               |

#### **Principles 6 and 7: Evaluation of the Board's performance**

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.

#### **Principle 8: Committees**

##### **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 bondholders and assist the directors in conducting their role effectively. 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 Joseph F.X. Zahra 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.

The Committee met 9 times during the year to 31 December 2020.

## **Corporate Governance - Statement of Compliance** - continued

### **C. Compliance** - continued

#### **Principle 8: Committees** - 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 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 Operating 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 €52,000 (2019: €52,000) in aggregate for services rendered during the year ended 31 December 2020.

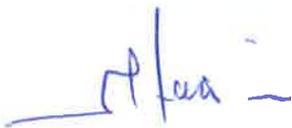
#### **Principles 9 and 10: Relations with bondholders and the market**

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

#### **Principle 11: 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 28 April 2021 by:



Mr. Philip Farrugia  
Director and Chairman of the Audit Committee



Mr. Edmund Gatt Baldacchino  
Chairman of the Board



## *Independent auditor's report*

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

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion:

- The financial statements give a true and fair view of the financial position of Pendergardens Developments p.l.c. (the Company) as at 31 December 2020, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

#### **What we have audited**

Pendergardens Developments p.l.c.'s financial statements, set out on pages 23 to 56, comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Company, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 15 to the financial statements.

## *Independent auditor's report - continued*

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

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### *Our audit approach*

#### **Overview**



Overall materiality: €287,000, which represents approximately 0.5% of total assets.

- Inventory valuation
- Fair valuation of investment property
- Valuation of the public car park

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

#### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



## Independent auditor's report - continued

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

|  |   |
|--|---|
| <b>Overall materiality</b>                             | €287,000  |
| <b>How we determined it</b>                            | Approximately 0.5% of total assets  |
| <b>Rationale for the materiality benchmark applied</b> | <p>We chose total assets as the benchmark because, in our view, it is the benchmark against which the underlying value of the Company is most commonly measured by users, and is a generally accepted benchmark. This benchmark also provides us with a consistent year-on-year basis for determining materiality given that turnover is dependent on when final deeds are signed, resulting in widely fluctuating revenues and related results year on year.</p> <p>We chose 0.5%, which is within the range of quantitative materiality thresholds that we consider acceptable.</p> |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €29,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter  | How our audit addressed the Key audit matter   |
|---|--|
| <b>Inventory valuation</b> <p>The carrying amount of inventory in the statement of financial position represents the value of the land, development and borrowing costs attributable to the various phases of the Pendergardens Development project which are either held for sale or under development as at 31 December 2020, analysed by project phase.</p> <p>For each project phase, management assesses whether inventory is carried at the lower of cost and net realisable value.</p> | <p>We understood and evaluated the assessment performed by management to ascertain whether inventory is carried at the lower of cost and net realisable value.</p> <p>Our audit procedures included a review of the projected financial information prepared by management with the objective of estimating recoverable amounts. The Board has considered a number of scenarios as reflected in the bond prospectus through which these assets can be realised.</p> <p>We have reviewed various promise of sale agreements and also final deeds for phases that are completed, which indicate a realisable value attributable to inventory in excess of the carrying amount.</p> |



## *Independent auditor's report - continued*

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

| Key audit matter  | How our audit addressed the Key audit matter   |
|---|--|
| <p>Further disclosure is included in Note 3 (Critical accounting estimates and judgements) and Note 6 (Inventory - Development project).</p> <p>We focused on this area because of the significance of the carrying value of inventories, and the judgemental nature of the assumptions used by management in the assessment described above.</p> | <p>We have noted that the demand for properties under development remained healthy and preliminary agreements continue being entered into leaving stock available for sale limited to a limited amount of units, penthouses and car spaces.</p> <p>We have also discussed with management and the audit committee the key assumptions underlying the assessment performed.</p> <p>We concluded, based on our audit work, that the outcome of the assessment is not unreasonable.</p> |

### *Fair valuation of investment property*

The Company's assets comprise properties held for long-term rental yields or for capital appreciation or both, not occupied by the Company, and which are classified as investment property and accounted for at fair value.

Over the past years the Company transferred a number of commercial outlets and office spaces in Block 16 and Block 17 of Pendergardens from Inventory – development project to Investment property following the decision to hold such properties for lease to third parties.

Valuation of investment property is performed annually by the directors on the basis of valuation report prepared every three years by independent and qualified valuers.

Investment property was revalued by an external and independent valuer in two tranches, one as at 31 December 2017 and the second as at 31 December 2018 for a total amount of €32.8m. This amount reflects the value at year end.

We agreed the property information in the valuation to the underlying property records held by the Company. We understood the methodology, tested the accuracy of the workings within the valuation model, and challenged the assumptions to ensure that they apply for the year under review.

We considered whether assumptions applied, such as the sales price per square meter, were appropriately supported by management.

We engaged our in-house valuation experts to assess and challenge the key assumptions used in management's valuation, with particular focus placed on the assumptions and methodology used to support the fair value. Third party evidence and other data was obtained to corroborate the assumptions.

We held meetings with the directors and the Audit Committee to discuss the year-end valuations.

In addition, we evaluated the adequacy of the disclosures made in Note 4 to the financial statements, including those regarding the key assumptions.

We concluded, based on our audit work that the valuations were within a reasonable range.



## *Independent auditor's report - continued*

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

### **Key audit matter**

### **How our audit addressed the Key audit matter**

As explained in Note 4 to the financial statements, the most significant judgements and estimates affecting the valuations include open market values for similar properties.

The existence of significant estimates referred to previously could result in material misstatement, which is why we have given specific focus and attention to this area.

#### *Valuation of the public car park*

The Company's assets comprise property held for short-term and long-term lease, which are classified as property, plant and equipment and accounted for using the cost model.

During 2018 the Company transferred the car spaces from Inventory – development project to property, plant and equipment following the decision to hold and manage such property for lease as a public car park to third parties.

Such property is subject to an annual impairment assessment. Management assesses whether the public car park classified as property, plant and equipment has a carrying amount that exceeds its recoverable amount.

The key inputs in the underlying impairment model include free pre-tax cash flows that are based on contracted and projected income streams covering the expected useful life of the asset, the growth rate and discount rate, coupled with a sales comparative approach.

We understood and evaluated the impairment model supporting the carrying value of the property. Our audit procedures included a review of the projected financial information prepared by management. We agreed the projected information to the relevant inputs in the model, and to the extent possible, agreed these inputs to the terms of the existing lease agreements. We also agreed inputs to recent transactions for sale of car spaces within the Pender Complex.

We tested the mathematical accuracy of the calculations.

We also engaged our own in-house valuation experts to assess and challenge the key assumptions used in the calculations including the growth rate, discount rate, and the sales price per square meter given that a marginal change in one of the inputs of the valuation has a significant impact on the valuation.

We have also discussed with management and the audit committee the key assumptions underlying the assessment performed.



## *Independent auditor's report - continued*

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

| Key audit matter  | How our audit addressed the Key audit matter  |
|---|---|
| <p>Management has determined that the most appropriate method for valuing the car spaces in the public car park should be based on a sales comparative approach.</p> <p>Further disclosure is included in Note 3 (Critical accounting estimates and judgements) and Note 5 (Property, plant and equipment).</p> <p>We focused on this area because of the significance of the carrying amount of the public car park in the Statement of the Financial Position and the judgemental nature of the assumptions used by management in the assessment described above.</p> | <p>In addition, we evaluated the adequacy of the disclosures made in Notes 3 and 5 to the financial statements, including those regarding the key assumptions.</p> <p>We concluded, based on our audit work that the valuation based on the sales comparative approach was within a reasonable range compared with the carrying value of the property as at year-end.</p> |

### *Other information*

The directors are responsible for the other information. The other information comprises the Directors' report and the Corporate Governance - Statement of Compliance (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## *Independent auditor's report - continued*

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

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### *Responsibilities of the directors and those charged with governance for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



## *Independent auditor's report - continued*

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers and suppliers, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## *Report on other legal and regulatory requirements*

The Annual Report and Financial Statements 2020 contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the Other information section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.



## *Independent auditor's report - continued*

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

| <b>Area of the Annual Report and Financial Statements 2020 and the related Directors' responsibilities</b>  | <b>Our responsibilities</b>  | <b>Our reporting</b>   |
|---|--|--|
| <p><b>Directors' report</b><br/>(on pages 1 to 6)<br/>The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.</p> | <p>We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p> | <p>In our opinion:</p> <ul style="list-style-type: none"><li>• the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and</li><li>• the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).</li></ul> <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p> |



## Independent auditor's report - continued

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

| Area of the Annual Report and Financial Statements 2020 and the related Directors' responsibilities   | Our responsibilities   | Our reporting   |
|---|--|---|
| <p><b>Corporate Governance - Statement of Compliance</b><br/>(on pages 7 to 10)</p> <p>The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in the Annual Report a Statement of Compliance with the Code of Principles of Good Corporate Governance within Appendix 5.1 to Chapter 5 of the Listing Rules. The Statement's required minimum contents are determined by reference to Listing Rule 5.97. The Statement provides explanations as to how the Company has complied with the provisions of the Code, presenting the extent to which the Company has adopted the Code and the effective measures that the Board has taken to ensure compliance throughout the accounting period with those Principles.</p> | <p>We are required to report on the Statement of Compliance by expressing an opinion as to whether, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Listing Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements.</p> <p>We are also required to assess whether the Statement of Compliance includes all the other information required to be presented as per Listing Rule 5.97.</p> <p>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.</p> | <p>In our opinion, the Statement of Compliance has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.</p> <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p> |



## *Independent auditor's report - continued*

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

| <i>Area of the Annual Report and Financial Statements 2020 and the related Directors' responsibilities</i> | Our responsibilities   | Our reporting   |
|--|--|---|
|  | <p><b>Other matters on which we are required to report by exception</b></p> <p>We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:</p> <ul style="list-style-type: none"><li>• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.</li><li>• the financial statements are not in agreement with the accounting records and returns.</li><li>• we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.</li></ul> <p>We also have responsibilities under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.</p> | <p>We have nothing to report to you in respect of these responsibilities.</p> |



## *Independent auditor's report - continued*

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

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### *Other matter – use of this report*

Our report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

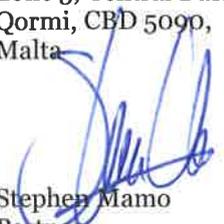
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### *Appointment*

We were first appointed as auditors of the Company on 14 November 2012. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 8 years.

#### **PricewaterhouseCoopers**

78, Mill Street  
Zone 5, Central Business District  
Qormi, CBD 5090,  
Malta



Stephen Mamo  
Partner

28 April 2021

## Statement of financial position

|                                 | Notes | As at 31 December |            |
|---------------------------------|-------|-------------------|------------|
|                                 |       | 2020<br>€         | 2019<br>€  |
| <b>ASSETS</b>                   |       |                   |            |
| <b>Non-current assets</b>       |       |                   |            |
| Investment property             | 4     | <b>32,800,000</b> | 32,800,000 |
| Property, plant & equipment     | 5     | <b>7,583,663</b>  | 7,876,626  |
| Trade and other receivables     | 7     | <b>4,992,185</b>  | 2,456,486  |
| Total non-current assets        |       | <b>45,375,848</b> | 43,133,112 |
| <b>Current assets</b>           |       |                   |            |
| Inventory - development project | 6     | <b>7,396,525</b>  | 12,583,326 |
| Trade and other receivables     | 7     | <b>2,232,694</b>  | 19,150,319 |
| Current tax asset               |       | <b>758,003</b>    | 324,804    |
| Cash and cash equivalents       | 8     | <b>4,814,957</b>  | 7,726,790  |
| Total current assets            |       | <b>15,202,179</b> | 39,785,239 |
| <b>Total assets</b>             |       | <b>60,578,027</b> | 82,918,351 |

**Statement of financial position - continued**

|                                      |       | <b>As at 31 December</b> |            |
|--------------------------------------|-------|--------------------------|------------|
|                                      | Notes | 2020<br>€                | 2019<br>€  |
| <b>EQUITY AND LIABILITIES</b>        |       |                          |            |
| <b>Capital and reserves</b>          |       |                          |            |
| Share capital                        | 9     | 9,079,000                | 9,079,000  |
| Revaluation reserve                  | 9     | 16,160,981               | 16,160,981 |
| Retained earnings                    |       | 4,251,253                | 3,103,215  |
| <b>Total equity</b>                  |       | <b>29,491,234</b>        | 28,343,196 |
| <b>Non-current liabilities</b>       |       |                          |            |
| Deferred tax liabilities             | 10    | 940,000                  | 940,000    |
| Other provisions                     | 13    | 1,394,000                | 1,394,000  |
| Borrowings                           | 11    | 21,684,127               | 26,628,007 |
| <b>Total non-current liabilities</b> |       | <b>24,018,127</b>        | 28,962,007 |
| <b>Current liabilities</b>           |       |                          |            |
| Borrowings                           | 11    | -                        | 14,711,300 |
| Trade and other payables             | 12    | 7,068,666                | 10,901,848 |
| <b>Total current liabilities</b>     |       | <b>7,068,666</b>         | 25,613,148 |
| <b>Total liabilities</b>             |       | <b>31,086,793</b>        | 54,575,155 |
| <b>Total equity and liabilities</b>  |       | <b>60,578,027</b>        | 82,918,351 |

The notes on pages 28 to 56 are an integral part of these financial statements.

The financial statements on pages 23 to 56 were authorised for issue by the board of directors on 28 April 2021 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 |              |
|---|-------|------------------------|--------------|
|   |       | 2020<br>€              | 2019<br>€    |
| Revenue   | 14    | <b>12,765,735</b>      | 22,115,283   |
| Direct operating costs                                      | 15    | <b>(8,434,373)</b>     | (14,486,811) |
| <b>Gross profit</b>   |       | <b>4,331,362</b>       | 7,628,472    |
| Selling expenses  | 15    | <b>(478,109)</b>       | (935,176)    |
| Administrative expenses                                     | 15    | <b>(756,754)</b>       | (876,399)    |
| Other income  |       | <b>178,451</b>         | 222,496      |
| <b>Operating profit</b>                                     |       | <b>3,274,950</b>       | 6,039,393    |
| Finance income  | 17    | <b>4,323</b>           | 22,031       |
| Finance costs   | 17    | <b>(2,003,146)</b>     | (1,717,741)  |
| <b>Profit before tax</b>                                    |       | <b>1,276,127</b>       | 4,343,683    |
| Tax expense   | 18    | <b>(128,089)</b>       | (1,712,730)  |
| <b>Profit for the year -<br/>total comprehensive income</b> |       | <b>1,148,038</b>       | 2,630,953    |
| <br>  |       |                        |              |
| Earnings per share  | 19    | <b>0.13</b>            | 0.29         |

The notes on pages 28 to 56 are an integral part of these financial statements.

**Statement of changes in equity**

|                                    | Share<br>capital<br>€ | Revaluation<br>reserve<br>€ | Retained<br>earnings<br>€ | Total<br>€        |
|------------------------------------|-----------------------|-----------------------------|---------------------------|-------------------|
| Balance at 1 January 2019          | 9,079,000             | 16,160,981                  | 472,262                   | 25,712,243        |
| <b>Comprehensive income</b>        |                       |                             |                           |                   |
| Profit for the year                |                       |                             |                           |                   |
| - total comprehensive income       | -                     | -                           | 2,630,953                 | 2,630,953         |
| <b>Balance at 31 December 2019</b> | <b>9,079,000</b>      | <b>16,160,981</b>           | <b>3,103,215</b>          | <b>28,343,196</b> |
| Balance at 1 January 2020          | 9,079,000             | 16,160,981                  | 3,103,215                 | 28,343,196        |
| <b>Comprehensive income</b>        |                       |                             |                           |                   |
| Profit for the year                |                       |                             |                           |                   |
| - total comprehensive income       | -                     | -                           | 1,148,038                 | 1,148,038         |
| <b>Balance at 31 December 2020</b> | <b>9,079,000</b>      | <b>16,160,981</b>           | <b>4,251,253</b>          | <b>29,491,234</b> |

The notes on pages 28 to 56 are an integral part of these financial statements.

## Statement of cash flows

|  | Notes | Year ended 31 December |                    |
|--|-------|------------------------|--------------------|
|  |       | 2020<br>€              | 2019<br>€          |
| <b>Cash flows from operating activities</b>            |       |                        |                    |
| Cash generated from/(used in) operations               | 20    | 19,416,859             | (4,336,965)        |
| Income tax paid  |       | (561,288)              | (1,530,961)        |
| Interest received                                      |       | 4,323                  | 22,031             |
| Interest paid  |       | (2,003,146)            | (1,717,741)        |
| Net cash generated from/(used in) operating activities |       | 16,856,748             | (7,563,636)        |
| <b>Cash flows from investing activities</b>            |       |                        |                    |
| Purchases of property, plant & equipment               |       | (21,381)               | (55,641)           |
| Net cash used in investing activities                  |       | (21,381)               | (55,641)           |
| <b>Cash flows from financing activities</b>            |       |                        |                    |
| Redemption of bonds                                    |       | (14,711,300)           | -                  |
| Bond buybacks  |       | (5,035,900)            | -                  |
| Net cash used in financing activities                  |       | (19,747,200)           | -                  |
| <b>Net movement in cash and cash equivalents</b>       |       | <b>(2,911,833)</b>     | <b>(7,619,277)</b> |
| <b>Cash and cash equivalents at beginning of year</b>  |       | <b>7,726,790</b>       | <b>15,346,067</b>  |
| <b>Cash and cash equivalents at end of year</b>        | 8     | <b>4,814,957</b>       | <b>7,726,790</b>   |

The notes on pages 28 to 56 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 Maltese Companies Act (Cap. 386). The financial statements have been prepared under the historical cost convention, as modified by the fair valuation of investment property and available-for-sale financial assets.

As at 31 December 2020, the company is in a net current asset position of €8.1 million (2019: €14.2 million). The company has prepared projections for the coming 12 months and beyond, based on historical financial information and forecasts, but factoring in the disruption created by the COVID-19 pandemic.

Based on expected forecasts and given the company's solid equity position of €29.5 million as at 31 December 2020, the directors have concluded that the company will be able to meet its commitments both financial and otherwise. On this basis, the directors have assessed that the company is expected to have the necessary funds to finance its operations and commitments towards employees, creditors, and bond holders. Accordingly, the board continues to adopt the going concern basis in preparing the company's financial statements.

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 company's accounting policies (see Note 3 – Critical accounting estimates and judgments).

#### *Standards, interpretations and amendments to published standards effective in 2020*

In 2020, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2020. 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, not impacting the company's financial performance and position.

#### *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 2020. The company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

## 1. Summary of significant accounting policies - continued

### 1.2 Segment reporting

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

### 1.3 Foreign currency translation

#### *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.

### 1.4 Investment property

Investment property, comprising commercial property including offices and shops, that is held for long term rental yields or for capital appreciation or both, and which is not occupied by the Company is classified as investment property. Investment property is measured initially at its cost, which principally comprises land and buildings including 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.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors based on a valuation report prepared every three years by independent and qualified valuers. Investment property being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

**1.4 Investment property - continued**

Changes in fair values are recorded in the profit or loss for the year and then transferred to "Revaluation reserve" through the statement of changes in equity. Gains or losses on disposal are determined by comparing proceeds with carrying amount and are included in surplus or deficit.

**1.5 Property, plant and equipment**

All property, plant and equipment is initially recorded at historical cost.

All property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and capitalised borrowing costs.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

|                                       |      |
|---------------------------------------|------|
|                                       | %    |
| Buildings                             | 2    |
| Electrical & plumbing installations   | 4    |
| Other plant and operational equipment | 5-10 |

Assets in the course of construction are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

## 1. Summary of significant accounting policies - continued

### 1.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 1.7 Financial assets

The comparative information provided continues to be accounted for in accordance with the company's previous years accounting policy.

#### 1.7.1 Classification

The company classifies its financial assets as financial assets measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The company classifies its financial assets as at amortised cost only if both the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

*Assessment whether contractual cash flows are solely payments of principal and interest*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

#### 1.7.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the company commits to purchase or sell the asset. 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 the risks and rewards of ownership.

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

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

**1.7 Financial assets - continued**

**1.7.2 Recognition and measurement - continued**

Interest income on debt instruments measured at amortised cost from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition of these instruments is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

**1.7.3 Impairment**

The company assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The company's financial assets are subject to the expected credit loss model.

*Expected credit loss model*

The company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. The company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and it considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data such as significant financial difficulty of the borrower or issuer, or a breach of contract such as a default or being more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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

**1.7 Financial assets - continued**

**1.7.3 Impairment - continued**

*Simplified approach model*

For trade receivables, the company applies the simplified approach required by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2020 or 1 January 2020, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the liability of the customers to settle the receivable. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

**1.8 Inventory - development project**

The main objective of the Company is the development of two plots of land known as 'Block 16' and 'Block 17, Pendergardens Tower'. 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**

**1.9 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 expected credit loss allowances.

Details about the company's impairment policies and the calculation of loss allowance are provided in Note 1.7.

**1.10 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.

**1.11 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.

**1.12 Financial liabilities**

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The company's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities'). These financial liabilities are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

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

**1.14 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.

**1.15 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.

**1.16 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.

**1.17 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.

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

**1.17 Revenue recognition - continued**

*(c) Interest income*

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

**1.18 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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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.

**1.19 Contract assets and liabilities**

The timing of revenue recognition may differ from customer invoicing. Trade receivables presented in the statement of financial position represent an unconditional right to receive consideration (primarily cash), that is, the services and goods promised to the customer have been transferred.

By contrast, contract assets mainly refer to amounts allocated per IFRS 15 as compensation for goods or services provided to customers for which the right to collect payment is subject to providing other services or goods under that same contract. These assets are classified and disclosed as accrued income.

Contract liabilities represent amounts paid by customers before receiving the goods and/or services promised in the contract. This is typically the case for advances received from clients or amounts invoiced and paid for goods or services not transferred yet, such as contracts payable in advance. These liabilities are classified and disclosed as advanced deposits or deferred income.

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

**1.20 Finance income and costs**

Finance income and costs are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method.

**1.21 Leases**

(a) Company is the lessor

Assets leased out under operating leases are included in investment property in the statement of financial position and are accounted for in accordance with Note 1.4. Rental income is recognised as it on a straight-line basis over the life of the lease.

**1.22 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.

**1.23 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 capitalised 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.

**1.24 Earnings per share**

The company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period.

**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.

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

(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.

Borrowings are subject to fixed interest rates and principally consist of Bonds (Note 11).

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:

|  | 2020              | 2019       |
|--|-------------------|------------|
|  | €                 | €          |
| <b>Financial assets measured at amortised cost</b> |                   |            |
| Trade and other receivables (Note 7)               | <b>6,528,355</b>  | 21,595,693 |
| Cash and cash equivalents (Note 8)                 | <b>4,814,957</b>  | 7,726,790  |
|  | <b>11,343,312</b> | 29,322,483 |

The Company principally banks with local financial institutions of high-quality standing. At 31 December 2020, the Company held substantially its cash and cash equivalents of €4.8 million (2019: €7.7 million) with three local banks.

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 performing.

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.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (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 and borrowings (Notes 11 and 12). 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 Pendergardens Tower and Block 17 within Pendergardens. 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. Based on 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 timing of repayment of the company's bonds which fall due in 2022 and by which time, the company has plans to either obtain alternative financing or liquidate elements of investment property or property, plant and equipment.

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 following table analyses the company's financial liabilities into relevant maturity groupings based on the remaining period as at 31 December 2020 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

|                          | Carrying<br>amount<br>€ | Contractual<br>cash flows<br>€ | Within<br>one year<br>€ | One to<br>five years<br>€ |
|--------------------------|-------------------------|--------------------------------|-------------------------|---------------------------|
| <b>31 December 2020</b>  |                         |                                |                         |                           |
| Bonds                    | 21,684,127              | 24,515,844                     | 1,315,272               | 23,200,572                |
| Trade and other payables | 1,597,126               | 1,597,126                      | 1,597,126               | -                         |
|                          | <b>23,281,253</b>       | <b>26,112,970</b>              | <b>2,912,398</b>        | <b>23,300,572</b>         |
| <b>31 December 2019</b>  |                         |                                |                         |                           |
| Bonds                    | 41,339,307              | 47,287,438                     | 17,135,694              | 30,151,744                |
| Trade and other payables | 2,899,558               | 2,899,558                      | 2,899,558               | -                         |
|                          | <b>44,238,865</b>       | <b>50,186,996</b>              | <b>20,035,252</b>       | <b>30,151,744</b>         |

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (c) Liquidity risk - continued

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 2020 and 2019, the carrying amounts of cash at bank, 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.

### 2.3 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 2021 to April 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 Pendergardens Tower 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.

|  | 2020<br>€          | 2019<br>€    |
|--|--------------------|--------------|
| Total borrowings (Bonds outstanding Note 11) | <b>21,684,127</b>  | 41,339,307   |
| Less: Cash and cash equivalents (Note 8)     | <b>(4,814,957)</b> | (7,726,790)  |
| Less: Reserve account (Note 7)               | <b>(4,992,185)</b> | (16,642,786) |
| Net debt                                     | <b>11,876,985</b>  | 16,969,731   |
| Total equity                                 | <b>29,491,234</b>  | 28,343,196   |
| Total capital                                | <b>41,368,219</b>  | 45,312,927   |
| Gearing ratio                                | <b>28.71%</b>      | 37.45%       |

**2. Financial risk management - continued**

**2.3 Capital risk management - continued**

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.

*Inventory valuation*

The inventory - development project is carried at the lower of cost and net realisable value. The carrying amount of inventory in the statement of financial position represents the value of the of land, development and borrowing costs attributable to the various phases of the Pendergardens Development project which are either held for sale or under development as at 31 December 2020, analysed by project phase. Further disclosure is included in Note 6 to the financial statements.

*Fair valuation of investment property*

The Company reviews the valuation of the investment property on an annual basis on the basis of valuation report prepared every three years by independent and qualified valuers. In 2018, management determined the fair value of the investment property by referring to the valuation report prepared by third party qualified valuers. The directors remain comfortable that the carrying value at 31 December 2020 continues to appropriately represent the fair value of the properties. During 2018 the Company adjusted the book value to its revalued amount and recognised the resultant surplus in the income statement. Further disclosures on key assumptions in this regard are included in Note 4 to the financial statements.

*Valuation of property, plant and equipment*

The Company performs impairment assessment on an annual basis. Management determined the recoverable amount of the public car park based on the projected cash-flow model and sales comparative approach. Management has determined that the most appropriate method for valuing the car spaces in the public car park should be based on a sales comparative approach. The directors remain comfortable that the carrying value of property, plant and equipment at 31 December 2020 continues to appropriately represent the net realisable value as at that date. Further disclosures on key assumptions in this regard are included in Note 5 to the financial statements.

In the opinion of the directors, besides the above pronouncements, 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. The Directors also draw attention to the fact that there are no assumptions and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### 4. Investment property

|   | 2019<br>€  |
|---|------------|
| <b>At 1 January and 31 December</b>         |            |
| Transfer from inventory development project | 14,999,019 |
| Fair value movement                         | 17,800,981 |
|   | 32,800,000 |

In 2017, the Board of directors resolved to transfer the carrying amount of the five outlets in Block 16 commercial area from inventory - development project to investment property following the decision to hold such properties for lease to third parties.

As at 31 December 2018, the Board of directors resolved to transfer the carrying amount of all of the commercial property relating to block 17 and the Towers from inventory - development project to investment property following the decision to hold such properties for lease to third parties.

##### *Fair valuation of investment property*

The Company's investment property was revalued by an external and independent valuer in two tranches during 2017 and 2018. The book value has been adjusted to the revalued amount and the resultant surplus, net of applicable deferred income taxes, has been credited to the income statement. The surplus, net of deferred tax has been transferred to the revaluation reserve through the statement of changes in equity (Note 9).

Valuation reports are prepared every three years by independent and qualified valuers and revisited and assessed annually by the directors on the basis of the valuation report prepared every three years by the independent and qualified valuers.

Valuations were made on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

The Company is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

#### 4. Investment property - continued

As detailed further above, the Company's investment property, includes five commercial outlets in block 16, a further two outlets together with space originally earmarked for wellness centre, which is currently being planned for alternative use, in block 17, and levels 1 to 7 in the Tower Block of the PenderGardens development. The majority of these properties are subject to lease agreements with third parties.

Property fair value measurements at 31 December 2020 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the years ended 31 December 2020 and 31 December 2019.

A reconciliation from the opening balance to the closing balance for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above.

##### *Valuation processes*

The valuations of the properties are performed annually by the directors based on valuation reports prepared every three years by independent and qualified valuers. These reports are based on both:

- information provided by the Company such as area per outlet in square meters, current rents and terms and conditions of lease agreements. This information is derived from the Company's financial and property management systems and is subject to the Company's overall control environment; and
- assumptions and valuation models used by the valuers; with assumptions being typically market related, such as open market rates. These are based on their professional judgement and market observation.

The information provided to the valuers, together with the underlying assumptions and valuation models used by the valuers, are reviewed by executive management, which are then presented to the Audit Committee. This includes review of the fair value movements over the period.

When the Audit Committee considers that the valuation report is appropriate, the valuation report is recommended to the Board of Directors. The Board then considers the valuation report as part of its overall responsibilities.

**4. Investment property - continued**

*Valuation techniques*

The valuation was performed using the guidelines of the UK Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual.

Given the specific nature of these assets, the valuations of property have been performed by reference to valuation models. The valuation was determined using open market values based on significant unobservable inputs. These inputs include:

Open market values based on open market rates for similar commercial properties, catering for differences in the size, age, location and conditions of the properties.

Information about fair value measurements using significant unobservable inputs (level 3):

| Description                | Fair value<br>€ | Valuation technique | Value<br>€                                  |
|----------------------------|-----------------|---------------------|---|
| <b>At 31 December 2020</b> |                 |                     |   |
| Commercial buildings       | €32,800,000     | Open market values  | €4,400 to €7,500 per square meter per annum |
| <b>At 31 December 2019</b> |                 |                     |   |
| Commercial buildings       | €32,800,000     | Open market values  | €4,400 to €7,500 per square meter per annum |

Value per square meter has been determined to be the significant unobservable input. For each valuation, the higher the value per square meter, the higher the fair value. Conversely, the lower the value per square meter, the higher the fair value.

**5. Property, plant and equipment**

|  | Public car<br>park<br>€ | Furniture<br>and fittings<br>€ | Plant and<br>equipment<br>€ | Computer<br>hardware<br>€ | Total<br>€       |
|--|-------------------------|--------------------------------|-----------------------------|---------------------------|------------------|
| <b>At 1 January 2019</b>                           |                         |                                |                             |                           |                  |
| Cost or valuation                                  | 10,505,160              | -                              | -                           | -                         | 10,505,160       |
| Accumulated depreciation<br>and impairment charges | (2,372,558)             | -                              | -                           | -                         | (2,372,558)      |
| <b>Net book amount</b>                             | <b>8,132,602</b>        | <b>-</b>                       | <b>-</b>                    | <b>-</b>                  | <b>8,132,602</b> |
| <b>Year ended<br/>31 December 2019</b>             |                         |                                |                             |                           |                  |
| Opening net book amount                            | 8,132,602               | -                              | -                           | -                         | 8,132,602        |
| Additions  | -                       | 4,042                          | 26,149                      | 25,450                    | 55,641           |
| Depreciation charge                                | (301,629)               | (1,010)                        | (2,615)                     | (6,363)                   | (311,617)        |
| <b>Closing net book amount</b>                     | <b>7,830,973</b>        | <b>3,032</b>                   | <b>23,534</b>               | <b>19,087</b>             | <b>7,876,626</b> |
| <b>At 31 December 2019</b>                         |                         |                                |                             |                           |                  |
| Cost or valuation                                  | 10,505,160              | 4,042                          | 26,149                      | 25,450                    | 10,560,801       |
| Accumulated depreciation<br>and impairment charges | (2,674,187)             | (1,010)                        | (2,615)                     | (6,363)                   | (2,684,175)      |
| <b>Net book amount</b>                             | <b>7,830,973</b>        | <b>3,032</b>                   | <b>23,534</b>               | <b>19,087</b>             | <b>7,876,626</b> |
| <b>Year ended<br/>31 December 2020</b>             |                         |                                |                             |                           |                  |
| Opening net book amount                            | 7,830,973               | 3,032                          | 23,534                      | 19,087                    | 7,876,626        |
| Additions  | -                       | 479                            | 16,652                      | 4,250                     | 21,381           |
| Depreciation charge                                | (301,629)               | (1,010)                        | (4,280)                     | (7,425)                   | (314,344)        |
| <b>Closing net book amount</b>                     | <b>7,529,344</b>        | <b>2,501</b>                   | <b>35,906</b>               | <b>15,912</b>             | <b>7,583,663</b> |
| <b>At 31 December 2020</b>                         |                         |                                |                             |                           |                  |
| Cost or valuation                                  | 10,505,160              | 4,521                          | 42,801                      | 29,700                    | 10,582,182       |
| Accumulated depreciation<br>and impairment charges | (2,975,816)             | (2,020)                        | (6,895)                     | (13,788)                  | (2,998,519)      |
| <b>Net book amount</b>                             | <b>7,529,344</b>        | <b>2,501</b>                   | <b>35,906</b>               | <b>15,912</b>             | <b>7,583,663</b> |

**5. Property, plant and equipment - continued**

The charge for depreciation and impairment charges as disclosed in Note 15 are included in the statement of comprehensive income as follows:

|                         | 2020    | 2019    |
|-------------------------|---------|---------|
|                         | €       | €       |
| Cost of sales           | 301,629 | 301,629 |
| Administrative expenses | 12,715  | 9,989   |
|                         | 314,344 | 311,617 |

**6. Inventory - development project**

|  | 2020         | 2019         |
|--|--------------|--------------|
|  | €            | €            |
| Purchase cost of land and related development costs  | 13,968,429   | 13,968,429   |
| Cost of design works and other studies,<br>excavation, construction works, including borrowing costs | 58,631,217   | 56,303,976   |
| Non-recoverable value added tax  | 5,549,708    | 5,248,059    |
| Cost of sale of apartments and car spaces  | (46,718,650) | (38,902,959) |
| Transfer to property, plant and equipment (Note 5)   | (9,035,160)  | (9,035,160)  |
| Transfer to investment property (Note 4)   | (14,999,019) | (14,999,019) |
|  | 7,396,525    | 12,583,326   |

**7. Trade and other receivables**

|  | 2020             | 2019              |
|--|------------------|-------------------|
|  | €                | €                 |
| <b>Non-current</b>                       |                  |                   |
| Reserve account                          | 4,992,185        | 1,931,486         |
| Other receivables                        | -                | 525,000           |
|  | 4,992,185        | 2,456,486         |
| <b>Current</b>                           |                  |                   |
| Amounts owed by immediate parent company | 392,100          | 588,858           |
| Amounts owed by ultimate parent company  | -                | 3,951             |
| Advance payments to fellow subsidiary    | 527,962          | 3,041,477         |
| Commissioner of value added tax          | 62,001           | 181,270           |
| Reserve account                          | -                | 14,711,300        |
| Other receivables                        | 554,107          | 612,351           |
| Prepayments and accrued income           | 696,524          | 11,112            |
|  | 2,232,694        | 19,150,319        |
| <b>Total trade and other receivables</b> | <b>7,224,879</b> | <b>21,606,805</b> |

**7. Trade and other receivables - continued**

Amounts owed by ultimate and immediate parent companies and the fellow subsidiary, the latter being the main contractor of the development project, are unsecured, interest-free and repayable on demand.

The company's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in Note 2.

**8. Cash and cash equivalents**

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

|                          | <b>2020</b>      | <b>2019</b> |
|--------------------------|------------------|-------------|
|                          | €                | €           |
| Cash at bank and in hand | <b>4,814,957</b> | 7,726,790   |

Cash and cash equivalents earn interest as follows:

|                | <b>2020</b>   | <b>2019</b> |
|----------------|---------------|-------------|
|                | €             | €           |
| At fixed rates | <b>39,809</b> | 2,036,435   |

**9. Equity**

**9.1 Share capital**

|   | <b>2020</b>      | <b>2019</b> |
|---|------------------|-------------|
|   | €                | €           |
| Authorised:                             |                  |             |
| 9,100,000 ordinary shares of €1.00 each | <b>9,100,000</b> | 9,100,000   |
| Issued and fully paid up:               |                  |             |
| 9,079,000 ordinary shares of €1.00 each | <b>9,079,000</b> | 9,079,000   |

**9.2 Revaluation reserve**

|                              | <b>2020</b>       | <b>2019</b> |
|------------------------------|-------------------|-------------|
|                              | €                 | €           |
| At 1 January and 31 December | <b>16,160,981</b> | 16,160,981  |

The balances as at 31 December 2020 and 31 December 2019 represent the difference between the fair value of the investment property, net of deferred tax and the historical cost. Such amount has been transferred from retained earnings to other reserve and in the opinion of the directors is non-distributable.

**10. Deferred tax liabilities**

Deferred taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2019: 35%), except for deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. tax effect of 5% of the transfer value.

The taxation rules on capital gains arising on transfer of immovable as per article 27G of the Income Tax Act stipulate that provisional tax of 8% is applicable on the transfer value of immovable property acquired after 1 January 2014 which rate applies to the Company. Article 27G further presents calculations of an amount that is available for set-off against the said provisional tax, which would result in an effective tax rate of 5% on the transfer value of immovable property to the Company.

The balance at 31 December represents temporary differences on or attributable to:

|   | <b>2020</b>      | <b>2019</b> |
|---|------------------|-------------|
|   | €                | €           |
| Fair valuation of investment property       | <b>1,640,000</b> | 1,640,000   |
| Impairment of property, plant and equipment | <b>(700,000)</b> | (700,000)   |
| <b>At 31 December</b>                       | <b>940,000</b>   | 940,000     |

The recognised deferred tax liabilities are expected to be settled principally after more than twelve months.

At 31 December 2020 and 2019, the company had unutilised tax credits and temporary differences which were not recognized in these financial statements as follows:

|                                      | <b>2020</b>      | <b>2019</b> |
|--------------------------------------|------------------|-------------|
|                                      | €                | €           |
| Unutilised tax credits arising from: |                  |             |
| unabsorbed tax losses                | <b>228,194</b>   | 228,194     |
| unabsorbed capital allowances        | <b>682,542</b>   | 651,887     |
| Temporary differences arising on:    |                  |             |
| tangible assets                      | <b>2,086,357</b> | 1,971,920   |
| intra-group transactions             | <b>65,502</b>    | 146,284     |
|                                      | <b>3,062,595</b> | 2,998,285   |

## 11. Borrowings

|                         | 2020<br>€         | 2019<br>€  |
|-------------------------|-------------------|------------|
| <b>Non-current</b>      |                   |            |
| 6.0% Secured Bonds 2022 | <b>21,684,127</b> | 26,628,007 |
| <b>Current</b>          |                   |            |
| 5.5% Secured Bonds 2020 | -                 | 14,711,300 |
| <b>Total borrowings</b> | <b>21,684,127</b> | 41,339,307 |

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

|                         | 2020        | 2019 |
|-------------------------|-------------|------|
| <b>At a fixed rate</b>  |             |      |
| 5.5% Secured Bonds 2020 | -           | 5.5% |
| 6.0% Secured Bonds 2022 | <b>6.0%</b> | 6.0% |

Maturity of long-term borrowings:

|                    | 2020<br>€         | 2019<br>€  |
|--------------------|-------------------|------------|
| Within 2 - 5 years | <b>21,684,127</b> | 26,628,007 |

### *Bonds in issue by the company as at 31 December 2020*

| Date of issue | Type of instrument | Principal amount | Redemption date |
|---------------|--------------------|------------------|-----------------|
| 5 June 2014   | Secured bonds      | €21,885,300      | 2022            |

The bonds are measured at the amount of the net proceeds adjusted for the amortisation of the difference between the net proceeds and the redemption value of such bonds, using the effective yield method as follows:

|   | 2020<br>€           | 2019<br>€  |
|---|---------------------|------------|
| <b>Bonds outstanding</b>                  |                     |            |
| Proceeds                                  | <b>42,000,000</b>   | 42,000,000 |
| Redemption                                | <b>(15,000,000)</b> | -          |
| Buy backs of own bonds                    | <b>(5,114,700)</b>  | (367,500)  |
|   | <b>21,885,300</b>   | 41,632,500 |
| Gross amount of bond issue costs          | <b>744,509</b>      | 744,509    |
| Bond issue costs amortised                | <b>(543,336)</b>    | (451,316)  |
|   | <b>201,173</b>      | 293,193    |
| <b>Amortised cost and carrying amount</b> | <b>21,684,127</b>   | 41,339,307 |

## 11. Borrowings - continued

In May 2014, the company issued a dual series bond of €42 million (Series I: €15 million 5.5% Secured Bonds 2020; Series II: €27 million 6% Secured Bonds 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, Pendergardens Tower and Block 17. In 2020, the Series I €15 million 5.5% Secured Bonds 2020 were redeemed.

In 2017, the company repurchased, and subsequently cancelled €288,700 of the 5.5% Secured Bonds 2020, which is partly financed through the company's reserve account amounting to €250,000. During 2018, the company repurchased, and subsequently cancelled €78,800 of the 6% Secured Bonds 2022 which was fully financed from the company's own funds. During 2020, the company repurchased, and subsequently cancelled €5,035,900 of the 6% Secured Bonds 2022 which was fully financed from the company's own funds.

The quoted market prices as at 31 December for the listed bonds, and their respective dates of admittance on the Official List of the Malta Stock Exchange are listed below:

|                         | Official listing date | Quoted market prices |       |
|-------------------------|-----------------------|----------------------|-------|
|                         |                       | 2020                 | 2019  |
|                         |                       | €                    | €     |
| 6.0% secured bonds 2022 | 5 June 2014           | <b>103.1</b>         | 105.0 |

In the opinion of the directors, these market prices fairly represent the fair value of the respective financial liabilities.

The company is required to build a reserve fund the value of which will by the redemption dates of each Bond be equivalent to 100% of the outstanding value of the 2014 Bonds. The transfers to the reserve fund are based on a fixed percentage of net sales proceeds received upon the signing of sales contracts. In 2019, funds for the redemption of the bond falling due for redemption in 2020 have been passed on to the trustee in fulfilment of the obligations of the company under the Bond Issue Prospectus. Refer to Reserve Account in Note 7.

Transfers to the reserve account are being made as follows:

- (i) The first €25 million of net sales proceeds will be retained by the company for the specific purpose of meeting construction costs with respect to Block 17 and Pendergardens Tower;
- (ii) The following €25 million of net sales proceeds will be allocated as to 90% to the Security Trustee and 10% to the company;
- (iii) Any further sales over and above the initial €50million will be allocated as to 95% to the Security Trustee and 5% to the company.

Transfers to the reserve account have commenced from the year ended 31 December 2017.

## 11. 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 (2019: €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 (2019: €42 million), interest thereon and any other amounts due under the Bonds.

|   | 2020                | 2019         |
|---|---------------------|--------------|
|   | €                   | €            |
| <b>Net debt reconciliation</b>                |                     |              |
| Borrowings repayable within 1 year            | -                   | (14,711,300) |
| Borrowings repayable after more than one year | <b>(21,684,127)</b> | (26,628,007) |
| Cash and cash equivalents (Note 8)            | <b>4,814,957</b>    | 7,726,790    |
| Reserve account (Note 7)                      | <b>4,992,185</b>    | 16,642,786   |
| Net debt                                      | <b>(11,876,985)</b> | (16,969,731) |

|                                  | 2020                | 2019       |
|----------------------------------|---------------------|------------|
|                                  | €                   | €          |
| Borrowings as at 1 January       | <b>41,339,307</b>   | 41,252,564 |
| Cash flows – redemption of bonds | <b>(14,711,300)</b> | -          |
| Cash flows – buy backs           | <b>(5,035,900)</b>  | -          |
| Amortisation of bond issue costs | <b>92,020</b>       | 86,743     |
| Borrowings as at 31 December     | <b>21,684,127</b>   | 41,339,307 |

This note provides information about the contractual terms of the company's borrowings. For more information about the company's exposure to interest rate and liquidity risks, refer to Note 2.

## 12. Trade and other payables

|  | 2020             | 2019       |
|--|------------------|------------|
|  | €                | €          |
| <b>Current</b>                         |                  |            |
| Trade payables                         | <b>111,840</b>   | 115,919    |
| Amounts owed to fellow subsidiary      | <b>139,686</b>   | 457,884    |
| Deposits on promise of sale agreements | <b>1,215,375</b> | 2,255,310  |
| Other payables                         | <b>130,225</b>   | 70,445     |
| Accruals and deferred income           | <b>5,471,540</b> | 8,002,290  |
| <b>Total trade and other payables</b>  | <b>7,068,666</b> | 10,901,848 |

Amounts owed to fellow subsidiary and directors are unsecured, interest free and are repayable on demand.

The company's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 2.

**13. Other provisions**

|                              | 2020<br>€        | 2019<br>€ |
|------------------------------|------------------|-----------|
| At beginning and end of year | <b>1,394,000</b> | 1,394,000 |

The amount shown above comprises a gross provision in respect of Value Added Tax. The provision is based on a directors' estimate and has been recognised in the financial statements in line with the requirements of IAS 37 'Provisions, contingent liabilities and contingent assets'.

**14. Revenue**

Revenue represents the total consideration received for the sale of apartments and car spaces of €11,305,536 (2019: €21,409,125) which is based on final deeds signed during the year. Revenue also includes rental income of €1,290,745 (2019: €561,980) and car park revenues of €169,454 (2019: €144,178).

**15. Expenses by nature**

|   | 2020<br>€        | 2019<br>€  |
|---|------------------|------------|
| Cost of sales apartments  | <b>7,823,973</b> | 13,922,968 |
| Public car park operating costs                                 | <b>489,572</b>   | 451,829    |
| Tower business centre operating costs                           | <b>120,828</b>   | 101,204    |
| Estate agent commissions  | <b>472,548</b>   | 931,712    |
| Wages and salaries recharged from parent company                | <b>413,599</b>   | 513,067    |
| Directors remuneration  | <b>52,000</b>    | 52,000     |
| Professional fees   | <b>76,583</b>    | 60,214     |
| Legal fees  | <b>55,974</b>    | 57,538     |
| Annual listing fees   | <b>26,504</b>    | 35,249     |
| Advertising expenses  | <b>5,561</b>     | 14,274     |
| Other general expenses  | <b>132,094</b>   | 158,331    |
| <b>Total cost of sales, selling and administrative expenses</b> | <b>9,669,236</b> | 16,298,386 |

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2020 and 2019 relate to the following:

|                                     | 2020<br>€     | 2019<br>€ |
|-------------------------------------|---------------|-----------|
| Annual statutory audit              | <b>11,740</b> | 10,933    |
| Other assurance services            | -             | 3,400     |
| Tax compliance and related services | <b>350</b>    | 2,130     |
|                                     | <b>12,090</b> | 16,463    |

**16. Directors' remuneration**

|                           | 2020<br>€     | 2019<br>€ |
|---------------------------|---------------|-----------|
| Fees and other emoluments | <b>52,000</b> | 52,000    |

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

**17. Net finance costs**

|   | 2020<br>€          | 2019<br>€   |
|---|--------------------|-------------|
| Interest received                           | <b>4,323</b>       | 22,031      |
| Finance income                              | <b>4,323</b>       | 22,031      |
| Interest payable                            | <b>(1,979,348)</b> | (1,717,741) |
| Amortisation on bond premium upon buy backs | <b>(23,798)</b>    | -           |
| Finance costs                               | <b>(2,003,146)</b> | (1,717,741) |
| Net finance costs                           | <b>(1,998,823)</b> | (1,695,710) |

**18. Tax expense**

|                               | 2020<br>€        | 2019<br>€ |
|-------------------------------|------------------|-----------|
| Current tax expense:          |                  |           |
| on sale of immovable property | <b>553,544</b>   | 1,712,730 |
| over provision in prior year  | <b>(425,455)</b> | -         |
|                               | <b>128,089</b>   | 1,712,730 |

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

|   | 2020<br>€        | 2019<br>€ |
|---|------------------|-----------|
| Profit before tax   | <b>1,276,127</b> | 4,343,683 |
| Tax on profit at 35%                                      | <b>446,644</b>   | 1,520,289 |
| Expenses not deductible for tax purposes                  | <b>3,872</b>     | -         |
| Interest and property tax at source with a final rate     | <b>288,364</b>   | 83,058    |
| Unrecognised deferred tax movement                        | <b>64,310</b>    | 109,383   |
| Over provision of unrecognised deferred tax in prior year | <b>(249,646)</b> | -         |
| Over provision of current tax in prior year               | <b>(425,455)</b> | -         |
| Tax charge in the accounts                                | <b>128,089</b>   | 1,712,730 |

## 19. 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.

|                                  | 2020<br>€        | 2019<br>€ |
|----------------------------------|------------------|-----------|
| Profit for the year              | <b>1,148,038</b> | 2,630,953 |
| Weighted average shares in issue | <b>9,079,000</b> | 9,079,000 |
| Earnings per share               | <b>0.13</b>      | 0.29      |

The company has not issued any dilutive instruments in the past, and therefore the basic and diluted earnings per share are equal.

## 20. Cash generated from/(used in) operations

Reconciliation of profit for the year to cash generated from/(used in) operations:

|   | 2020<br>€          | 2019<br>€    |
|---|--------------------|--------------|
| Operating profit                              | <b>3,274,950</b>   | 6,039,393    |
| Adjustments for:                              |                    |              |
| Depreciation of property, plant and equipment | <b>314,344</b>     | 311,617      |
| Amortisation of bond issue costs              | <b>92,020</b>      | -            |
| Changes in working capital:                   |                    |              |
| Trade and other receivables                   | <b>11,667,702</b>  | (14,803,860) |
| Trade and other payables                      | <b>(3,514,984)</b> | (589,919)    |
| Inventory - development project               | <b>5,186,801</b>   | 5,218,941    |
| Related party balances                        | <b>2,396,026</b>   | (513,137)    |
| Cash generated from/(used in) operations      | <b>19,416,859</b>  | (4,336,965)  |

There were no non-cash transactions during the reporting period.

## 21. Commitments

### 21.1 Capital commitments

The Company has entered into capital commitments with various contractors for the development of Block 16, Block 17 and Pendergardens Tower. Outstanding contractual commitments as at year-end amounted to €485,000 (2019: €1,508,551). Further amounts relating to the contracted project have been capitalised during 2020 within Inventory - development project (Note 6).

**21. Commitments - continued**

**21.2 Lease commitments where the company is the lessor**

The future minimum lease payments receivable under non-cancellable leases are as follows:

|  | 2020<br>€         | 2019<br>€         |
|--|-------------------|-------------------|
| Not later than 1 year                        | 1,439,267         | 1,293,016         |
| Later than 1 year and not later than 5 years | 7,306,706         | 7,730,581         |
| Over 5 years                                 | 1,720,301         | 3,034,825         |
|  | <b>10,466,274</b> | <b>12,058,422</b> |

**22. Related party transactions**

The company is owned by Pender Ville Limited and Pender Contracting Limited who are in turn ultimately owned and jointly controlled by United Group Limited, Silverline Investments Limited, Serland 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 15 to the financial statements. 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:

|  | 2020<br>€ | 2019<br>€ |
|--|-----------|-----------|
| <b>Purchases of goods and services</b>                     |           |           |
| - Purchase of construction services from fellow subsidiary | 1,999,204 | 5,040,833 |
| - Purchase of construction services from ultimate parent   | -         | 736,982   |
| - Payroll recharged from ultimate parent                   | 413,599   | -         |

Year-end balances with related parties, arising principally from the transactions referred to previously, are disclosed in Notes 7 and 12 to these financial statements. Bonds of the Company held by directors at 31 December 2020 amounted to €412,000 (2019: €424,500).

**23. 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 Pendergardens Business Centre, 14, Level 1, Pendergardens, St. Andrew's Road, St. Julians, STJ 9023, Malta.

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

**24. Comparative information**

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's presentation format for the purpose of fairer presentation.