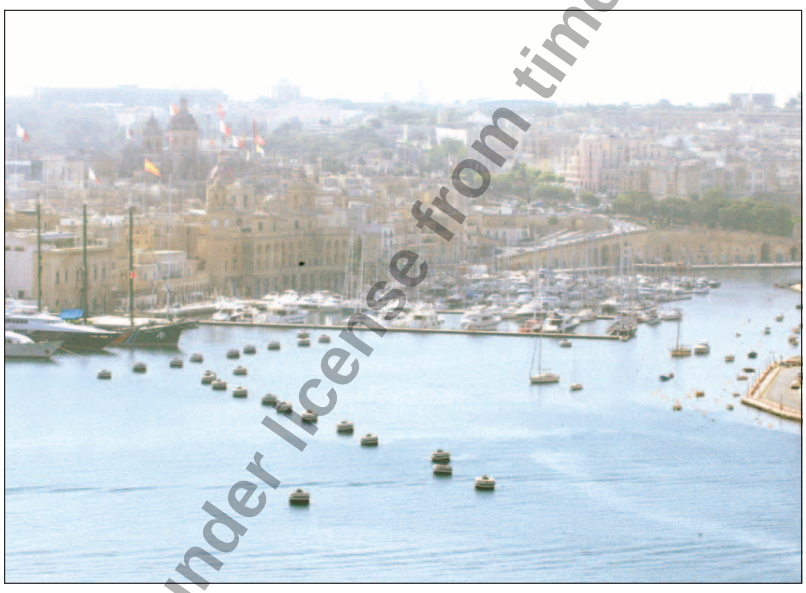
FINANCIAL SERVICES

Interesting times at Grand Harbour Marina

*In the third of a series of articles, **EDWARD RIZZO**, a director of Rizzo, Farrugia & Co. (Stockbrokers) Limited, one of Malta's leading private asset management companies, reviews the financial results issued by Grand Harbour Marina.*



GRAND HARBOUR Marina plc published its preliminary statement of results for the year ended December 31, 2006 following a board of directors' meeting held on May 4, 2007.

The company's turnover for the year amounted to Lm1.5 million, in line with the projections given during the February 2007 Initial Public Offering. The revenue generated during 2006 represents a 48 per cent rise from the previous year largely on account of the sale of one of the largest berths within the marina.

Personnel expenses dropped by 9.4 per cent from 2005 to Lm138,690 whilst other operational expenses increased by 24.3 per cent over the previous year to Lm667,353. Both personnel as well as other operational expenses were largely in line with the company's projections. Earnings before interest, tax, depreciation and amortisation of Lm714,765 is more than double the EBITDA generated in 2005 and slightly above projections. The EBITDA margin increased from 32.8 per cent in 2005 to 47 per cent in 2006.

After accounting for depreciation of Lm98,719, Grand Harbour Marina generated an operating profit of Lm616,046 in 2006, 2.5 per cent higher than the operating profit projected during the IPO. Net finance costs increased to Lm124,810 resulting in a pre-tax profit of Lm491,236.

Profit for the year of Lm318,552 represents a 76 per cent increase over 2005 and 6.2 per cent higher than the projected profit. Based on the 10 million shares in issue as at December 31, 2006, the company's earnings per share amounted to 3c2 (2005: 1c8).

Total assets of Grand Harbour Marina as at December 31, 2006 amounted to Lm4.7 million with shareholders' funds of Lm1.3 million. The company's pre-tax return on equity (profit before tax divided by average equity) in 2006 increased to 42.4 per cent (2005: 30.6 per cent) with a return on assets (profit before tax divided by average assets) also rising from 5.8 per cent in 2005 to 10.1 per cent in 2006. Post-tax return on equity amounted to 27.5 per cent.

On April 25, 2007 the company issued a surprise announcement in respect of conditional agreements entered into between Camper & Nicholsons Marina Investments Limited (CNMI) and the major shareholders of Grand Harbour Marina plc (Portosalvo Holdings Limited, V&F Portelli & Sons Limited, Nicholas Maris and Simon Arrol) to acquire a 50 per cent equity stake in Grand Harbour Marina plc at a price of Lm0.56 per share. CNMI (a closed-ended fund listed on the Alternative Investment Market of the London Stock Exchange) has also been granted a conditional right to acquire a further 20 per cent shareholding from Nicholas Maris and Simon Arrol at a price of Lm0.56 per share. The manager of CNMI's marina investments, Marina Management International Limited (MMI) subscribed for more than four per cent of the issued share capital of CNMI (equivalent to two million shares) during the IPO in January 2007. MMI is owned and run by its chairman and CEO Nicholas Maris – who is also chairman and shareholder of Grand Harbour Marina plc. The other directors of MMI are Nicholas Papanicolaou and Christopher Lewington. Moreover Nicholas Maris is also a director of the investment adviser of CNMI, Camper & Nicholsons Marinas International Limited. The investment adviser is responsible for sourcing and analyzing potential investment opportunities for CNMI, assisting with negotiations as well as monitoring the marina investments and providing investment and management advice.

Should CNMI exercise their option to acquire the additional 20 per cent shareholding, this will increase their shareholding in Grand Harbour Marina plc above 50 per cent.

Accordingly, this would trigger the mandatory bid requirement. CNMI will then be required to make a bid to the General Public holding the remaining three million shares, which were offered for subscription by the same large shareholders of Grand Harbour Marina plc at a price of Lm0.70 per share only three months ago!

In the company announcement, CNMI confirmed that the mandatory bid would be at least equal to the IPO price of Lm0.70 per share. However, CNMI will only exercise the option to acquire these shares provided that the price of the mandatory bid would not exceed Lm0.79 per share. The price is determined according to the criteria set out in Listing Rule 18.39 issued by the Malta Financial Services Authority.

Moreover, the listing rules also stipulate the possibility of 'squeeze-out rights', which imply that should CNMI acquire at least 90 per cent of the shares of Grand Harbour Marina plc (i.e. the seven million shares from the current large shareholders and two million of the shares held by the general public), they have the right to require all the other shareholders to sell the remaining shares at the same price of the mandatory bid. This would then lead to a de-listing of the shares of Grand Harbour Marina from the Official List of the Malta Stock Exchange.

The purchase of the shares by CNMI is still subject to a due diligence exercise of Grand Harbour Marina plc and the lifting by the general body of shareholders of Grand Harbour Marina plc at the annual general meeting on June 5, 2007 of certain lock-up restrictions currently binding the shareholders who sold to the public during the IPO. At the AGM, the company is also seeking shareholders' approval for the authorisation to provide confidential information to CNMI.

Assuming that Camper & Nicholsons would be successful in acquiring the seven million shares from the current large shareholders at the agreed price of Lm0.56 per share and the remaining three million shares at Lm0.79 per share (the maximum price at which they would be willing to exercise their option), this would result in a total value of Lm6.29 million for the 100 per cent acquisition of Grand Harbour Marina plc.

This would equate to a price of Lm0.629 per share, 10 per cent below the Lm0.70 IPO price at which Portosalvo Holdings Limited, V&F Portelli & Sons Limited, Nicholas Maris and Simon Arrol offered 30 per cent of the company's shares to the public only three months ago.

Moreover, at the implied value of Lm0.629 per share, the shares would be trading on a price to earnings multiple of only 8.86 times the projected profits for the current financial year ending December 31.

Financial Highlights	2006	2005
	Lm	Lm
Turnover	1,520,808	1,027,000
EBITDA	714,765	337,000
Operating Profit	616,046	245,000
Profit before tax	491,236	278,000
Profit after tax	318,552	181,000
Earnings per share	0.032	0.018
Total assets	4,672,813	5,091,000
Shareholder's Funds	1,319,130	1,000,000

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