

**Offering Memorandum
Dated 30 May 2002**

Bay Street Finance p.l.c.

(registered in Malta with Registration No. C29784)

Issue of Lm3,000,000 8% Bonds due 2012
of a nominal value of Lm100 per Bond issued at par
(subject to an Over-allotment Option not exceeding in aggregate Lm3,000,000)

**with the Conditional Right of Exchange
into ordinary shares of Bay Street Holdings Limited
in the event of a Qualifying Public Offering
taking place between 26 June 2005 and 26 June 2012**

Guaranteed by Bay Street Holdings Limited

(registered in Malta with Registration No. C12058)

Bay Street Finance p.l.c. (the "Issuer") is hereby offering to the public Lm3,000,000 8% Bonds due 2012 of a nominal value of Lm100 per Bond and issued at par (the "Bond Issue Price"). Interest on the Bonds will become due and payable annually in arrears on 26 June of each year at the rate of 8% per annum, the first interest payment shall become due and payable on 26 June 2003.

The due and punctual payment of interest and principal by the Issuer in respect of the Bonds is unconditionally and irrevocably guaranteed by Bay Street Holdings Limited (in such capacity the "Guarantor") pursuant to a deed of guarantee dated 30 May 2002 (the "Deed of Guarantee") as more specifically set forth in Part V on page 39 of this Offering Memorandum under the heading "**THE GUARANTEE**". The Bonds will, unless previously re-purchased and cancelled or exchanged into ordinary shares of Bay Street Holdings Limited (the "Qualified Shares") upon the Conditional Right of Exchange becoming unconditional in the event of a Qualifying Public Offering taking place between 26 June 2005 and 26 June 2012 as set forth on page 17 of this Offering Memorandum, be redeemed by the Issuer at maturity on 26 June 2012 (the "Redemption Date").

The Bonds constitute the direct, unconditional, unsubordinated, general and unsecured obligations of the Issuer and the Guarantor and will rank, without any priority or preference among themselves and subject to such exceptions as from time to time exist under applicable law, at least *pari passu* with all other outstanding unsecured and unsubordinated obligations present and future of the Issuer and the Guarantor. The Bonds and the Guarantee will be governed by, and construed in accordance with Maltese law.

The Issuer, with the consent and under the guarantee of the Guarantor, reserves the right to offer for subscription, at its sole and absolute discretion, additional Bonds not exceeding in aggregate Lm3,000,000 having a nominal value of Lm100 per Bond at the Bond Issue Price to cover any outstanding Applications in the event of over-subscription, (the "Over-allotment Option"). The Over-allotment Option may be exercised by the Issuer at any time during the Offer Period (as defined herein).

The net proceeds from the Bonds will be advanced by the Issuer to Bay Street Holdings Limited (in such capacity the "Borrower") pursuant to a term loan agreement dated 30 May 2002 (the "Loan Facility Agreement") which proceeds will be applied by the Borrower to reduce outstanding amounts due to capital creditors and/or existing banking facilities. In the event that the Issuer exercises the Over-allotment Option the proceeds therefrom will likewise be advanced by the Issuer to the Borrower pursuant to the Loan Facility Agreement which proceeds will similarly be applied to reduce outstanding amounts due to capital creditors and/or existing banking facilities as more specifically set forth on page 23 of this Offering Memorandum under the heading "**Use of Proceeds**".

Application has been made to the Malta Stock Exchange ("MSE" or "Exchange") for the Bonds being offered pursuant to this Offering Memorandum, to be admitted to the Alternative Companies List ("ACL") of the Malta Stock Exchange. The ACL is a market designed primarily for companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with an independent financial adviser who specialises on the acquisition of bonds and other securities.

The rules of the ACL are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. Furthermore the Exchange has not itself approved nor disapproved the contents of this document.

Manager & Registrar



Sponsoring Stockbroker



IMPORTANT INFORMATION

This document constitutes a prospectus and contains information on the issue (the “Bond Issue”) by Bay Street Finance p.l.c. (the “Issuer”) of Lm3,000,000 8% Bonds due 2012 of a nominal value of Lm100 per Bond being issued at par (the “Bond Issue Price”). Interest on the Bonds will become due and payable annually in arrears on 26 June of each year at the rate of 8% per annum, the first interest payment becoming due and payable on 26 June 2003. The nominal value of the Bonds on offer will be repayable in full at maturity on 26 June 2012, unless the Bonds are previously re-purchased and cancelled or exchanged into ordinary shares of Bay Street Holdings Limited (the “Qualified Shares”) upon the Conditional Right of Exchange becoming unconditional (the “Right of Exchange”) in the event of a Qualifying Public Offering taking place between 26 June 2005 and 26 June 2012 as set forth on page 17 of this Offering Memorandum. **No assurance can be given that a Qualifying Public Offering will take place at any time between 26 June 2005 and 26 June 2012. Upon the occurrence of a Qualifying Public Offering Bondholders may but shall not be required to exercise their Right of Exchange in respect of any Bonds held by them.** Payments in respect of the Bonds is unconditionally and irrevocably guaranteed by Bay Street Holdings Limited (in such capacity the “Guarantor”). This document also contains information about the Issuer and the Guarantor in accordance with the requirements of Chapter 10 of the Malta Stock Exchange Bye-Laws and Chapter III of Title I of Part V of the Companies Act, (Cap. 386 of the Laws of Malta).

The directors, whose names appear under the heading “*Directors of the Issuer*” are the persons responsible for the information contained in this Offering Memorandum, save for the information specifically relating to the Guarantor, for which the directors whose names appear under the heading “*Directors of the Guarantor*” are responsible. To the best of the knowledge and belief of the directors of the Issuer and the Guarantor (who have all taken reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. The directors of the Issuer and the Guarantor accept responsibility accordingly.

All the Advisers to the Issuer and Guarantor respectively, named in this Offering Memorandum under the heading “**ADVISERS TO THE PARTIES**”, are acting exclusively for the Issuer and the Guarantor, as the case may be, in relation to this offer and will not be responsible to any investor or any other person whomsoever in relation to the transactions proposed in this Offering Memorandum.

No broker, dealer, salesman or other person has been authorised by the Issuer, the Guarantor or by their respective directors to issue any advertisement or to give any information or to make any representations in connection with the Bond Issue other than those contained in this Offering Memorandum and in the documents referred to herein, and if given or made such information and representations must not be relied upon as having been authorised by the Issuer, the Guarantor or their respective directors.

This Offering Memorandum does not constitute, and may not be used for purposes of an offer or invitation to subscribe for Bonds or the Qualified Shares by any person in any jurisdiction (i) in which such offer or invitation is not authorised, or (ii) in which the person making such offer or invitation is not qualified to do so, or (iii) to any person to whom it is unlawful to make such offer or invitation.

It is the responsibility of any persons in possession of this Offering Memorandum and any persons wishing to apply for Bonds to inform themselves of, and to observe and comply with, all applicable laws and regulations of any relevant jurisdiction. Prospective Applicants for Bonds should inform themselves as to the legal requirements of so applying and of any applicable exchange control requirements and taxes in the countries of their nationality, residence or domicile.

The Bonds and the Qualified Shares have not been nor will they be registered under the United States Securities Act of 1933, as amended (the “1933 Act”), or under any state securities laws and may not be offered or sold directly or indirectly in the United States of America, its territories or possessions, or any area subject to its jurisdiction (the “United States”) or to any United States person (as defined in Regulation S of the 1933 Act). In addition the Issuer will not be registered under the United States Investment Company Act of 1940 (the “1940 Act”), as amended and the investors will not be entitled to the benefits of the 1940 Act. Based on interpretations of the 1940 Act by the staff of the United States

Securities and Exchange Commission relating to foreign investment companies, if the Issuer has more than one hundred (100) beneficial owners of its securities who are United States persons, it may become subject to the 1940 Act. The Directors will not knowingly permit the number of holders who are United States persons to exceed seventy (70).

Statements in this Offering Memorandum are, except where otherwise stated, based on the law and practice currently in force in Malta and are subject to changes therein.

A copy of this Offering Memorandum has been registered with the Registrar of Companies in accordance with the Companies Act, (Cap. 386 of the Laws of Malta), and submitted to the Malta Stock Exchange for its authorisation in satisfaction of the requirement to publish an admission document for the Bonds under the Malta Stock Exchange Bye-Laws.

Application has been made to the Malta Stock Exchange for the Bonds being issued pursuant to this Offering Memorandum to be admitted to the Alternative Companies List ("ACL") of the Malta Stock Exchange ("MSE" or "Exchange").

Permission from the Malta Financial Services Centre for the issue of this Offering Memorandum in terms of Section 11 of the Investment Services Act (Cap. 370 of the Laws of Malta) is not required by virtue of the exemptions contained in Legal Notices 6 and 95 of 1995.

An Application Form, together with a guide on how to complete it, is provided with this document. The Terms and Conditions of Application for the Bonds are set out in ANNEX A of this Offering Memorandum.

The MSE accepts no responsibility for the contents of this Offering Memorandum, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this Offering Memorandum.

The ACL is a market designed primarily for companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in the securities of such companies and should make the decision to invest only after careful consideration and consultation with an independent financial adviser who specialises on the acquisition of such securities.

The rules of the ACL are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. Furthermore, the Exchange has not itself approved nor disapproved the contents of this document.

The value of investments can go up or down and past performance is not necessarily indicative of future performance. An investor should consult a stockbroker licensed under the Malta Stock Exchange Act (Cap. 345 of the Laws of Malta) or an investment adviser licensed under the Investment Services Act (Cap. 370 of the Laws of Malta) for advice.

Signed by all the directors of the Issuer and the Guarantor.

MARKET INFORMATION

Aggregate Nominal Amount of the Bond Issue	Lm3,000,000 Bonds (subject to an Over-allotment Option not exceeding Lm3,000,000 in value);
Issuer	Bay Street Finance p.l.c.;
Guarantor	Bay Street Holdings Limited;
Nominal Value	Lm100 per Bond;
Bond Issue Price	Lm100 per Bond;
Interest Basis	8% per annum payable annually in arrears on 26 June of each year, the first interest payment becoming due and payable on 26 June 2003; Provided that in the event of exchange of the Bonds into Qualified Shares (as defined on page 16 of this Offering Memorandum) upon the Conditional Right of Exchange becoming unconditional as set forth on page 17 of this Offering Memorandum, any accrued interest up to the Exchange Date (as defined on page 18 of this Offering Memorandum) shall become due and payable on Exchange Date;
Redemption Date	26 June 2012;
Redemption Basis	The Bonds will be redeemed by the Issuer on Redemption Date at Lm100 per Bond unless previously re-purchased and cancelled or exchanged into Qualified Shares upon the Conditional Right of Exchange becoming unconditional as set forth on page 17 of this Offering Memorandum;
Minimum Subscription	Lm500 and in multiples of Lm100 thereafter;
Offer Period	The period between 10 June 2002 and 20 June 2002 (or such earlier date as may be determined by the Issuer);
Listing	Application has been made for the Bonds to be admitted to the Alternative Companies List of the Malta Stock Exchange;
Conditional Right of Exchange	<p>Each Bond may be exchanged, at the Bondholder's option, between 26 June 2005 and 26 June 2012 into Qualified Shares in the event of a Qualifying Public Offering (as set out on page 16 of this Offering Memorandum). The number of Shares to be delivered upon the exercise of the Conditional Right of Exchange in respect of any of the Bonds shall be determined in accordance with the following formula:</p> $NQS = \frac{(\text{Bond Issue Price} \times 107\%) \times B}{\text{Share Offer Price}}$ <p>Where: B is the number of Bonds in respect of which the Right of Exchange is exercised by any Bondholder;</p> <p>NQS is the number of Qualified Shares to be allotted or allocated to any Bondholder in exchange for Bonds in respect of which the Right of Exchange is exercised;</p> <p>Share Offer Price is the price at which the Shares, which are the subject of the Qualifying Public Offering, are offered to the public for subscription and/or purchase.</p>

KEY FEATURES OF BAY STREET TOURIST COMPLEX

- The Bay Street Tourist Complex in St. George's Bay, St. Julians, is owned, managed and operated by Bay Street Holdings Limited.
- The Complex is designed to complement rather than compete with existing establishments in the St. George's Bay area, thus bringing together a variety of tourist accommodation facilities, retail outlets, food and beverage operations, as well as daytime and night-time entertainment facilities both within and outside the Complex. The Complex also provides theatre and artisan facilities offering a unique platform for the promotion of the creative arts within the St. George's Bay area.
- The Bay Street Tourist Complex has a total floor area of circa 13,332 square metres, spread over six levels. The Complex is a relatively new construction having been completed approximately 20 months ago and is built to high standards of architectural design and specification.
- The Complex offers a wide range of commercial outlets, that are run on a concessionary basis. These include high street and speciality retailers, entertainment and food and beverage outlets.
- The particular location of the Bay Street Tourist Complex permits the maximisation of trading activity under current regulations. It also enjoys a captive market generated by the Bay Street Hotel and other surrounding three, four and five star hotels.
- As at 31 December 2001 the Complex enjoyed a 100% occupancy level with 44 Outlets being operated under fixed income concession agreements and 22 other Outlets being operated under turnover based concession agreements.
- The freehold interest of the Bay Street Tourist Complex (excluding the Bay Street Hotel) was valued at Lm12,000,000 on an open market value basis as at December 2000.

EXPECTED TIME-TABLE OF PRINCIPAL EVENTS

Application forms available	3 June 2002
Opening of subscription lists	10 June 2002
Closing of subscription lists	20 June 2002
Announcement of basis of acceptance	26 June 2002
Commencement of interest on the Bonds	26 June 2002
Expected dispatch of allotment advice & refunds of unallocated monies	28 June 2002

The Issuer reserves the right to close the offer contained in this Offering Memorandum before 20 June 2002 in the event of over-subscription, in which case, the remaining events set out in the expected time-table above shall be anticipated in the same chronological order in such a way as to retain the same number of working days between the said principal events.

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DEFINITIONS

In this Offering Memorandum the following words and expressions shall bear the following meanings except where the context otherwise requires:

“ACL”	The Alternative Companies List of the Malta Stock Exchange established pursuant to the provisions of Chapter 10 of the Malta Stock Exchange Bye-Laws;
“Act”	The Companies Act, Cap. 386 of the Laws of Malta;
“Advisers”	The Advisers to the Guarantor and the Issuer respectively whose names and addresses are set out under the heading “ ADVISERS TO THE PARTIES ”;
“Applicant”	A person or persons whose name or names (in the case of joint applicants) appear in the registration details of an Application Form;
“Application/s”	The application/s to subscribe for Bonds made by an Applicant by completing an Application Form and delivering it to the Registrar or to any of the Authorised Selling Agents;
“Application Form”	The form of application of subscription for the Bonds, a specimen of which is set out in Annex G of this Offering Memorandum;
“Authorised Selling Agents”	All the licensed stockbroking firms and financial intermediaries listed in Annex F of this Offering Memorandum;
“Available Free Cash Flows”	The cash available to the Borrower (including, without limitation, any amount received by the Borrower under the Share Transfer Agreement) following payment of interest and capital on banking facilities, bond interest, capital creditors, the funding of the Borrower’s working capital requirements and fixed asset replacements;
“BSC”	Bay Street Company Limited, a company incorporated in Malta with registration number C29765;
“BSH”, “Borrower” or “Guarantor”	Bay Street Holdings Limited, a company incorporated in Malta with registration number C12058;
“Bay Street Hotel”	The accommodation facilities situated at the Bay Street Tourist Complex known as the Bay Street Hotel;
“Bay Street Outlets” or “Outlets”	The retail, entertainment and food and beverage outlets situated at the Bay Street Tourist Complex, each a “Bay Street Outlet” or an “Outlet”;
“BSHC”	Bay Street Hotel Complex Limited, a company incorporated in Malta with registration number C26451;
“Bay Street Tourist Complex” or “Complex”	The complex comprising the Bay Street Outlets, car park and offices known as the Bay Street Tourist Complex situated at St. George’s Bay, St. Julians, Malta, as more fully described on page 32 of this Offering Memorandum;
“Bond/s”	The Lm3,000,000 8% Bonds 2012 of a nominal value of Lm100 per Bond subject to the Over-allotment Option and carrying the Conditional Right of Exchange;

“Bondholder/s”	The holder/s of the Bonds, each a “Bondholder”;
“Bond Issue”	The issue of Lm3,000,000 8% Bonds of a nominal value of Lm100 each Bond redeemable at par on 26 June 2012, (subject to the Over-allotment Option);
“Bond Issue Price”	The price of Lm100 for each Bond;
“Central Securities Depository”	The Central Securities Depository of the Malta Stock Exchange established pursuant to Chapter 5 of the Malta Stock Exchange Bye-Laws;
“Conditional Right of Exchange”	The conditional right of exchange described on page 17 of this Offering Memorandum under the heading “Conditional Right of Exchange”;
“Issuer”	Bay Street Finance p.l.c.;
“Directors” or “Board”	The Directors of the Issuer whose names and addresses are set out under the heading “ <i>Directors of the Issuer</i> ”;
“Interest Payment Date”	26 June of each year between 2003 and 2012 (both years included);
“Loan Facility Agreement”	The agreement described on page 27 of this Offering Memorandum under the heading “ Loan Facility Agreement ”;
“Lombard”, “Manager” or “Registrar”	Lombard Bank Malta p.l.c. which is licensed to conduct banking business by the Central Bank of Malta and to conduct investment services business by the Malta Financial Services Centre;
“Maltese Liri” or “Lm”	The lawful currency of the Republic of Malta;
“Malta Stock Exchange”, “Exchange” or “MSE”	The Malta Stock Exchange established by the Malta Stock Exchange Act, Cap. 345 of the Laws of Malta;
“Offer Period”	The period between 10 and 20 June 2002 (or such earlier date as may be determined by the Issuer) during which the Bonds are on offer;
“Offering”	The invitation to subscribe for Bonds contained in this Offering Memorandum;
“Offering Memorandum”	This document in its entirety;
“Official List”	The Official List of the Malta Stock Exchange established pursuant to the provisions of Chapter 6 of the Malta Stock Exchange Bye-Laws;
“Over-allotment Option”	The right reserved in favour of the Issuer, with the consent and under the guarantee of the Guarantor, to offer for subscription, at the sole and absolute discretion of the Issuer, additional Bonds not exceeding Lm3,000,000 in value having a nominal value of Lm100 per Bond at the Bond Issue Price, to cover any outstanding Applications in the event of over-subscription;
“Redemption Date”	26 June 2012;
“Redemption Value”	Lm100 for each Bond;
“Share Transfer Agreement”	The agreement described on page 37 of this Offering Memorandum under the heading “ <i>Share Transfer Agreement</i> ”;
“Sponsoring Stockbroker”	Wilfred Mallia, Charts Investment Management Service Limited, a member of the Malta Stock Exchange and regulated by the statute set out in the Schedule to the Malta Stock Exchange Act, Cap. 345 of the Laws of Malta.

DIRECTORS AND OFFICERS

Directors of the Issuer

Name Paul Camilleri
Address Kampanella,
Triq Wied id-Dis, Madliena
Nationality Maltese

Name Christopher Grech
Address 65, Triq il-Kbira, Gharghur
Nationality Maltese

Name René H. Formosa
Address 33a/1, Gardenia Flats,
Nicolo Isouard Street, Sliema
Nationality Maltese

Company Secretary

Name George Muscat
Address Meadow Vale,
Hope Street, Mosta
Nationality Maltese

Directors of the Guarantor

Name Paul Camilleri
Address Kampanella,
Triq Wied id-Dis, Madliena
Nationality Maltese

Name Christopher Grech
Address 65, Triq il-Kbira, Gharghur
Nationality Maltese

Name George Muscat
Address Meadow Vale,
Hope Street, Mosta
Nationality Maltese

Company Secretary

Name George Muscat
Address Meadow Vale,
Hope Street, Mosta
Nationality Maltese

ADVISERS TO THE PARTIES

Legal Adviser to the Guarantor

Name Sapiano & Associates
Address Valletta Buildings, 54 South Street, Valletta

Legal Adviser to the Issuer on the Bond Issue

Name Roderick Zammit Pace LL.M. (Lond.) LL.D.
Address 215, Office 1, Old Bakery Street, Valletta

Reporting Accountants

Name Vincent Curmi & Associates
Address Finance House, Princess Elizabeth Street, Ta' Xbiex

Name Deloitte & Touche
Address 1, Col. Savona Street, Sliema

Sponsoring Stockbroker

Name Wilfred Mallia
Charts Investment Management Service Limited
Address 18A 3rd Floor, Europa Centre, Floriana

Manager and Registrar

Name Lombard Bank Malta p.l.c.
Address Lombard House, 67, Republic Street, Valletta

Bankers

Name Bank of Valletta p.l.c.
Address The Strand, Gzira

Name Lombard Bank Malta p.l.c.
Address Lombard House, 67, Republic Street, Valletta

RISK FACTORS AND OTHER INVESTMENT CONSIDERATIONS

An investment in the Bonds offered hereby involves certain risks. A prospective investor should read the following risk factors and other investment considerations as well as all the other information contained in this Offering Memorandum carefully before deciding to make an investment in the Bonds.

Forward-looking statements

Information contained in this Offering Memorandum contains forward-looking statements that include, among others, statements concerning the Issuer's and the Guarantor's objectives and plans relating to the attainment of those objectives, their capital requirements and other statements of expectations, beliefs, future prospects and plans, anticipated developments and other matters that are not supported by historical data and which may involve predictions of future circumstances. Forward-looking statements can generally be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "could", "should", "intend", "estimated", "projected", "contemplated" or "anticipated" or the negative thereof or other variations or comparable terminology. No assurance can be given that the future results covered by such forward-looking statements will be achieved. These statements by their terms involve substantial risks and uncertainties, certain of which are beyond the Issuer's and the Guarantor's control. The following factors could cause actual experience to vary materially from the matters covered in such forward-looking statements.

The Issuer's ability to meet its obligations under the Bonds

The Issuer is a special purpose vehicle set up for raising finance on behalf of BSH and does not itself have any substantial assets. Accordingly, the ability of the Issuer to meet its obligations under the Bonds is and will be dependent on the receipt by it of funds from the Borrower under the Loan Facility Agreement. Other than the foregoing the Issuer does not and will not have any other funds available to meet its obligations under the Bonds.

Ability of BSH to meet its obligations under the Deed of Guarantee and the Loan Facility Agreement

The Bonds are being guaranteed by BSH. BSH has also entered into a loan facility agreement as borrower, with the Issuer. Accordingly, the information in this Offering Memorandum is also designed to provide the prospective investor with sufficient information about BSH and its business to enable an investor to make an informed judgement as to the reliance on the Guarantee and the repayment of the facility under the Loan Facility Agreement. The ability of BSH to meet its obligations as Guarantor under the Deed of Guarantee and as Borrower under the Loan Facility Agreement depends upon the performance of the business of BSH, receipt of its dues under the Share Transfer Agreement and its general financial obligations other than under the Loan Facility Agreement. The revenues of BSH are generated exclusively from the ownership and concession of the Bay Street Outlets.

General economic conditions and market trends

The results of operations of BSH are substantially influenced by general economic conditions in Malta. Specifically, consumer confidence and personal disposable income are influenced, *inter alia*, by macroeconomic factors such as inflation, interest rates, rates of taxation imposed both directly and indirectly on consumers, wage rates, levels of employment and the availability of consumer credit. Adverse changes in the economic climate could therefore have a negative impact on the performance of BSH. As the Bay Street Tourist Complex is situated in the heart of Malta's tourist and hospitality district, the results of operations of BSH are also dependent to an extent on general trends and seasonality affecting the tourist industry in Malta.

Start-up business

The Bay Street Tourist Complex is a relatively new development having opened its doors to business for the first time in November 2000 and consequently only limited historic financial information in relation to the Complex and its operations is available to the directors of the Issuer and the Guarantor. Given the absence of such historic financial information it is difficult to make predictions regarding future yields generated by the Complex. A prospective investor in the Bonds should consider the risks and difficulties that the Bay Street Tourist Complex faces as a new operation.

The business of Bay Street Holdings Limited

The revenues of BSH emanate principally from the concession agreements entered into with operators in respect of the Bay Street Outlets. While some of these agreements are for a fixed term, others may be terminated by the operator serving notice within the agreed notice period. Accordingly the operations of BSH depend to a large extent on its ability to secure favourable concession agreements and to secure the renewal of such agreements on equally or more favourable terms upon their expiry. To date few Outlets have been vacated and BSH has succeeded in securing new concession agreements in respect of such vacated Outlets within relatively brief periods. This notwithstanding, there can be no assurance that BSH will continue to negotiate new concession agreements or to secure renewals thereof on equally favourable or more favourable terms in the future. Moreover, the ability of BSH to maintain steady cash flows is subject *inter alia* to the risk of default and early termination by operators of the Bay Street Outlets, which factors are in turn influenced by general economic conditions.

Competition

Whereas the Bay Street Tourist Complex is designed to complement the hospitality, entertainment and leisure industry in the St. George's Bay area, the Bay Street Outlets situated therein still compete, to an extent, against a wide range of alternative entertainment and leisure activities available to consumers in the same and in neighbouring areas (such as sports, health clubs, cinemas and discotheques).

Applicable law and regulation

Various aspects of BSH's business are subject to governmental regulation including trading laws and licensing requirements as well as employment and general health and safety laws and regulations. Although the directors of BSH believe that it is operating in substantial compliance with these laws and regulations, such laws and regulations are subject to change from time to time. The effects of any potential changes to any of these laws and regulations and to other laws and regulations affecting BSH and its business, such as fiscal laws, company laws, and accounting standards, cannot be predicted but could adversely affect the business and operations of BSH in the future.

The particular location of the Bay Street Tourist Complex permits the maximisation of trading activity under current regulations. Any changes to these regulations leading to the tightening of restrictions on opening hours of the Outlets may have an effect on the results of operations of BSH.

Prior ranking charges

A number of hypothecary and privileged charges protecting third party interests are identified on page 38 of this Offering Memorandum which will rank in priority to Bondholders against the assets of the Guarantor for so long as such charges remain in effect.

Conditional Right of Exchange into ordinary shares of Bay Street Holdings Limited

The Bonds are being issued with the Conditional Right of Exchange into Qualified Shares (as defined on page 16 of this Offering Memorandum) of Bay Street Holdings Limited. The right of exchange will only become unconditional if a Qualifying Public Offering takes place between 26 June 2005 and 26 June 2012 as further set out on page 17 of this Offering Memorandum. Whether or not such an offering will take place will depend on a number of factors, *inter alia*, prevailing capital market conditions, the actual results and performance of Bay Street Holdings Limited over the period and the prospect of obtaining a reasonable price for such Qualified Shares. Accordingly no assurance can be given that a Qualifying Public Offering will take place at any time between 26 June 2005 and 26 June 2012. If a Qualifying Public Offering does not take place between 26 June 2005 and 26 June 2012 as aforesaid, the Conditional Right of Exchange shall lapse on Redemption Date and no exchange rights will come into existence in respect of the Bonds. In such case the Bonds will be repayable in full on Redemption Date.

The risks listed above do not necessarily comprise all the risks faced by the Issuer and the Guarantor and are not intended to be presented in any assumed order of priority.

PART I – TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions of issue of the Bonds:

1. General

- (1) Each Bond forms part of a duly authorised issue of Lm3,000,000 8% Bonds due 2012 of a nominal value of Lm100 per Bond issued at the Bond Offer Price of Lm100 per Bond (the “Bonds”, which expression shall in these terms and conditions, unless the context otherwise requires, include any additional Bonds of a nominal value of Lm100 per Bond which the Issuer may issue pursuant to the Over-allotment Option described below and carrying the Right of Exchange described hereunder).
- (2) The Issuer, with the consent and under the guarantee of the Guarantor may offer for subscription, at its sole and absolute discretion, additional Bonds not exceeding Lm3,000,000 in aggregate having a nominal value of Lm100 per Bond at the Bond Offer Price to cover any outstanding applications in the event of over-subscription (the Over-allotment Option). The Over-allotment Option may be exercised by the Issuer at any time during the Offer Period.
- (3) The Bonds enjoy a conditional right of exchange (the “Conditional Right of Exchange”) into Qualified Shares of Bay Street Holdings Limited in the event of a Qualifying Public Offering taking place between 26 June 2005 and 26 June 2012 as more specifically set forth under clause 5 below.
- (4) The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer on 30 May 2002. The guarantee (the “Guarantee”) in respect of the Bonds was authorised by a resolution of the board of directors of the Guarantor on 30 May 2002.
- (5) Unless previously purchased and cancelled, the Bonds shall be redeemable at the Redemption Value of Lm100 per Bond on the 26 June 2012 (the “Redemption Date”).
- (6) Each Bond shall be issued on the terms and conditions set out herein and the Bondholders are entitled to the benefit of, are bound by and are deemed to have notice of such terms and conditions.

2. Definitions

Words and expressions used in these terms and conditions shall, except where the context otherwise requires, bear the same meaning as defined elsewhere in this Offering Memorandum. Furthermore, for the purposes of these terms and conditions:

“Financial Indebtedness” means and includes:

- (a) All monies borrowed or raised (in each case with or without security);
- (b) Receivables sold, assigned or discounted (otherwise than on a non-recourse basis), except any receivables sold, assigned or discounted as part of normal day to day cash collection procedures and not as a means of raising finance;
- (c) The acquisition cost of any asset acquired to the extent payable before or after the time of acquisition and possession by the party liable therefor where and to the extent that the advance or deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (d) The aggregate capital amount owing under any finance lease (as determined in accordance with any applicable accounting standards);

- (e) The principal amount raised by acceptances (not being acceptances in relation to the purchase of goods or services in the ordinary course of trading which have been outstanding for one hundred and eighty (180) days or less) or under any acceptance credit opened on its behalf;
- (f) The principal amount (including any fixed or minimum premium payable on final redemption or repayment) of any debenture (as defined in section 2(1) of the Companies Act, 1995 (Cap. 386 of the Laws of Malta));
- (g) The aggregate maximum amount for the time being outstanding under any guarantee, indemnity or similar assurance in respect of the Financial Indebtedness of any person;
- (h) Amounts raised under any other transaction and which are to be treated as Financial Indebtedness in accordance with any applicable accounting standards;

But shall not include: (i) any amounts which would otherwise constitute Financial Indebtedness and which are intended to be applied within six months of being borrowed or raised in repayment of any Financial Indebtedness then outstanding, pending their application for such purpose or the expiry of such period (whichever shall be the earlier); (ii) any intra group balances and intra group transactions that are required to be eliminated in full on consolidation in accordance with any applicable accounting standards; (iii) any subordinated loans by shareholders;

“Obligors” means both the Issuer and the Guarantor and the term “Obligor” means any one of them;

“Permitted Security Interest” means (a) any Security Interest (as defined hereunder) arising by operation of law; (b) any Security Interest securing bank loans or overdrafts in the ordinary course of business; (c) any other security interest in addition to (a) and (b) above securing Financial Indebtedness of the Obligor in an aggregate amount not exceeding 60% of the difference between the value of the Unencumbered Assets of the Obligor and the aggregate principal amount of the Bonds outstanding at the time;

Provided that the aggregate Security Interests in (b) and (c) above do not result in the Unencumbered Assets of the Obligor being less than 108% of the aggregate principal amount of the Bonds still outstanding;

“Qualifying Public Offering” means a public offering of ordinary shares of any class by Bay Street Holdings Limited (the “Shares”) and/or the shareholders of Bay Street Holdings Limited for subscription or purchase for cash, in conjunction with any placement of such Shares with retail and/or institutional investors and, if and to the extent the Shares are not already listed, accompanied by the admission to listing of and permission to deal in such Shares on the Malta Stock Exchange or any other comparable exchange, such offer (i) taking place between 26 June 2005 and 26 June 2012 and (ii) consisting of Shares representing at least 20% of the ordinary issued share capital of Bay Street Holdings Limited at such time, (the “Qualified Shares”);

“Security Interest” means any privilege, hypothec, pledge, lien, charge or other encumbrance whatsoever;

“Unencumbered Assets” means assets that are not subject to a Security Interest.

3. Registration, Form, Denomination and Title

- (1) Assuming that the Bonds will be admitted to the ACL of the Malta Stock Exchange and remain so listed certificates will not be delivered to Bondholders in respect of the Bonds as each Bondholder’s entitlement will be represented in uncertificated form by the appropriate entry in the electronic register maintained on behalf of the Issuer at the Central Securities Depository. There will be entered in such electronic register the names and addresses of the Bondholders and particulars of the Bonds held by them respectively and a copy of such register will, at all reasonable times during business hours, be open to the inspection of the Bondholders at the registered office of the Issuer.

- (2) The Bonds will be issued in fully registered form, without interest coupons, in denominations of any integral multiple of one hundred Maltese Liri (Lm100) provided that on subscription the Bonds will be issued for a minimum of three hundred Maltese Liri (Lm500).
- (3) Any person in whose name a Bond is registered may (to the fullest extent permitted by applicable law) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments) as the absolute owner of such Bond, (regardless of any notice of ownership, trust or other interest therein) and no person will be liable for so treating such person. Title to the Bonds may be transferred as provided below under clause 11, "Transfer".

4. Status of the Bonds and the Guarantee

- (1) The Bonds constitute the general, direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank and will rank *pari passu*, without any priority or preference among themselves and with all other outstanding, unsecured and unsubordinated obligations of the Issuer, present and future, but in the event of insolvency, only to the extent permitted by applicable law relating to creditors' rights.
- (2) The payment of the principal and interest in respect of the Bonds and all other monies payable by the Issuer under or pursuant to the Bond Issue has been unconditionally and irrevocably guaranteed on a joint and several basis by the Guarantor pursuant to the Deed of Guarantee set out on page 39. The obligations of the Guarantor under its Guarantee constitute general, direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and rank and will rank *pari passu*, without any priority or preference among themselves and with all other outstanding, unsecured and unsubordinated obligations of the Guarantor, present and future, but in the event of insolvency, only to the extent permitted by applicable law relating to creditors' rights.

5. Conditional Right of Exchange

- (1) The Bonds enjoy a conditional right of exchange into Qualified Shares in the event of a Qualifying Public Offering taking place between 26 June 2005 and 26 June 2012 (the "Conditional Right of Exchange"). Upon the occurrence of a Qualifying Public Offering at any time between 26 June 2005 and 26 June 2012, the Conditional Right of Exchange of the Bonds into Qualified Shares shall become unconditional and shall be referred to as the "Right of Exchange".
- (2) Any Bondholder desiring to exercise the Right of Exchange attaching to the Bonds shall exercise such right by completing and delivering an application form issued by or on behalf of Bay Street Holdings Limited in respect of the Qualifying Public Offering indicating the number of Bonds in respect of which the Right of Exchange into Qualified Shares is being exercised in the appropriate section to be provided in such application form. Save where expressly modified hereby the terms and conditions of application for Qualified Shares, including, without limitation, any time limits for submission of applications shall apply *mutatis mutandis* to applications by Bondholders pursuant to the exercise of the Right of Exchange hereunder.
- (3) The number of Qualified Shares to be delivered upon the exercise of the Right of Exchange in respect of any of the Bonds shall be determined in accordance with the following formula:

$$\text{NQS} = \frac{(\text{Bond Issue Price} \times 107\%) \times B}{\text{Share Offer Price}}$$

Where:

B is the number of Bonds in respect of which the Right of Exchange is exercised by any Bondholder;

NQS is the number of Qualified Shares to be allotted or allocated to any Bondholder in exchange for Bonds in respect of which the Right of Exchange is exercised;

Share Offer Price is the price at which the Shares, which are the subject of the Qualifying Public Offering, are offered to the public for subscription and/or purchase.

Any terms and conditions of application for Qualifying Shares may also provide for rounding off in the event that NQS is not equivalent to a whole number.

- (4) In the event of applications for Qualified Shares exceeding the number of Qualified Shares on offer, Bondholders exercising the Right of Exchange in respect of any of the Bonds shall be entitled to a preferential allocation over other applicants for Qualified Shares. In the event that applications by Bondholders pursuant to the exercise of the Right of Exchange in respect of the Bonds exceed the number of Qualified Shares on offer, the number of Qualified Shares to which each Bondholder shall be entitled will be scaled down pro rata to the aggregate amount of Qualified Shares applied for by every such Bondholder.
- (5) The exchange of any Bonds into Qualified Shares pursuant to the exercise by any Bondholder of the Right of Exchange set out above shall be deemed to occur on the date of announcement of the basis of acceptance in respect of applications for the Qualified Shares (the "Exchange Date"). In any such case, any interest accrued since the last Interest Payment Date up to the Exchange Date shall become due and payable on the Exchange Date.

6. Negative Pledge

So long as the payment of any principal or interest under all or any of the Bonds remains outstanding, the Obligors shall not create or permit to subsist any Security Interest, other than a Permitted Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Financial Indebtedness without at the same time or prior thereto securing the Bonds equally and rateably therewith.

7. Interest

- (1) The Bonds bear interest from and including 26 June 2002 (the "Issue Date") at the rate of 8% per annum on the nominal value thereof, payable annually in arrears on 26 June of each year, (each an "Interest Payment Date"), the first payment becoming due on 26 June 2003 in respect of the period from and including 26 June 2002 to but excluding 26 June 2003. Each Bond will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment, in any of which events interest shall continue to accrue at the rate specified herein above or at the rate of two per cent (2%) per annum above the Central Bank of Malta minimum discount rate whichever is the greater.
- (2) When interest is required to be calculated for any period of less than a year it will be calculated on the basis of a three hundred and sixty (360) day year consisting of twelve (12) months of thirty (30) days duration and in the case of an incomplete month the actual number of days elapsed from and including the most recent Interest Payment Date, or as the case may be the Issue Date.

8. Payments

- (1) Payment of the principal amount of a Bond will be made in Maltese Liri to the person in whose name such Bond is registered, with interest accrued to the Redemption Date, by a Maltese Liri cheque drawn on a bank in Malta. Upon payment of the Redemption Value the Bonds shall be redeemed and the appropriate entry made in the electronic register of the Bonds at the Central Securities Depository.
- (2) Payment of any instalment of interest on a Bond will be made in Maltese Liri to the person in whose name such Bond is registered at the close of business fifteen (15) days prior to the Interest Payment Date by mailing a Maltese Liri cheque drawn on a bank in Malta to the Bondholder at such Bondholder's registered address within seven (7) days of the Interest Payment Date or by means of a direct credit into a Maltese Liri account of the Bondholder or of any person as the Bondholder may designate. The Bondholder shall be required to make such election in the Application Form. The Issuer shall not be responsible for any loss or delay in transmission. The payment of the cheque, if purporting to be duly endorsed, shall be a good discharge to the Issuer.
- (3) All payments under the Bonds are subject to any applicable fiscal or other laws and regulations in particular but without limitation all payments by the Issuer in respect of the Bonds shall be made net of any amount which the Issuer is compelled by law to deduct or withhold for or on account of any present or future taxes duties, assessments or other government charges of whatsoever nature imposed or levied by or on behalf of the Government of Malta or authority thereof having power to tax.
- (4) No commissions or expenses shall be charged by the Issuer to Bondholders in respect of such payments.

9. Redemption and Purchase

- (1) Unless previously purchased and cancelled as provided below, the Issuer will redeem the Bonds (together with payment of interest accrued thereon) at their nominal value on 26 June 2012 (the "Redemption Date").
- (2) The Obligors (or any of their respective subsidiaries) may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders shall be made available to all Bondholders alike. All Bonds so purchased shall be surrendered to the Issuer for cancellation.
- (3) All Bonds which are redeemed or purchased by the Obligors (or any of their respective subsidiaries) will be cancelled forthwith. All Bonds so cancelled and Bonds purchased and cancelled pursuant to sub-clause (2) above may not be re-issued or resold.

10. Events of Default

If any of the following events ("Events of Default") occurs and is continuing the Bonds shall forthwith become immediately due and repayable as to their principal amount together with any interest accrued thereon:

- (a) the Issuer fails to pay any interest on any of the Bonds when due and such failure continues for a period of thirty (30) days after written notice thereof shall have been given to the Issuer by any Bondholder; or
- (b) any of the Obligors fail to perform or observe any one or more of their material obligations under these terms and conditions and such failure remains unremedied within a period of sixty (60) days after written notice thereof shall have been given to the relevant Obligor by any Bondholder, requiring the same to be remedied; or
- (c) an Event of Default occurs and is continuing under the Loan Facility Agreement (as such term is defined therein); or

- (d) there shall have been entered against any one of the Obligors a final judgment by a court of competent jurisdiction from which no appeal may be or is taken for the payment of money in excess of four hundred thousand Maltese Liri (Lm400,000) or its equivalent and ninety (90) days shall have passed since the date of entry of such judgment without its having been satisfied or stayed; or
- (e) any default occurs and continues for ninety (90) days under any contract or document relating to any Financial Indebtedness of any of the Obligors in excess of four hundred thousand Maltese Liri (Lm400,000) or its equivalent at any time; or
- (f) an order is made or resolution passed or other action taken for the dissolution, termination of existence, liquidation, or winding-up of any of the Obligors or any of the said Obligors ceases or threatens to cease to carry on its business or a substantial part of its business (except for the purpose of and followed by reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an extraordinary resolution of the Bondholders); or
- (g) any of the Obligors stops or suspends payments (whether of principal or interest) with respect to all or any class of its debts or announces an intention to do so; or
- (h) any of the Obligors is unable, or admits in writing its inability, to pay its debts as they fall due or otherwise becomes insolvent; or
- (i) the Issuer ceases to be wholly owned by the Guarantor; or
- (j) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect.

11. Transfer

- (1) A Bond may be transferred in whole (in multiples of one hundred Maltese Liri (Lm100)) by the Bondholder surrendering the Bond for registration of transfer at the registered office of the Issuer or such other place as may be notified by the Issuer, accompanied by a written instrument in form satisfactory to the Issuer or the Registrar duly executed by the Bondholder and the transferee. The Issuer or Registrar (as agent of the Issuer) shall have the right to retain such written instrument of transfer.
- (2) Any person becoming entitled to a Bond in consequence of the death or bankruptcy of a Bondholder may, upon such evidence being produced as may from time to time properly be required by the Issuer, elect either to be registered himself as holder of the Bond or to have some person nominated by him registered as the transferee thereof. If the person so becoming entitled shall elect to be registered himself, he shall deliver or send to the Issuer a notice in writing signed by him stating that he so elects. If he shall elect to have another person registered he shall testify his election by executing to that person a transfer of the Bond. Provided that if a Bond is transmitted or transferred in part, a person will not be registered as a Bondholder unless such transmission or transfer is made in multiples of one hundred Maltese Liri (Lm100).
- (3) All transfers and transmissions are subject in all cases to any pledge (duly constituted) of the Bonds and to any applicable laws and regulations.
- (4) The cost and expenses of effecting any registration of transfer or transmission except for the expenses of delivery other than by regular mail (if any) and except, if the Issuer shall so require, the payment of a sum sufficient to cover any tax, duty or other governmental charge or insurance charges that may be imposed in relation thereto, will be borne by the Issuer.
- (5) The Issuer will not register the transfer or transmission of Bonds for a period of fifteen (15) days preceding the due date for any payment of interest on the Bonds.

12. Prescription

In accordance with the provisions of the Civil Code (Cap. 16 of the Laws of Malta) and save as otherwise provided by law, claims in respect of principal and interest shall be barred by prescription if any Bondholder fails to exercise his right thereto within five (5) years from the day on which such claim can be exercised.

13. Further Issues

The Issuer may, from time to time, without the consent of the Bondholders, create and issue further bonds, notes, debentures or other securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest thereon) or upon such terms as the Issuer may determine at the time of their issue. Any further bonds, notes, debentures or other securities so issued may rank *pari passu* in all respects with the Bonds but shall not rank ahead of the Bonds. The Issuer shall not issue any other debt instrument for a period of twelve (12) months following the date of this Offering Memorandum.

14. Bonds held Jointly

In respect of a Bond held jointly by several persons (including husband and wife), the joint holders shall nominate one of their number as their representative and his/her name will be entered in the register with such designation. The person whose name shall be inserted in the field entitled "Applicant" on the Application Form, or first named in the register of Bondholders shall for all intents and purposes be deemed to be such nominated person by all those joint holders whose names appear in the field entitled "Additional Applicants" in the Application Form or joint holders in the register as the case may be. Such person shall, for all intents and purposes, be deemed to be the registered holder of the Bond so held.

15. Bonds held Subject to Usufruct

In respect of a Bond held subject to usufruct, the name of the bare owner and the usufructuary shall be entered in the register. The usufructuary shall, for all intents and purposes, be deemed *vis a vis* the Issuer to be the holder of the Bond so held and shall have the right to receive interests on the Bond but shall not, during the continuance of the Bond, have the right to dispose of the Bond so held without the consent of the bare owner.

16. Governing Law and Jurisdiction

- (1) The Bonds are governed by and shall be construed in accordance with Maltese law.
- (2) The Maltese Courts shall have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with the Bonds or the Guarantee shall be brought exclusively before the Maltese Courts.

17. Notices

Notices will be mailed to Bondholders at their registered addresses and shall be deemed to have been served at the expiration of twenty-four (24) hours after the letter containing the notice is posted, and in proving such service it shall be sufficient to prove that a prepaid letter containing such notice was properly addressed to such Bondholder at his registered address and posted.

18. Listing

In the event that the Bonds are admitted to listing on the Alternative Companies List of the Malta Stock Exchange (the "Exchange"), all the terms and conditions, in particular, but not limited to, Clause 11 "Transfer" shall be subject to, and shall apply only so far as they are not inconsistent with, all the laws, bye-laws, regulations and requirements relating to the Exchange.

PART II – THE BOND ISSUE

Details of the Bond Issue

The Issuer is hereby offering to the public Lm3,000,000 8% Bonds due 2012 of a nominal value of Lm100 per Bond, issued at par and redeemable on Redemption Date at Lm100 per Bond unless the Bonds are previously re-purchased and cancelled or exchanged into ordinary shares of Bay Street Holdings Limited (the “Qualified Shares”) upon the Conditional Right of Exchange attaching to the Bonds becoming unconditional as set forth on page 17 of this Offering Memorandum. Interest on the Bonds will become due and payable annually in arrears on 26 June of each year at the rate of 8% per annum, the first interest payment becoming due and payable on 26 June 2003. The Bonds are being issued with the joint and several guarantee of the Guarantor as more specifically set forth in Part V on page 39 under the heading “**THE GUARANTEE**”.

The Over-allotment Option

The Issuer, with the consent and under the guarantee of the Guarantor, reserves the right, at the sole and absolute discretion of the Issuer, to issue additional Bonds to meet applications for subscription exceeding the Bond Issue up to, and not exceeding, in value Lm3,000,000, having a nominal value of Lm100 each Bond (the “Over-allotment Option”). The Over-allotment Option shall be exercisable by the Issuer at any time during the Offer Period.

Conditional Right of Exchange

The Bonds enjoy a conditional right of exchange into ordinary shares of Bay Street Holdings Limited in the event of a Qualifying Public Offering (as defined on page 16 of this Offering Memorandum) taking place between 26 June 2005 and 26 June 2012 (the “Conditional Right of Exchange”) as further set out on page 17 under “**PART I - TERMS AND CONDITIONS OF THE BONDS**”.

Status of the Bonds

The Bonds constitute the direct, unconditional, unsubordinated, general and unsecured obligations of the Issuer and the Guarantor and will rank, without any priority or preference among themselves and subject to such exceptions as from time to time exist under applicable law, at least *pari passu* with all other outstanding unsecured and unsubordinated obligations present and future of the Issuer and the Guarantor. The Bonds and the Guarantee will be governed by, and construed in accordance with Maltese law.

Placing Arrangements

The Issuer has entered into placing agreements (the “Placing Agreements”) with institutional and other investors. In terms of such Placing Agreements, investors have bound themselves to subscribe and purchase upon closing of subscription lists, and the Issuer has bound itself to allot to such investors, an aggregate not exceeding fifty per cent (50%) of the aggregate amount of the Bond Issue. Subscriptions under these arrangements are subject to the same terms and conditions of the Bonds as set out in this Offering Memorandum.

Use of Proceeds

The net proceeds from the Bond Issue will be advanced by the Issuer to the Borrower pursuant to the Loan Facility Agreement which proceeds will be applied by the Borrower to reduce outstanding amounts due to capital creditors for the construction and completion of the Bay Street Tourist Complex and/or existing banking facilities. Likewise any proceeds derived in the event that the Issuer exercises the Over-allotment Option will be advanced by the Issuer to the Borrower pursuant to the Loan Facility Agreement which proceeds will also be applied to reduce any outstanding amounts due to capital creditors and/or any existing banking facilities.

Minimum Subscription

The minimum subscription of Bonds is Lm500 in value and applications in excess of Lm500 in value must be in multiples of Lm100.

Non-residents

All Applications made by non-residents as defined in the Exchange Control Act, (Cap. 233 of the Laws of Malta) shall be accompanied by the corresponding amount in Maltese Liri of the Bonds applied for. Proof that the funds accompanying the Application Form originate from a foreign source or from a foreign currency account held locally, should be retained by the Applicant. In the event that such Applicants are not allotted any Bonds or are not allotted the number of Bonds applied for, they shall receive a refund of the unallocated application monies by way of a cheque in Maltese Liri sent by mail, at the Applicant's own risk, to the address in Malta specified in the Application Form.

Allocation Policy

Upon closing of the application lists and within 4 working days of such closing, the Issuer shall, either directly or through the Registrar, determine and announce the basis of acceptance of Applications and the allocation policy to be adopted.

The Issuer shall implement a preferential allocation policy (the "Preferential Allocation") in respect of the Bonds not exceeding Lm500,000 in aggregate. Bonds allotted under the Preferential Allocation shall be issued at 99% of the Bond Issue Price. The Preferential Allocation shall be implemented as follows:

- (i) The persons entitled to participate in the Preferential Allocation shall consist of directors, officers, and full-time employees of the Guarantor and of BSHC, the operators of the Bay Street Outlets and their respective directors, officers and full-time employees (the "Relevant Applicants");
- (ii) Lm5,000 in value shall be the maximum amount of Bonds that each of the Relevant Applicants shall be entitled to under the Preferential Allocation;
- (iii) In the event that Applications received from Relevant Applicants exceed Lm500,000 in aggregate, the number of Bonds to which each Relevant Applicant shall be entitled will be scaled down pro rata to the aggregate amount of Bonds applied for by each Relevant Applicant under the Preferential Allocation;
- (iv) Any Bonds applied for by any Relevant Applicants in excess of the Preferential Allocation shall be treated equally with all other Applications subject to the terms and conditions of the Bond Issue at the Bond Issue Price. Any outstanding balance due by the Relevant Applicants shall be payable by 28 June 2002.

No Certificates

Assuming that the Bonds will be admitted to the ACL of the Malta Stock Exchange and remain so listed certificates will not be delivered to Bondholders in respect of the Bonds as each Bondholder's entitlement will be represented in uncertificated form by the appropriate entry in the electronic register maintained at the Central Securities Depository.

Offer Expenses

Professional fees, publicity, advertising, printing, listing, registration and other miscellaneous costs incurred in connection with this Offering, are estimated not to exceed Lm98,000, and shall be borne by BSH.

Selling commission is payable by BSH to Authorised Selling Agents. Each Selling Agent shall be entitled to a selling commission at the rate of 0.75% on the value of Bonds allotted to Applicants applying through such Authorised Selling Agent.

In addition to the selling commission of 0.75%, a placement fee of 0.50% is payable by BSH to Authorised Selling Agents on the value of Bonds placed through such Authorised Selling Agent under the Placement Agreements.

Directors

The Directors currently in office are expected to remain in office at least until the next Annual General Meeting.

Authorisations

This Offering Memorandum has been duly authorised as part of the application process for admission to listing of the Bonds on the ACL of the Malta Stock Exchange. Permission from the Malta Financial Services Centre for the issue of this Offering Memorandum in terms of Section 11 of the Investment Services Act (Cap. 370 of the Laws of Malta) is not required by virtue of the exemptions contained in Legal Notices 6 and 95 of 1995.

Taxation

1 *Tax on interest*

Unless the Issuer is otherwise advised by a Bondholder resident in Malta (who falls within the definition of "recipient" in terms of the Income Tax Act (Cap. 123 of the Laws of Malta)), interest shall be paid by the Issuer to such Bondholder net of a final withholding tax at the rate of fifteen per cent (15%). This withholding tax is considered as a final tax and a resident individual Bondholder need not declare the interest so received on his/her income tax return.

In the case of an election made by an eligible Bondholder resident in Malta to receive the interest due without the deduction of withholding tax, interest will be paid gross by the Issuer and such Bondholder will be obliged to declare the interest so received on his/her income tax return and be subject to tax on it at the standard rates applicable to that Bondholder.

Non-resident Bondholders satisfying the applicable conditions included in the Income Tax Act are not taxable in Malta on the interest received and will receive the interest gross.

2 *Tax on capital gains*

Under present legislation, any capital gain arising on disposal of the Bonds listed on the Malta Stock Exchange is not chargeable to Maltese income tax as long as the Bonds remain so listed.

3 *Duty on Documents and Transfers*

No duty on documents and transfers is payable in respect of any transfer of the Bonds, as long as the Bonds are listed on the Malta Stock Exchange and remain so listed.

The information above does not constitute legal or tax advice, and is based on tax law and practice applicable at the date of this Offering Memorandum. This information is being given solely for the general information of Bondholders; the precise implications for investors will depend, among other things, on their particular circumstances. Investors are reminded that tax law and practice may change from time to time.

Investors and prospective investors are urged to seek professional advice as regards both Maltese and any foreign tax legislation applicable to the acquisition, holding and disposal of Bonds as well as interest payments made by the Issuer. The above is a summary of the anticipated tax treatment applicable to the Bonds and to the Bondholders. This information, which does not constitute legal or tax advice, refers only to Bondholders who do not deal in securities in the course of their normal trading activity.

PART III – THE ISSUER

Incorporation, Registered Office and Share Capital

The Issuer is a public limited company registered on 27 May 2002 with registration number C29784 in terms of the Companies Act, 1995 (Cap. 386 of the Laws of Malta) and has its registered office at Bay Street Tourist Complex, Bay Street Management Offices, St. George's Bay, St. Julians. The Issuer has an authorised share capital of Lm1,000,000 and an issued and fully paid up share capital of Lm75,000 divided into 75,000 ordinary shares of a nominal value of Lm1 each. The Issuer, for all intents and purposes, is a fully owned subsidiary of the Guarantor.

Business of the Issuer

The Issuer was set up and established to act as a finance and investment company for the Guarantor. Its principal objects are *inter alia* to enter into loan arrangements, to issue securities and financial instruments, to raise or borrow money and to grant security over its assets for such purposes and to lend money with or without security. Since its incorporation, the Issuer has not undertaken any activities other than in connection with the Bond Issue and has not prepared any accounts. The Issuer has no subsidiaries.

Following is a summary of certain provisions of the principal documents relating to the transactions entered into by the Issuer in connection with the Bond Issue. This summary is qualified in its entirety by reference to the detailed provisions of the relevant documents which may be inspected at the offices of the Issuer at Bay Street Tourist Complex, Bay Street Management Offices, St George's Bay, St Julians from 10 June 2002 to 20 June 2002 during normal office hours.

Loan Facility Agreement

The Facility

The Issuer and the Borrower have entered into an agreement dated 30 May 2002 (the "Loan Facility Agreement") by virtue of which the Issuer has, subject to the terms of the Loan Facility Agreement, agreed to advance to the Borrower a term loan facility (the "Facility") in an aggregate principal amount equivalent to Lm3,050,000. Under the terms of the Loan Facility Agreement the Issuer has agreed to advance to the Borrower any additional amounts (the "Additional Facility") that may be raised by the Issuer pursuant to the exercise of the Over-allotment Option. The principal amount of the Facility and the Additional Facility (as the case may be) shall be repayable by the Borrower on 30 May 2012 ("Maturity Date") and shall bear interest at the rate of 8.2 per cent per annum payable annually in arrears on 30 May of each year, the first interest payment falling due on 30 May 2003. The charging of interest at 8.2 per cent under the Loan Facility Agreement has been duly authorised by the Minister of Finance by virtue of a letter dated 30 May 2002 in terms of the Civil Code (Cap. 16 of the Laws of Malta).

Purpose

The Borrower shall utilise the Facility to reduce outstanding amounts due to capital creditors for the construction and completion of the Bay Street Tourist Complex and/or existing banking facilities. In the event that the Issuer advances to the Borrower any amounts under the Additional Facility such proceeds will similarly be used to reduce any outstanding amounts due to capital creditors and/or existing banking facilities.

Conditions Precedent to Drawdown

Pursuant to the Loan Facility Agreement it is a condition precedent to the Issuer advancing any amounts under the Facility and the Additional Facility (if any) that, *inter alia*:

- (a) the Bonds have been issued and the subscription proceeds have been received by or on behalf of the Issuer;

- (b) the Issuer has received certified copies of the resolutions of the board of directors of BSH approving the terms and conditions of and the transactions contemplated by the Loan Facility Agreement and the Deed of Guarantee (the "Transaction Documents") and resolving that each of the Transaction Documents is signed and executed on its behalf.

Representations and Warranties

No independent investigation with respect to the matters warranted in the Loan Facility Agreement will be made by or on behalf of the Issuer, and the Issuer will be entitled to rely exclusively on the representations and warranties given by the Borrower and which are set out in the Loan Facility Agreement.

Events of Default

The Loan Facility Agreement contains standard events that may lead to a default and acceleration of amounts outstanding that are customary for a term loan facility of this nature. These include events for non-payment, non-performance of material obligations, suspension of payments by and insolvency of the Borrower and a cross-default provision.

Loan Reserve Account

Under the terms of the Loan Facility Agreement the Borrower has agreed to maintain an account (the "Loan Reserve Account") with the Issuer to cover repayment of the principal amount of the Facility and the Additional Facility (as the case may be) on Maturity Date or earlier in the event of the occurrence of any event of default leading to acceleration. With effect from the financial year ending 31 December 2004 up to the financial year immediately preceding the Redemption Date, the Borrower will transfer 60% of Available Free Cash Flows from operations arising in each financial year to the Loan Reserve Account within three months from the relative financial year end, provided that the proceeds standing to the credit of the Loan Reserve Account shall at no time exceed the aggregate value of Bonds outstanding.

Proceeds standing to the credit of the Loan Reserve Account may only be utilised for the following purposes:

- (i) for investment in Maltese Government debt securities or other securities issued or guaranteed by an OECD sovereign state and without any currency exchange risk, in either case for a term not exceeding the Maturity Date;
- (ii) by way of pre-payment of any amount outstanding under the Facility and the Additional Facility (as the case may be), at the election of the Issuer, whenever the opportunity to purchase Bonds on the open market arises, in which case the Issuer shall notify the Borrower accordingly in writing. Any Bonds so purchased shall be cancelled in accordance with clause 9 of Part I of this Offering Memorandum entitled "**TERMS AND CONDITIONS OF THE BONDS – Redemption and Purchase**";
- (iii) by way of subscription or purchase of Qualified Shares in the event of any Bondholder electing to exchange any Bond into Qualified Shares upon the Conditional Right of Exchange becoming unconditional as set forth on page 17 of this Offering Memorandum;
- (iv) by way of set off against any matured obligation owed by the Borrower under the Loan Facility Agreement upon Maturity Date or earlier in the event of the occurrence of any event of default leading to acceleration.

Upon the exercise by the Issuer of any right of set-off in accordance with paragraph (iv) above the proceeds standing to the credit of the Loan Reserve Account shall be applied (i) firstly, in payment of all costs, charges and expenses incurred by the Issuer under the provisions of Loan Facility Agreement together with interest thereon as provided therein, (ii) secondly, in or towards payment of all amounts of principal and interest due or accrued but unpaid to the Issuer under the Loan Facility Agreement, and the surplus, if any, shall be paid to the Borrower or such other person as may for the time being, be entitled thereto.

Any proceeds not so utilised standing to the credit of the Loan Reserve Account shall be held by the Issuer in a segregated bank account with a bank licensed under the Banking Act, 1994.

Until Maturity Date or until such time as the occurrence of any event of default leading to acceleration, any interest or investment income in relation to proceeds standing to the credit of the Loan Reserve Account shall accrue in favour and for the benefit of the Borrower.

In the absence of unforeseen circumstances and subject to there being no material adverse changes in circumstances the Directors are of the view that the percentages available for cash flows that will be credited to the Loan Reserve Account will be sufficient to cover the redemption of the Bonds on Redemption Date.

Governing Law

The Loan Facility Agreement is governed by Maltese law.

Deed of Guarantee

The Guarantor has on 30 May 2002 executed a Deed of Guarantee in favour of and for the benefit of the Issuer, a copy of which is set out on page 39 of this Offering Memorandum under the heading “**THE GUARANTEE**”.

Fees and Expenses Letter

By virtue of a letter dated 30 May 2002, the Borrower has agreed to pay certain costs, commissions and out of pocket expenses incurred in connection with the Bond Issue and the listing of the Bonds on the ACL.

Directors and Officers

The following list sets out the directors and officers of the Issuer:

Directors

Paul Camilleri is the founder, chairman and managing director of Marketing and Consultancy Limited. Marketing and Consultancy Limited, established in 1986, owns and operates 115 The Strand Aparthotel in Sliema. Mr. Camilleri has been involved in the travel and tourism industry since 1976. After a span of 10 years employed in senior managerial positions in the travel and tourist industry, he embarked on various projects, including amongst others, hotel management consultancy services and real estate development. Mr. Camilleri is active in the real estate market and is currently a shareholder and director of three property development companies.

Chris Grech founded the Dhalia group of companies in 1983 after completing his postgraduate studies in the United States. Today Dhalia Real Estate Limited is one of the leading real estate agencies in Malta operating from 10 retail offices in Malta and Gozo while the Dhalia group holds a portfolio of investment property. Currently, Mr. Grech serves as the business development director of Dhalia Real Estate Limited and acts as chairman of The St. James Cavalier Centre for Creativity.

René H. Formosa serves as a consultant to Bank of Valletta p.l.c. in human resources and industrial relations. From 1987 to 1996, Mr. Formosa served as General Manager of Bank of Valletta p.l.c., until reaching retirement age, during which time he also held various directorships within the Bank of Valletta Group, including Valletta Investment Bank Limited, BOV Centre Limited and Cotswold Development Limited. Mr. Formosa also served as vice-chairman of the board of the Foundation for Medical Services.

Secretary

George Muscat started Legend Real Estate Limited and is the founder and director of various companies in the construction, property development and real estate business. Mr. Muscat started his business in the late seventies in the construction industry catering for small housing units, namely terraced houses and flats before moving on to larger projects relating to the construction and completion of luxury apartments during recent years.

Directors' Service Contracts

None of the Directors of the Issuer have a service contract with the Issuer. All Directors may be removed by the shareholder appointing them or by an ordinary resolution of the shareholders in general meeting.

Aggregate Emoluments of Directors

For the current financial year ending 31 December 2002 the Issuer proposes to pay an aggregate amount not exceeding Lm5,000 to its Directors.

Loans to Directors

There are no loans outstanding by the Issuer to any of its Directors nor are there any guarantees issued for their benefit by the Issuer.

Qualifying Public Offering

The directors of BSH anticipate that a Qualifying Public Offering should take place following 26 June 2005 and before 26 June 2012, subject to the factors and investment considerations described under "**Forward-looking statements**" and "**Conditional Right of Exchange into ordinary shares of Bay Street Holdings Limited**" on pages 12 and 14 respectively of this Offering Memorandum under the title "**RISK FACTORS AND OTHER INVESTMENT CONSIDERATIONS**". No assurance can be given however that a Qualifying Public Offering will take place at any time between 26 June 2005 and 26 June 2012. Moreover in the event of the Conditional Right of Exchange becoming unconditional (the "Right of Exchange") upon the occurrence of a Qualifying Public Offering, Bondholders may but shall not be required to exercise their Right of Exchange in respect of any Bonds held by them. Information regarding the Conditional Right of Exchange attaching to the Bonds is set out under clause 5 of the Terms and Conditions of the Bonds on page 17 of this Offering Memorandum. In the event of the occurrence of a Qualifying Public Offering a prospectus will be issued containing all relevant information material to such offering, including the price at which the Shares which are the subject of the Qualifying Public Offering are offered to the public for subscription and/or purchase ("Share Offer Price"), the name of the exchange on which the Qualified Shares are listed or proposed to be listed and further information on the Right of Exchange in respect of the Bonds and any procedures necessary for the Bondholders to exchange their Bonds for the Qualified Shares.

Meetings of Bondholders

The Issuer and the Guarantor may, from time to time, in the ordinary course of events and/or in anticipation of a Qualifying Public Offering, convene meetings of Bondholders for the purpose of informing Bondholders of the results and prospects of the business of BSH.

Prospective Financial Information

Illustrative Prospective Financial Information in respect of the Issuer is set out in Part I of ANNEX C to this Offering Memorandum.

PART IV – THE GUARANTOR

The Guarantor is a private limited liability company registered on 8 November 1990 with registration number C12058 in accordance with the provisions of the Companies Act, 1995 (Cap. 386 of the Laws of Malta) and having its registered office at Bay Street Tourist Complex, Bay Street Management Offices, St. George's Bay, St. Julians.

Share Capital

The authorised share capital of the Guarantor, following the capital restructuring described below, is Lm2,700,000 divided into 900,000 ordinary 'E' shares of a nominal value of Lm1 each, 900,000 ordinary 'F' shares of a nominal value of Lm1 each and 900,000 ordinary 'G' shares of a nominal value of Lm1 each. The issued share capital is fully paid up and subscribed as follows:

	<i>ordinary shares of Lm1 each</i>
<i>Shareholder:</i>	
Dhalia Investments Limited	666,666 E
Marketing and Consultancy Limited	629,720 F
Paul Camilleri	36,946 F
Fiorella Company Limited	629,720 G
George Muscat	36,946 G
	<hr/>
	1,999,998
	<hr/>

Capital Restructuring

The Guarantor has by virtue of a resolution dated 31 December 2001:

- (i) converted 240,000 6% preference shares of Lm1 each into 240,000 ordinary shares of Lm1 each (divided into 80,000 ordinary 'E' shares of Lm1 each, 80,000 ordinary 'F' shares of Lm1 each and 80,000 ordinary 'G' shares of Lm1 each);
- (ii) increased its authorised share capital from Lm498,000 (divided into 166,000 ordinary 'E' shares of Lm1 each, 166,000 ordinary 'F' shares of Lm1 each and 166,000 ordinary 'G' shares of Lm1 each), to Lm2,700,000 (divided into 900,000 ordinary 'E' shares of Lm1 each, 900,000 ordinary 'F' shares of Lm1 each and 900,000 ordinary 'G' shares of Lm1 each);
- (iii) increased its issued share capital from Lm498,000 to Lm1,332,504 (divided into 444,168 ordinary 'E' shares of Lm1 each, 444,168 ordinary 'F' shares of Lm1 each and 444,168 ordinary 'G' shares of Lm1 each) by the allotment of 834,504 ordinary shares of Lm1 each payable in full by way of capitalisation of revaluation reserves;
- (iv) reduced its issued share capital from Lm1,332,504 to Lm 754,998 (divided into 251,666 ordinary 'E' shares of Lm1 each, 251,666 ordinary 'F' shares of Lm1 each and 251,666 ordinary 'G' shares of Lm1 each, all fully paid up), by the cancellation of 577,506 ordinary shares of Lm1 each, fully paid, which amount was set off against losses incurred by the Guarantor;
- (v) increased its issued share capital from Lm754,998 to Lm1,999,998 (divided into 666,666 ordinary 'E' shares of Lm1 each, 666,666 ordinary 'F' shares of Lm1 each and 666,666 ordinary 'G' shares of Lm1 each), by the allotment of 1,245,000 ordinary shares of Lm1 each, fully paid, which amount was set off against shareholders' loans.

Business of the Guarantor

Introduction and History

The principal objects of the Guarantor include the acquisition of property for the purposes of the Guarantor's business and the management, development and turning to account of such property. The Guarantor owns and manages the Bay Street Tourist Complex in St. George's Bay, St. Julians. Construction on the Complex commenced in September 1998 and was completed in November 2000. The project comprised the construction of a hotel with retail, entertainment and catering facilities. Further to a corporate re-structuring as more specifically set forth on page 37 of this Offering Memorandum under the heading "*Share Transfer Agreement*" the Guarantor transferred its entire shareholding (representing 99.9% of the issued ordinary shares) in BSHC to Bay Street Company Limited ("BSC"). BSHC owns and operates the Bay Street Hotel which is located within the Bay Street Tourist Complex. BSHC acquired the Bay Street Hotel (excluding the airspace overlying the Bay Street Hotel but enjoying a perpetual servitude consisting in the right of use of the said airspace and a perpetual servitude consisting in a right of free, unequivocal and unrestricted access over all the remaining areas of the Bay Street Tourist Complex) by virtue of a deed dated 22 November 2001 in the records of Notary Dr. Remigio Zammit Pace for the price of Lm3,500,000. BSC is owned by the same ultimate beneficial shareholders as the Guarantor in identical proportions as set out hereunder:

	<i>ordinary shares of Lm1 each</i>
<i>Authorised share capital</i>	1,200

<i>Issued, fully paid, and owned as follows:</i>	
Dhalia Investments Limited	400 E
Marketing and Consultancy Limited	378 F
Paul Camilleri	22 F
Fiorella Company Limited	378 G
George Muscat	22 G

	1,200

Currently the Guarantor's revenues are derived principally from the operations of the Bay Street Tourist Complex. The Guarantor is also in receipt of interest income from BSC in respect of the consideration due under the Share Transfer Agreement.

The Bay Street Tourist Complex

The St. George's Bay area has over the years developed into one of Malta's foremost hospitality and leisure destinations. Since its inception the Bay Street Tourist Complex has been designed to complement rather than compete with existing establishments in the area, thus bringing together a variety of tourist accommodation facilities, retail outlets, food and beverage operations, as well as daytime and night-time entertainment facilities both within and outside the Bay Street Tourist Complex. Moreover the Complex also provides theatre and artisan facilities offering a unique platform for the promotion of the creative arts within the area.

The Bay Street Tourist Complex has a total floor area of circa 13,332 square metres, spread over six levels. It occupies a prime location in one of the most sought after hospitality, retail and entertainment areas on the Maltese Islands. The Complex is a relatively new construction having been completed approximately 20 months ago, and is built to high standards of architectural design and specification. The open street concept and the rotunda are the focal point of the Complex. While allowing for easy public access to the various Bay Street Outlets these open spaces provide an ideal venue for open-air entertainment, marketing and promotional activities and are capable of hosting large public audiences.

The Bay Street Tourist Complex offers a wide range of outlets, that are run on a concessionary basis. These include high street and speciality retailers, entertainment and food and beverage outlets, a list of which is set out in Annex E to this Offering Memorandum. Currency exchange facilities are also available within the Complex, while banking facilities are available in close proximity. The following table provides details of the net concession areas within the Bay Street Tourist Complex:

	Total area (sq. mtrs.)	Food and beverage	Services	Facilities Retail	Office	Car Park	Occupancy Levels
Level 0	3,160	7	4	20	-	-	100%
Level 1	3,330	2	1	19	-	-	100%
Level 2	3,330	6	3	-	-	-	100%
Level 3	2,460	-	-	1	-	1	*100%
Level 4	780	1	2	-	-	-	100%
Level 8	272	-	-	-	1	-	**

* Level 3 consists of one retail outlet that is currently occupied and the car parking area;

** Level 8 consists exclusively of the offices of the Issuer and the Guarantor.

The particular location of the Bay Street Tourist Complex permits the maximisation of trading activity under current regulations. It also enjoys a captive market generated by the Bay Street Hotel and other surrounding three, four and five star hotels. The Complex has parking facilities comprising approximately 100 car parking spaces. In addition the newly opened Pender Place Car Park provides for extensive car parking spaces within minutes from the Complex while a new car park currently under construction within the immediate vicinity of the Complex is expected to provide for a further 300 car parking spaces.

Concession Agreements

The Guarantor has entered into two types of agreements (the “Concession Agreements”) with operators of the Bay Street Outlets as follows:

- Fixed income agreements whereby the operators are charged a fee based on the square metres occupied by the respective Outlet; and
- Variable income agreements based on the turnover generated by the relevant Outlet.

Some of the principal commercial terms of these Concession Agreements are described briefly hereunder:

- Typically the term of such Agreements varies from a minimum duration of 1 year to a maximum of 20 years, subject to the right of each operator to terminate, by giving six (or in a few instances, three) months notice in writing to the Guarantor. Most of the agreements are for a 5 year term, renewable at the option of the operator up to a maximum duration of 20 years in the aggregate;
- Fixed income agreements generally provide for regular increments in annual concession dues, which increments amount to circa 4% per annum;
- BSH is responsible for the upkeep, proper maintenance and security of the common areas. It is also responsible for the marketing of the Complex. The costs of maintenance and cleaning of common areas, including electricity consumption and security is commonly borne by the Operators of the Bay Street Outlets under an ancillary maintenance agreement. Operators of the Bay Street Outlets also contribute towards the common marketing costs of the Complex.

As at 31 December 2001 the Complex enjoyed a 100% occupancy level with 44 Outlets being operated under fixed income agreements and 22 other Outlets being operated under turnover based agreements.

Historical Financial Information

Following is a summary of the Guarantor's audited results for the last 2 years which is extracted from the Accountants' Report set out in Annex B of this Offering Memorandum.

<i>Year ended 31 December</i>	2000 Lm'000s	2001 Lm'000s
Revenue	144	923
Operating expenses (net of recoveries)	(145)	(535)
Operating (loss)/profit	(1)	388
Depreciation charge	(59)	(402)
Loss after depreciation before interest	(60)	(14)
Net finance costs	(41)	(663)
Loss before taxation	(101)	(677)
Taxation	5	248
Loss for the year	(96)	(429)

Bay Street Holdings Limited was incorporated on 8 November 1990. It commenced operations of the Bay Street Tourist Complex in November 2000. The revenues of Bay Street Holdings Limited are derived principally from the concession of the Bay Street Outlets.

The results of BSH for 2001 include Lm90,000 revenue and Lm91,000 expenditure from a fully owned subsidiary Grand Prix Incorporation Limited ("GPI") which operates a Bay Street Outlet, BSH transferred its 100% interest in GPI on 1 December 2001. Furthermore, operating expenses include a loss of Lm58,000 arising from the disposal and write-off of fixed assets following the change of use of the Outlet designated as "Discovery Centre".

Trading Prospects

The St. George's Bay area has continued to experience extensive and rapid development over recent years. The Bay Street Tourist Complex is surrounded by a number of three, four and five star hotels that provide approximately 9,000 beds, English language schools, offices, cinemas, health and fitness centres, retail, catering, discotheques and other entertainment outlets including a bowling alley and an ice-skating rink.

The expectations of the directors of the Guarantor with respect to the future operational performance of BSH are disclosed in the illustrative prospective financial information contained in Part II of Annex C of this Offering Memorandum. Relevant extracts from the illustrative prospective financial information are set out below:

<i>Year ended 31 December</i>	2002 Lm'000s	2003 Lm'000s	2004 Lm'000s	2005 Lm'000s	2006 Lm'000s
Revenue	967	1,126	1,189	1,229	1,270
Operating expenses (net of recoveries)	(350)	(337)	(344)	(351)	(359)
Operating profit	617	789	845	878	911
Depreciation	(424)	(427)	(430)	(434)	(378)
Profit after depreciation before interest	193	362	415	444	533
Net finance	(578)	(491)	(467)	(439)	(411)
Profit/(loss) before tax	(385)	(129)	(52)	5	122
Taxation	189	35	8	(12)	(53)
Profit/(loss) for the year	(196)	(94)	(44)	(7)	69

The directors of the Guarantor anticipate the operational performance of BSH to improve and to attain profitability in 2005. This improvement is expected to result as a consequence of the following:

- increased revenue derived from:
 - (i) contractual increments to concession income under fixed concession agreements which account for the majority of concession income;
 - (ii) increased turnover-related concession income as a result of sustained marketing and promotional activity and improved trading conditions. In particular the opening of the Hotel Intercontinental and the general enhancement of St. George's Bay including the semi-pedestrianisation of the area and the Government's commitment to beach reclamation are anticipated to increase the flow of visitors to the Complex; and
 - (iii) increased advertising revenue from the implementation of new initiatives integrating promotional and marketing activities with the retail, entertainment and leisure facilities within the Complex;
- improved efficiencies in operating costs;
- reduction in finance costs following the capitalisation of Lm1.2 million interest-bearing shareholders' loans.

Management

The Guarantor's board of directors is responsible for the overall management and for establishing policy guidelines for the management of the company, including responsibility for the appointment of all executive officers and other key members of management.

The following list sets out the names of directors of the Guarantor. A brief description of their previous experience is set out on page 29:

Directors:

Paul Camilleri
Chris Grech
George Muscat

Appointment and Removal of Directors

Pursuant to the memorandum and articles of association of the Guarantor, the directors shall be appointed by the holders of each class of ordinary shares in equal proportions. A director must be a person owning, directly or indirectly, a minimum of 1,000 ordinary shares in the company. Directors so appointed shall remain in office until they resign or are removed from office by an ordinary resolution of the general meeting in accordance with section 140 of the Act.

Directors' Service Contracts

There are no existing or proposed service agreements, definite or indefinite, between any of the Directors and the Guarantor.

Aggregate Emoluments of Directors

For the current financial year ending 31 December 2002 the Guarantor proposes to pay an aggregate amount not exceeding Lm5,000 to its directors.

Loans to Directors

There are no outstanding loans between the Guarantor and any of its directors.

Powers of Directors

Pursuant to its articles of association the board of directors of the Guarantor shall have the power to transact all business of whatsoever nature not expressly reserved, by the memorandum and articles of association or by any provision of law for the time being in force, to be exercised by the company in general meeting.

Management Agreement

By virtue of an agreement dated 13 October 2001 (the "Management Agreement") the Guarantor has engaged Business Process Consulting Limited (the "Manager") to manage the Bay Street Tourist Complex, with responsibility for daily operational activities and sales and marketing strategy. The Manager is also responsible for formulating the long-term business operational and financial strategy of the Guarantor. The Management Agreement runs for a five-year period from 1 November 2001 and may be extended by mutual consent six months prior to its expiry.

Business Process Consulting Limited

Business Process Consulting Limited was set up two years ago and forms part of the Techinvest group of companies, which is chaired by Tony M. Mejlaq. Business Process Consulting Limited offers a wide range of services ranging from strategic to human and financial management as well as operations, marketing and information systems management. In the past two years the company has been actively engaged in consultancy in the private sector.

Tony M. Mejlaq formerly served as chairman and chief executive of Maltacom p.l.c. and was responsible *inter alia* for steering Maltacom p.l.c. through its flotation on the Malta and London Stock Exchanges. Mr. Mejlaq has held several other senior positions with a number of Maltese corporations including Air Malta p.l.c..

Responsibilities and Functions

In fulfilling its responsibilities under the Management Agreement, Business Process Consulting Limited has seconded two senior managers to serve as complex general manager and hotel general manager respectively. The complex general manager and hotel general manager constantly draw on the support and experience of other senior consultants within Business Process Consulting Limited.

James Davis has been seconded by Business Process Consulting Limited to serve as general manager of the Bay Street Tourist Complex. Over the years Mr. Davis has held various management positions including the post of general manager with a leading Maltese furniture manufacturing company and commercial director with an internet service provider.

Pursuant to the Management Agreement the Manager is empowered to manage the resources of the Bay Street Tourist Complex and to enter into contractual agreements both of a capital and recurrent nature. The Manager is also empowered to make all operational, financial, commercial and managerial decisions as well as any necessary recommendations for business improvement. To better fulfil its functions under the Management Agreement, the Manager has constituted an Executive Steering Committee comprising senior management of both the Guarantor and the Manager to set policy guidelines, approve such operational, financial, commercial and managerial decisions and monitor their implementation.

Property Valuation

The freehold interest of the Bay Street Tourist Complex (excluding the Bay Street Hotel) was valued on an open market basis at Lm12,000,000 as at December 2000 which value was reflected in the Guarantor's financial statements for the year ended 31 December 2000.

This valuation has been conducted by Dr. Edwin Mintoff B.E. & A. (Hons.), Ph.D. (Newcastle), A.&C.E. (Architect and Civil Engineer) and a copy thereof dated 27 April is set out in ANNEX D of this Offering Memorandum.

Insurance Cover

The Guarantor's board of directors believe that it has adequate insurance cover in connection with all the normal risks associated with the Bay Street Tourist Complex.

Arrangements with Related Companies

Share Transfer Agreement

By virtue of an agreement (the "Share Transfer Agreement") dated 23 May 2002 (the "Share Transfer Date") BSH transferred its shareholding in the following companies to BSC with all rights attaching to them in consideration of the price of Lm1,809,997 (the "Share Transfer Price"):

- 99.99% of the issued and fully paid up ordinary shares in BSHC;
- 100% of the issued and fully paid up 'A' shares representing 50% of the issued and fully paid up ordinary shares in Hacienda Café/Bar Limited.

BSHC is the owner and operator of the Bay Street Hotel while Hacienda Café/Bar Limited operates the theme bar within the Bay Street Tourist Complex named "*Hacienda*".

The Share Transfer Price is payable by BSC over a period of ten (10) years in instalments and bears interest at the rate of six per cent (6%) per annum.

Change of Ownership

The Share Transfer Agreement contains provisions that prohibit the transfer by the existing shareholders of BSC of any interest therein while any amount of the Share Transfer Price (including any interest payable thereon) is outstanding.

Events of Default

The Share Transfer Agreement contains standard events that may lead to a default and acceleration of payment of the Share Transfer Price (and any interest accrued thereon). These include events of non-payment, suspension of payments by and insolvency of BSC.

Obligations of BSHC

Pursuant to a novation agreement annexed to the Share Transfer Agreement, BSC also assumed the existing liabilities of BSHC as at the Share Transfer Date in favour of BSH amounting in aggregate to Lm399,181. The obligations assumed by BSC towards BSH are subject to the terms and conditions of the Share Transfer Agreement including the payment of interest at the rate of six per cent (6%) per annum.

Governing Law

The Share Transfer Agreement is governed by Maltese law.

Loan Capital and Borrowings

BSH has outstanding loan facilities with Bank of Valletta p.l.c. of approximately Lm5,000,000 guaranteed by a general hypothec of all its property present and future, and by a special hypothec and special privilege over the property consisting of the Bay Street Tourist Complex, as well as overdraft facilities of approximately Lm700,000 guaranteed by a general hypothec of all its property present and future, and by a special hypothec over the Bay Street Tourist Complex.

BSH also acts as joint and several surety by a general hypothec of all its property present and future and a special hypothec over the Bay Street Tourist Complex in respect of loan and overdraft facilities taken out by BSHC with Lombard Bank Malta p.l.c.. BSHC has outstanding loan facilities with Lombard Bank Malta p.l.c. of approximately Lm1,200,000 guaranteed by a general hypothec of all its property present and future, and by a special hypothec and special privilege over the Bay Street Hotel overlying the Bay Street Tourist Complex as well as overdraft facilities of approximately Lm200,000 guaranteed by a general hypothec of all its property present and future, and by a special hypothec over the Bay Street Hotel.

BSH has outstanding indebtedness in favour of Panta Contracting Limited in respect of works carried out on the Bay Street Tourist Complex of approximately Lm720,000 secured by a special privilege over the Bay Street Tourist Complex.

BSH also has outstanding indebtedness due to other capital creditors in respect of the construction and completion of the Bay Street Tourist Complex of approximately Lm2,300,000 which sum is unsecured.

Other than as set out in this Offering Memorandum the Guarantor has no other material borrowings or indebtedness which are outstanding.

Working Capital

The directors of the Guarantor are of the opinion that the working capital available to the Guarantor is sufficient for the attainment of its objects and the carrying on of the Guarantor's business for the next 12 months of operations.

PART V – THE GUARANTEE



Date: 30 May 2002

To the Bondholders,

We refer to the issue of Lm3,000,000 8% Bonds due 2012 (the "Bonds") by Bay Street Finance p.l.c. (the "Issuer") pursuant to and subject to the terms and conditions set out in the Offering Memorandum dated 30 May 2002 (the "Offering Memorandum").

By these presents, we the undersigned for and on behalf of Bay Street Holdings Limited (the "Guarantor"), as duly authorised, hereby stand surety jointly and severally with the Issuer and irrevocably and unconditionally guarantee the due and punctual performance of all the obligations undertaken by the Issuer under the Bonds and, without limitation to the generality of the foregoing, undertake to pay all or any amounts of principal and interest which may become due and payable by the Issuer to Bondholders under the Bonds in accordance with the terms and conditions set forth in the Offering Memorandum.

Furthermore we declare to understand that the aggregate principal amount of Bonds issued by the Issuer may be increased by a maximum aggregate amount of Lm3,000,000 at the sole and absolute discretion of the Issuer, pursuant to the Over-allocation Option, in which case this guarantee shall extend to such increased amount, which guarantee shall in no event exceed the amount of Lm6,000,000 in the aggregate.

This guarantee (the "Guarantee") is unsecured and ranks equally with all the other existing and future unsecured obligations of the Guarantor, but excluding any debts for the time being preferred by law and any subordinated obligations.

All terms used in this Guarantee, shall unless the context otherwise requires, have the same meaning assigned to them in the Offering Memorandum.

This Guarantee is governed by the laws of Malta.

Signed and executed this the 30 day of May 2002 by all the directors, as duly authorised, for and on behalf of the Guarantor.


Paul Camilleri


Chris Grech


George Muscat

Bay Street Holdings Ltd, Bay Street Tourist Complex, Management Offices, St George's Bay, St. Julian's STJ 02, Malta.

Tel: +356 2138 0600 - Fax: +356 2138 0601 - Vat No: 1516 - 3016 - e-mail: info@baystreet.com.mt - www.baystreet.com.mt

Directors: Paul Camilleri, George Muscat, Chris Grech

PART VI – ADDITIONAL INFORMATION

Incorporation

The Issuer was registered under the laws of Malta on 27 May 2002 as a public company with limited liability with company registration number C29784.

Share Capital

The authorised share capital of the Issuer is Lm1,000,000 divided into 1,000,000 ordinary shares of a nominal value of Lm1 each.

The issued share capital of the Company is Lm75,000 fully paid up, divided into 75,000 ordinary shares of a nominal value of Lm1 each.

The shares of the Issuer are not listed on the Malta Stock Exchange. Application has not been made for the shares of the Issuer to be quoted on the ACL of the Malta Stock Exchange.

There is more than ten per cent (10%) of the Issuer's authorised share capital which is unissued. However, in terms of the Issuer's memorandum and articles of association none of such share capital shall be issued in such a way as would effectively alter the control of the Issuer or nature of the business, without the prior approval of the Issuer in general meeting.

There is no share capital of the Issuer which has been issued to the public, at any time prior to the publication of this Offering Memorandum. Nor is it expected that the Issuer issues any shares during the next twelve (12) months, whether fully or partly paid up, in consideration for cash or otherwise.

There is no capital of the Issuer which is currently under option, nor is there any agreement by virtue of which any part of the capital of the Issuer is to be put under option.

Loan Capital and Borrowings

Other than as set out in this Offering Memorandum the Issuer has no other material borrowings or indebtedness which are outstanding.

Appointment of Directors

The Directors are appointed or elected in terms of the Issuer's memorandum and articles of association. Any member or members holding in the aggregate twenty per cent (20%) of the Issuer's total voting rights may utilise every such portion of the voting rights held by him to appoint one (1) director, while the remaining voting rights may be utilised to vote for the election of directors at general meeting.

In terms of these rules it is expected that the Directors will be appointed or elected by the Guarantor which holds 99.99% of the issued share capital of the Issuer. One of such Directors will be a person independent of the Guarantor.

The Chairman of the Board is, in terms of the Articles of Association of the Issuer, appointed by the Board from amongst the appointed Directors.

Powers of Directors

The Directors are vested with the management of the Issuer, and their powers of management and administration emanate directly from the memorandum and articles of association of the Issuer and the law. The Directors are empowered to act on behalf of the Issuer and in this respect have the authority to enter into contracts, sue and be sued in representation of the Issuer. In terms of the Issuer's memorandum and articles of association they may do all such things as are not by the said memorandum and articles of association reserved for the Issuer in general meeting.

A Director shall not vote with respect to any contract, arrangement, transaction, or any other proposal whatsoever in which he has a personal material interest.

The maximum limit of aggregate annual emoluments of the Directors is, in terms of the memorandum and articles of association, to be established by the shareholders in general meeting. Within that limit the Directors shall have the power to vote remuneration to themselves or any number of their body. Any increases in the maximum limit of Directors' aggregate emoluments have to be approved by the general meeting. The salary or remuneration of any Managing Director or other Director holding office in the Issuer may include the making of provisions for the payment to him, his widow or other dependants, of a pension on retirement from the office or employment to which he is appointed and for the participation in share option schemes, pension and life assurance benefits. Any remuneration paid to any Director by virtue of his holding another office or post with the Issuer shall be deemed to form part of such Director's emoluments.

The maximum limit of aggregate annual emoluments permitted in terms of the above, including emoluments due to Directors are estimated not to exceed Lm5,000 in the current financial year.

In terms of the memorandum and articles of association, the Board may exercise all the powers of the Issuer to borrow money and to give security therefor, subject to such borrowing limits as are set out in the Issuer's articles of association and the overriding authority of the shareholders in general meeting to change, amend, restrict and or otherwise modify the Directors' borrowing powers.

There are no provisions in the memorandum and articles of association relating to the retirement or non-retirement of Directors over any particular age limit.

None of the Directors has been subject of any censure, public or otherwise, by any statutory or regulatory authorities within the five years prior to the date of this Offering Memorandum.

Commissions

There were no commissions, discounts, brokerages or other special terms granted during the two years immediately preceding the publication of this document in connection with the issue or sale of any capital of the Issuer.

Directors' Interests

Directors' Interests in Ordinary Shares of the Issuer

René H. Formosa has no beneficial interests in the share capital of the Issuer as at the date of this Offering Memorandum.

Paul Camilleri and Chris Grech (as directors) and George Muscat (as secretary) have no beneficial interests in the share capital of the Issuer as at the date of this Offering Memorandum, other than through their direct and indirect shareholding in Bay Street Holdings Limited.

Directors' Interests in Ordinary Shares of the Guarantor

	<i>Shares</i>	<i>% of issued share capital</i>
Christopher Grech	"E" ordinary	33.34%
Paul Camilleri	"F" ordinary	33.33%
George Muscat	"G" ordinary	33.33%

The directors of the Issuer and Guarantor undertake not to dispose of their above-mentioned interests in the Issuer and the Guarantor respectively within one year from the date of admission of the Bonds to the ACL.

Directors' Interests in Transactions

BSH transferred its shareholding in BSHC and in Hacienda Café/Bar Limited in favour of BSC pursuant to the Share Transfer Agreement as more fully set forth on page 37 of this Offering Memorandum.

Paul Camilleri, Chris Grech and George Muscat are interested persons in relation to BSC, as directors and through their direct and indirect shareholding in BSC.

Other Interests

Other than as disclosed in this Offering Memorandum no person is directly or indirectly interested in ten per cent (10%) or more of the issued share capital of the Issuer.

Litigation

The Issuer and the Guarantor have no litigation or claims of material importance pending or threatened against them.

Experts' Reports

The Accountants' Reports on the Issuer and the Guarantor set out in Annexes B and C and the Architect's Valuation Report set out in Annex D are being included in this Offering Memorandum with the consent of the respective experts, in the form and content in which they are inserted, which consents have not been withdrawn.

Material Contracts

Save as otherwise disclosed in this Offering Memorandum, the Issuer and the Guarantor have not entered into any contracts of a material nature which were not in the ordinary course of business.

Documents Available for Inspection

The following documents or certified copies thereof will be made available for inspection at Bay Street Tourist Complex, Bay Street Management Offices, St. George's Bay, St. Julians during the Offer Period:

- (a) The Memorandum and Articles of Association of the Issuer and the Guarantor;
- (b) Offering Memorandum signed by all directors of the Issuer and the Guarantor;
- (c) Illustrative Prospective Financial Information of the Issuer and the Guarantor and the Accountants' Report thereon;
- (d) Written consent of the Reporting Accountants to reproduce their Accountants' Reports in this Offering Memorandum;
- (e) Written consent of the Architect to reproduce his Architect's Report in this Offering Memorandum;
- (f) Loan Facility Agreement dated 30 May 2002;
- (g) Fees and Expenses Letter dated 30 May 2002;
- (h) Share Transfer Agreement and Novation Agreement both dated 23 May 2002; and
- (i) Audited Financial Statements of the Guarantor for the financial years ended 31 December 2000 and 2001.