# Financial Analysis Summary
# 16 September 2016

**Issuer** Gap Group p.l.c. (C 75875)

**Guarantors** Gap Mellieħa (I) Limited (C 72013)
Gap Għargħur Limited (C 72015)
Gap Properties Limited (C 47928)
Geom Developments Limited (C 50805)

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The Directors
Gap Group p.l.c.
Gap Group Head Office
Ċensu Scerri Street
Tigné, Sliema, SLM 3060
Malta

16 September 2016

Dear Sirs

**Financial Analysis Summary**

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

The purpose of the financial analysis is that of summarising key financial data appertaining to Gap Group p.l.c. (the "**Issuer**"), and Gap Mellieħa (I) Limited, Gap Għargħur Limited, Gap Properties Limited and Geom Developments Limited (the "**Guarantors**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the three years ended 31 December 2013 to 31 December 2015 has been extracted from the audited financial statements of Gap Properties Limited, Manikata Holdings Limited and Geom Developments Limited.
(b) The forecast data for the years ending 31 December 2016 to 31 December 2018 has been provided by management.
(c) Our commentary on the results of the Gap Group and on its financial position is based on the explanations provided by management.
(d) The ratios quoted in the Analysis have been computed by us applying the definitions set out in Part 4 of the Analysis.
(e) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Issuer's securities and potential investors by summarising the more important financial data of the Gap Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Issuer and should not be interpreted as a recommendation to invest in any of the Issuer's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek independent professional financial advice before investing in the Issuer's securities.

Yours faithfully,

**Wilfred Mallia**
Director

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## DEFINITIONS

| | |
|---|---|
| **Issuer** | Gap Group p.l.c., a public limited liability company duly registered and validly existing under the laws of Malta with company registration number C 75875 and having its registered office at Gap Group Head Office, Ċensu Scerri Street, Sliema SLM 3060, Malta; |
| **Bond Issue** | the issue of Secured Bonds; |
| **Bondholder** | a holder of Secured Bonds; |
| **Gap Group** or **Group** | the Issuer, its parent, GDL, GHL, GGF, GGL, GGCL, GML, GPL and MHL; |
| **GDL** | Geom Developments Limited (C 50805); |
| **GHL** | Geom Holdings Limited (C 64409); |
| **GGF** | Gap Group Finance Limited (C 54352); |
| **GGL** | Gap Għargħur Limited (C 72015); |
| **GGCL** | Gap Group Contracting Limited (C 75879); |
| **Għargħur Development** | the construction, development and finishing over the site in Triq Caravaggio, Għargħur, Malta measuring approximately 2,585m², of a total 34 luxury apartments (6 of which at Penthouse level) and 41 garages/car spaces, spread over 4 blocks with a variety of one, two and three bedroom units; |
| **GML** | Gap Mellieħa (I) Limited (C 72013); |
| **GPL** | Gap Properties Limited (C 47928); |
| **Guarantor** | each of GDL, GGL, GML and GPL, and the term "**Guarantors**" shall collectively refer to the said companies; |
| **Hypothecated Property** | the immovable property described hereunder, namely:<br><br>(i) the plot of land known as ta' Masrija having a superficial area of approximately 5,220m², in Mellieħa, together with the improvements made and to be made thereon, over which there shall be developed the Mellieħa Development, which site is to be acquired by GML;<br><br>(ii) the plot of land in Triq il-Porzjunkola, Qawra Malta having a superficial area of approximately 1,228m², together with any improvements to be made thereon and earmarked for the development of Blocks A, B, and C forming part of the Qawra Development, property of GDL; the site is more fully described in the deed of acquisition published by Notary John Spiteri and dated 26 March 2015;<br><br>(iii) the 27 apartments in a completely finished state, including all common areas and internal streets and the 74 garages and garage spaces forming part of the development on the site in Żebbuġ having a superficial area of approximately 6,878m² constituting the Żebbuġ Development, property of GPL; |
| **Mellieħa Development** | the construction, development and finishing, over the site known as ta' Masrija in Mellieħa measuring approximately 5,220m², of a total of 152 residential units and 174 garages/car spaces, spread over 10 blocks with a variety of one, two and three bedroom units; |
| **MHL** | Manikata Holdings Limited (C 53818); |
| **New Developments** | the construction and development of each of the Għargħur Development, the Qawra Development and the Mellieħa Development; |

| | |
|---|---|
| **Projects** | the construction and development of the New Developments and the sale of the remaining unsold units comprised in the Żebbuġ Development (each a "**Project**"); |
| **Qawra Development** | the construction, development and finishing over the site in Triq il-Porzjunkola, Qawra, Malta measuring approximately 3,508m$^2$ of a total of 145 residential units and 180 garages/car spaces, spread over 7 blocks, identified as Blocks A to G (both included) with a variety of one, two and three bedroom units; |
| **Secured Bond(s)** or **Bond(s)** | the €40,000,000 4.25% Secured Bonds of a nominal value of €100 payable in full upon subscription and redeemable at the nominal value in 2023; |
| **Trustee or Security Trustee** | Equinox International Limited, a private limited liability company duly registered and validly existing under the laws of Malta, with company registration number C 29674 and having its registered office at 9, Level 2, Valletta Buildings, South Street, Valletta VLT 1103, Malta, duly authorised to act as a trustee or co-trustee in terms of Article 43(3) of the Trusts and Trustees Act (Cap. 331 of the Laws of Malta); |
| **Żebbuġ Development** | the 193 apartments, 2 retail outlets and 144 underlying garage spaces all in a completely finished state, including all common areas and internal streets, forming part of the development on the site in Żebbuġ measuring approximately 6,878m$^2$. |

## PART 1 – INFORMATION ABOUT THE GAP GROUP

### 1. KEY ACTIVITIES OF THE ISSUER

The Issuer was incorporated in June 2016 as a public limited liability company under the Companies Act with an authorised and issued share capital of €2.5 million, fully paid up.

The Issuer's principal object is that of a holding company and to promote, including through subsidiaries, the acquisition and development of real estate properties. As such, the Issuer is mainly dependent on the business prospects of its operating subsidiaries. At present, the Issuer, through the Guarantors and other subsidiaries, is involved in the construction and development of the New Developments, following the successful completion of the Żebbuġ Development. Each project undertaken by the Group is typically undertaken through a special purpose vehicle established for that project, and each special purpose vehicle is managed through its board of directors, which has common members with the directors of the Issuer. The Issuer is not dependent on other entities within the Group or outside the Group with respect to the management of the Projects.

On 6 September 2016, the Issuer acquired from Gap Group Investments p.l.c. (C 72012) the entire issued share capital of two companies, namely GML and GGL. GML is a party to a preliminary agreement for the purchase of the site known as ta' Masrija over which the Mellieħa Development is to take place. GGL acquired the site over which the Għargħur Development will be constructed by virtue of a deed published by Notary Dr Andre Farrugia on 4 February 2016. Following the acquisition of both these companies, and the completion of the deed of acquisition for the site over which the Mellieħa Development will be constructed, which is expected to take place following the Bond Issue, the Issuer will have the indirect legal and beneficial interest and control over the Mellieħa and the Għargħur Developments.

In addition, by virtue of another share purchase agreement dated 6 September 2016, entered into with Gap Group Investments (III) Limited (C 76675), the Issuer acquired the entire issued share capital of GDL and all the issued ordinary 'A' shares of GHL. GDL holds a one hundred per cent interest in GGF which in turn has the controlling interest in each of GPL and MHL. GPL is the group company that owns the Żebbuġ Development, which has now been completed, but that still retains unsold stock of 27 residential units and 74 garage spaces.

By virtue of these acquisitions the Issuer has indirectly acquired all of the sites over which the New Developments will take place, save for the site over which the Mellieħa Development will be constructed that is the subject matter of a preliminary agreement, which is expected to lead to the final deed of sale and purchase following completion of the Bond Issue (part of the Bond proceeds shall be allocated to the acquisition cost of the site in Mellieħa).

In March 2012, GGF had issued €15,500,000 7% Secured Notes of a nominal value of €1,000 each, redeemable at par between 2014 and 2016 to finance two residential projects. Both of the projects have been completed, one of which is the Żebbuġ Development and another project consisting of a number of luxury villas in Manikata. The Notes then issued were fully redeemed on their redemption date 30 March 2016.

### 2. DIRECTORS AND SENIOR MANAGEMENT

#### 2.1 DIRECTORS OF THE ISSUER

The Issuer is managed by a Board comprising six directors who are entrusted with its overall direction and management. The Board members of the Issuer as at the date of this report are included hereunder:

| | |
|---|---|
| George Muscat | Chairman |
| Paul Attard | Executive Director |
| Adrian Muscat | Executive Director |
| Francis X. Gouder | Independent Non-Executive Director |
| Mark Castillo | Independent Non-Executive Director |
| Chris Cilia | Independent Non-Executive Director |

## 2.2 DIRECTORS OF THE GUARANTORS

The following are the directors of each of GML, GPL and GGL:

| | |
|---|---|
| George Muscat | Executive Director |
| Paul Attard | Executive Director |
| Adrian Muscat | Executive Director |

The following are the directors of GDL:

| | |
|---|---|
| George Muscat | Executive Director |
| Francis X. Gouder | Non-Executive Director |

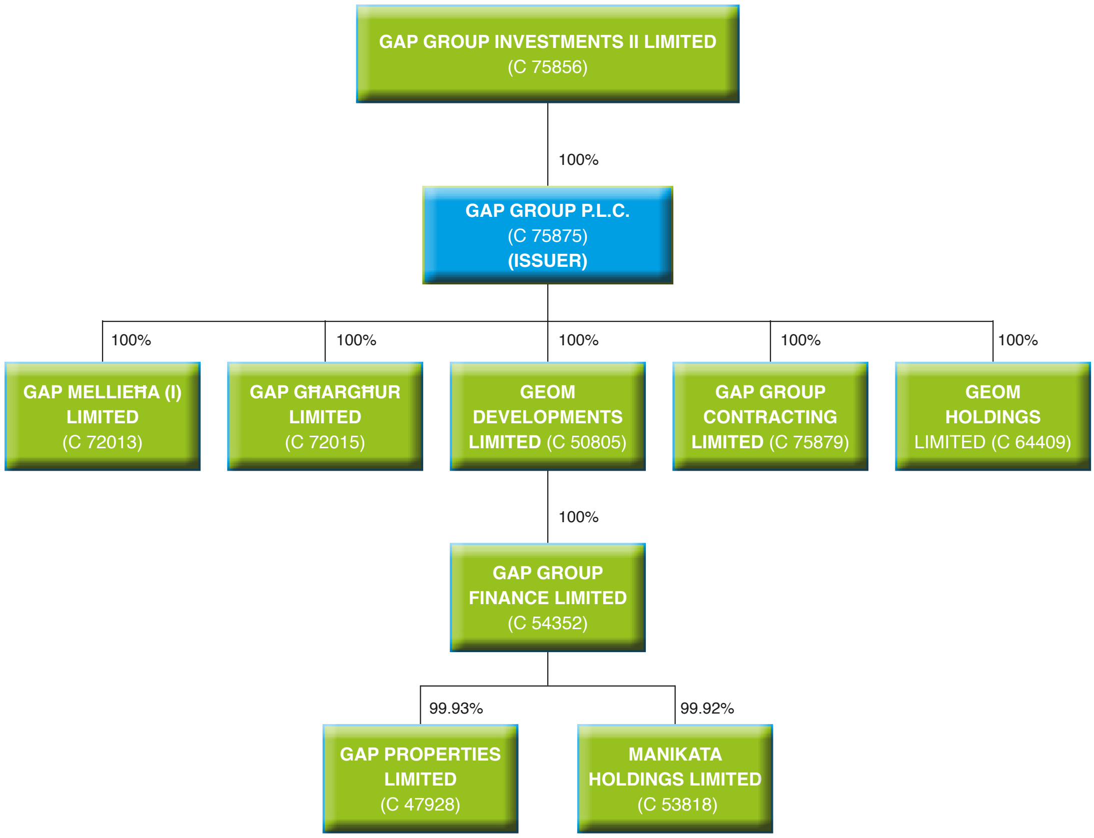
## 2.3 SENIOR MANAGEMENT

The Issuer itself has no employees and is managed directly by its board of directors. Each project company employs a number of management personnel and other employees devoted to managing each Project. The Group adopts a centralised management structure whereby it can deploy senior management personnel to perform duties in different parts of the Group depending on the requirements of each Group company; those services are then re-charged to the Group company where they are from time to time deployed.

Senior management of the Group is engaged by GGCL, the members of which are the following:

| | |
|---|---|
| George Muscat | Chairman |
| Paul Attard | Director of Sales and Marketing |
| Chris Gauci | Sales and Marketing Manager |
| Elton Deguara | Sales and Marketing Manager |
| Adrian Muscat | Director of Sites |
| Raymond Grixti | Project Manager |
| Emanuel Cortis | Sites Manager |
| Joseph J. Formosa | Finance Manager |

## 3. ORGANISATIONAL STRUCTURE




The organisational structure of the Gap Group is depicted above. The Group is owned by three individual shareholders, with Paul Attard and Adrian Muscat each having a 25% equity interest in the Group and George Muscat having the remaining 50% equity interest through Gap Group Investments II Limited (C 75856). Each of GML, GGL, GDL, and GHL are project companies each entrusted with the construction and development of one of the New Developments, whilst GPL is the owner of the Żebbuġ Development.

Each of GML, GGL and GDL is dependent on the Issuer as to the amount of Bond Issue net proceeds that will be on-lent by the Issuer to each of the afore-mentioned companies in terms of the Securities Note. Each of the Guarantors is not dependent on other entities within the Group. A short description of each of the Guarantors is provided hereunder.

### 3.1 THE GUARANTORS

#### *3.1.1 Mellieħa (I) Limited*

GML is a private limited liability company, registered and operating in Malta in terms of the Act with company registration number C 72013, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GML has an authorised share capital of €1,200 (one thousand two hundred Euro) and an issued share capital of €1,200 (one thousand two hundred Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GML was set up on 26 August 2015 to acquire the site and develop the Mellieħa Development.

### *3.1.2 Gap Għargħur Limited*

GGL is a private limited liability company, registered and operating in Malta in terms of the Act with company registration number C 72015, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GGL has an authorised share capital of €3,458 (three thousand four hundred fifty eight Euro) and an issued share capital of €3,458 (three thousand four hundred fifty eight Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GGL was set up on 26 August 2015 to acquire the site and develop the Għargħur Development.

### *3.1.3 Gap Properties Limited*

GPL is a private limited liability company, registered in Malta in terms of the Act with company registration number C 47928, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GPL has an authorised share capital of €2,800 (two thousand eight hundred Euro) and an issued share capital of €2,800 (two thousand eight hundred Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GPL was established to act as a property development company on 14 October 2009, initially for the Żebbuġ project.

### *3.1.4 Geom Developments Limited*

GDL is a private limited liability company, registered in Malta in terms of the Act with company registration number C 50805, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GDL has an authorised share capital of €2,000 (two thousand Euro) and an issued share capital of €2,000 (two thousand Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GDL was established on 7 October 2010, and owns an undivided portion of the site situated in Triq il-Porzjunkola corner with Triq it-Tamar in Qawra, over which Blocks A, B and C of the Qawra Development are being developed. The other undivided portion of land is owned by its affiliate Geom Holdings Limited.

## 4. THE PROJECTS

### 4.1 THE ŻEBBUĠ DEVELOPMENT - HISTORY AND OVERVIEW

GPL embarked on the Żebbuġ Development in June 2012 when it acquired the land situated at 'Ta' Robba' in the district of 'Ħal-Mula' in Żebbuġ, which area is located just off the village centre.

### *4.1.1 Development*

As at the date of this report, the project is complete in terms of the overall development. The project originally consisted of the acquisition of the afore-mentioned site in Żebbuġ measuring approximately 6,878m$^2$ and the subsequent construction and development of 193 apartments, 2 retail outlets, and 226 garages/car spaces. The units occupy a total built up saleable area of *circa* 32,700m$^2$ spread over 20 blocks within five zones forming the project which vary in size and include a variety of one, two, and three bedroom units.

Units within the development have been sold and the remaining stock of apartments will be delivered in a completely finished state, including all common areas and internal streets.

### *4.1.2 Project Cost*

The total cost of the Żebbuġ Development amounted to *circa* €10.5 million all of which has been incurred. No further costs are to be incurred in connection with this development. The cost of the Żebbuġ Development was financed principally through the €15,500,000 7% Secured Notes 2014-16 issued by GGF. The said secured notes were fully redeemed on the scheduled redemption date, that is, 30 March 2016.

#### *4.1.3 Pricing and Sales Approach*

Sales of units to date have indicated a strong demand for the development, in particular, from first-time buyers wishing to live in this part of the island. When compared to similar projects in the direct vicinity, the pricing of the units is considered to be verging on the medium to high side. Nonetheless, the velocity of the sales to date has been a positive one. This is mainly attributed by the Directors to the layouts and finishes of the units. Marketing strategies have also proven well received with campaigns being undertaken through various forms of media including social media.

As at 31 August 2016 there were 27 apartments and 74 garages/car spaces which remain to be sold.

These apartments can be divided into the following configurations:

| **Żebbuġ Development** | **No. of Units** | **%** |
|---|---|---|
| 1-bedroom unit | 1 | 3.70 |
| 2-bedroom unit | 12 | 44.45 |
| 3-bedroom unit | 13 | 48.15 |
| Commercial unit | 1 | 3.70 |
| | **27** | **100.00** |

### 4.2 THE QAWRA DEVELOPMENT - HISTORY AND OVERVIEW

The Qawra Development is a joint venture between GDL and GHL, both subsidiaries of the Issuer. The Project is being constructed over a site consisting of two divided portions of land, one measuring approximately 2,280m$^2$ (inclusive of the road formation) belonging to GHL and another portion of land measuring approximately 1,228m$^2$ belonging to GDL, and both situated in Triq il-Porzjunkola corner with Triq it-Tamar which is situated just off the Qawra seafront. Both portions of land were purchased by GDL and GHL by two separate contracts dated 26 March 2015 published by Notary Dr John Spiteri.

As at 31 July 2016, *circa* 60% of Blocks A, B and C and 45% of Blocks D, E, F and G have been completed in terms of development. It is envisaged that full completion will be achieved by quarter 4, 2017.

Despite the fact that works on the said Project are still in the phase of construction, the companies have already secured, by way of preliminary agreement, the sale of approximately 83% of the total number of apartments and 37% of the garages. It is planned that the first contracts of sale will be signed in the last quarter of 2017.

#### *4.2.1 Development*

The Project consists of the construction and development over the afore-mentioned site in Qawra measuring approximately 3,508m$^2$ of a total of 145 residential units and 180 garages/car spaces.

The units will occupy a total built up saleable area of circa 24,879m2 spread over seven blocks with a variety of one, two, and three bedroom units. Three of the said blocks are being constructed over the property owned by GDL, whilst the remaining four blocks are being constructed over the property owned by GHL. The blocks identified as A, B and C (property of GDL and forming part of the Hypothecated Property) will consist of 62 residential units and 58 underlying garage spaces, whilst Blocks D, E, F and G (property of GHL) will consist of 83 residential units and 122 underlying garage spaces.

The development will be delivered in a completely finished state, including all common areas and internal streets.

### 4.2.2 *Estimated Costs of the Project*

Excavation works relating to the Qawra Development have been completed in full whilst construction is underway. It is envisaged that construction will be completed by beginning of quarter 2, 2017. In the third quarter of 2017, the finishes will commence and should be completed by the fourth quarter of 2017, bringing the total completion of the Project within *circa* 28 months from initiation.

**QAWRA DEVELOPMENT – BLOCKS A, B AND C**

The estimated cost to develop Blocks A, B and C is *circa* €2.9 million as follows:

| **Qawra Development**<br>**Estimated Costs of the Project** | **€'000** |
|---|---|
| Blocks A, B and C (owned by GDL): | |
| Excavation | 40 |
| Construction | 856 |
| Finishes | 1,649 |
| Contingency | 82 |
| | **2,927** |

GDL has entered into a contract for the development of Blocks A, B and C with GGCL for a value of approximately €2.9 million. Payment under the said contract will be settled by GDL according to agreed fixed monthly payments of *circa* €60,000. In general, such payment terms are subject to negotiation and agreement by GDL and GGCL. The afore-mentioned parties entered into a public deed in the records of Notary Dr Andre Farrugia and dated 5 August 2016 which makes provision for the contractual waiver by GGCL of its right at law to register a special privilege for any amount over Blocks A, B and C in the event of non-payment by GDL until such time that the hypothecs and privileges granted in favour of the Security Trustee have been settled and repaid in full. The public deed is intended to protect the security interests of the Security Trustee for the benefit of Bondholders and to preserve their ranking over the assets of the Issuer and the Guarantor.

**QAWRA DEVELOPMENT – BLOCKS D, E, F AND G**

The cost to develop Blocks D, E, F and G is estimated at *circa* €5.2 million as follows:

| **Qawra Development**<br>**Estimated Costs of the Project** | **€'000** |
|---|---|
| Blocks D, E, F and G (owned by GHL): | |
| Excavation | 454 |
| Construction | 2,220 |
| Finishes | 2,433 |
| Contingency | 122 |
| | **5,229** |

The above financial information has been provided for completeness purposes, since GHL forms part of the Gap Group. GHL will be funding the afore-mentioned development costs of *circa* €5.2 million from proceeds to be derived from sales of units in Blocks D, E, F and G forming part of the Qawra Development and from other funding sources. As such, GHL will not be a recipient of any of the Bond Issue proceeds. Furthermore, GHL is not a joint and several guarantor for the Bond under the Guarantee and will not be providing any rights of preference over Blocks D, E, F and G forming part of the Qawra Development in favour of the Trustee for the benefit of Bondholders.

#### 4.2.3 *Pricing and Sales Approach*

The apartments to form part of the Qawra Development have been targeted principally towards first-time buyers, rental investors, and foreigners wishing to relocate to Malta. This approach has achieved significant results as, notwithstanding that the said Project is in the phase of construction, 83% of the apartments are already committed through preliminary agreements. As at 31 August 2016, 48 out of 62 residential units in Blocks A, B and C and 72 out of 83 residential units in Blocks D, E, F and G are subject to preliminary sale agreements.

Revenue that the Group is expected to generate from sales of units in the Qawra Development is *circa* €16.7 million, being €7.3 million from the sales of units in the blocks owned by GDL and €9.4 million from the sales of units in the blocks owned by GHL.

### 4.3 THE MELLIEĦA DEVELOPMENT - HISTORY AND OVERVIEW

In October 2015, GML entered into a preliminary agreement for the purchase and acquisition of a plot of land measuring *circa* 5,220m$^2$ with access from the three streets surrounding the property situated in the Ta' Masrija area in Mellieħa over which the Mellieħa Development shall be constructed and developed.

The site is located in the village of Mellieħa in the northern region of Malta. It enjoys unobstructed country views of the imposing area known as Miżieb and distant sea views of the island's north western coastline. Moreover, the site is a short drive away from Malta's largest sandy beaches, Għadira Bay and Golden Bay and a short walk to the village centre of Mellieħa.

Given the location of the site and the proposed level of finishes which the Mellieħa Development will embrace, the Directors believe that the Project will offer a unique opportunity for owning residential property in this part of the island.

#### 4.3.1 *Development*

The Mellieħa Development is planned to comprise 152 luxury apartments which will be sold finished in a complete state, including all common areas and the formation of the road. The development is covered by a full development permit and is projected to encompass 10 blocks of apartments, each with separate entrances and served with passenger lifts accessing both the apartments and underlying garage levels. The apartments at the top level will also have access to roof level and will enjoy full ownership thereof.

The progress of the apartments will be spread over 5 phases with each phase comprising 2 blocks of apartments. Out of the 10 blocks, 7 will contain 16 apartments each, 2 will contain 14 apartments each and 1 block will include 12 apartments. The apartments shall be spread over 8 levels in each block. The development shall also include 174 lock-up underground garages spread over 3 underground levels. Both apartments and garages combined shall occupy a total built up saleable area of *circa* 44,325m$^2$.

The development of the Project is planned to span over 32 months from commencement of works. It is envisaged that full demolition and excavation works will commence around September 2016 and will take 2 months from commencement date to complete, whilst the Project will be fully constructed within 26 months from commencement date. Upon the 9th month of construction, the finishes will get underway and last for about 22 months, scheduling the full completion of the Project to *circa* 32 months after initiation.

#### 4.3.2 *Estimated Costs of the Project*

The Mellieħa Development is estimated to cost *circa* €16.3 million as follows:

| **Mellieħa Development**<br>**Estimated Costs of the Project** | **€'000** |
|---|---|
| Excavation | 289 |
| Construction | 5,529 |
| Finishes | 9,728 |
| Contingency | 777 |
| **Total** | **16,323** |

GML has entered into a contract for the development of the Mellieħa Development with GGCL for a value of approximately €16.3 million. Payment under the said contract will be settled by the company according to agreed fixed monthly payments of *circa* €272,000. In general, such payment terms are subject to negotiation and agreement by GML and GGCL. The afore-mentioned parties entered into a public deed in the records of Notary Dr Andre Farrugia and dated 5 August 2016 which makes provision for the contractual waiver by GGCL of its right at law to register a special privilege for any amount over the Mellieħa Development in the event of non-payment by the Guarantor until such time that the hypothecs and privileges granted in favour of the Security Trustee have been settled and repaid in full. The public deed is intended to protect the security interests of the Trustee for the benefit of Bondholders and to preserve their ranking over the assets of the Issuer and the Guarantor.

#### 4.3.3 *Pricing and Sales Approach*

Taking into account the characteristics of the development and its location, the Directors are of the view that these units should be an attractive proposition, in particular to Maltese residents wishing to upgrade to a higher end property, those wishing to downsize from a bigger residence or those wishing to reside in a tranquil area, steps away from the countryside and closer to recreational areas, but still away from the urban sprawl characterising other parts of the island. Moreover, these apartments may also be appealing to foreigners seeking to relocate to Malta and investors wishing to maximise rental income potential.

The majority of the apartments will have areas varying between 180m$^2$ and 240m$^2$ with approximate prices ranging between €300,000 and €450,000. The larger, top most apartments (which are much fewer in number) range from 250m$^2$ and 400m$^2$ with prices exceeding €500,000.

Once construction work commences, the company intends to immediately proceed with the marketing of the Project through a number of agents in Malta as well as through the Group's internet website and various forms of social media.

The Directors feel that the Project will be a competitive proposition when considering the available properties which are on the market in Mellieħa, the location of the Mellieħa Development, the size and layout of the apartments together the finishes being proposed.

### 4.4 THE GĦARGĦUR DEVELOPMENT - HISTORY AND OVERVIEW

In February 2016, GDL acquired the legal title of a portion of land in Għargħur, which includes its sub-terrain and airspace and measures *circa* 2,585m$^2$, accessible from an entrance bearing the official number 39 (previously numbered 20) in Triq il-Kbira and from another entrance in Triq Caravaggio.

The site is located in the small village of Għargħur in the north eastern region of Malta. Over the years, the locality has gained its popularity with regards to the property market due to the small size, exclusivity and tranquility of the village, together with its accessible location. The site is situated in a residential area, close to the village centre and just a short walk to one of the island's most picturesque valleys, Wied id-Dies/Wied Santa Marija taż-Żellieqa, which connects Għargħur with Madliena.

### 4.4.1 *Development*

The Għargħur Development is covered by a full development permit and includes the development of 28 residential units and 6 penthouses, 38 (1-car) lock-up garages and 3 (2-car) lock-up garages. The total area of the development will add up to *circa* 10,680m² (built up area) with a further 330m² of internal street area. The apartments shall be spread over 5 levels, whilst garages shall be over 1 underground level.

The apartments will be sold finished in a complete state, including all common areas and the formation of the internal street. The development will be spread over 4 blocks of apartments, each with separate entrances and served with passenger lifts accessing both the apartments and underlying garage levels.

The development of the Project is planned to span over 25 months from commencement of works. It is envisaged that demolition and excavation works will commence in or around September 2016 and will take 2 months from commencement date to complete, whilst the Project is expected to be fully constructed within 19 months from commencement date. Upon the 7th month of construction, the finishes will get underway and last for *circa* 17 months, bringing the full completion of the Project to approximately 25 months after initiation.

### 4.4.2 *Estimated Costs of the Project*

The estimated total cost of completion is *circa* €3.7 million which is divided as follows:

| **Għargħur Development**<br>**Estimated Costs of the Project** | **€'000** |
|---|---|
| Excavation | 360 |
| Construction | 1,550 |
| Finishes | 1,568 |
| Contingency | 174 |
| **Total** | **3,652** |

GGL has already entered into a contract for the development of the Għargħur Development with GGCL for a value of approximately €3.7 million. Payment under the said contract will be settled by GGL according to agreed fixed monthly payments of *circa* €60,000. In general, such payment terms are subject to negotiation and agreement by GGL and GGCL.

GGL is a joint and several guarantor for the Bond under the Guarantee, but will not be supporting its guarantee with any rights of preference over the Għargħur Development.

### 4.4.3 *Pricing and Sales Approach*

The Directors believe that given the location of the site, the apartment layouts and the proposed level of finishes which the development will comprise, the Project will be a competitive offering for prospective buyers to acquire a property in this locality. The strategy being adopted for the marketing of these apartments is similar to the one for the Mellieħa Development - a development that is aimed at appealing to Maltese residents wishing to upgrade to a more exquisite home, or others wishing to downsize from a bigger residence and wishing to reside in a tranquil, more central and coveted village location. Moreover, these apartments may also be suitable for people seeking to invest in property for rental purposes and foreigners wishing to relocate to Malta and enjoy tranquility of Maltese village life.

The majority of the apartments will have areas varying between 195m² and 250m² with approximate prices ranging between €240,000 and €300,000. The larger (which are much fewer in number) will range from 250m² and 400m² with prices ranging between €350,000 and €450,000.

Once construction works start, the company intends to immediately proceed with the marketing of the Project through a number of agents in Malta as well as through the Issuer's internet website and various forms of social media. It is also notable to mention the fact that this will be the second development by the Directors in the village of Għargħur, the first one being a success where targets were met with ease.

### 4.5 CASH INFLOWS ON PROPERTY SALES

The following table illustrates the projected cash inflows from deposits and contracts relating to sales of units, net of applicable commissions.

| **GAP Group p.l.c.**<br>**Pre-tax Cash Flow on Property Sales** | **2016**<br>**(€'000)** | **2017**<br>**(€'000)** | **2018**<br>**(€'000)** | **2019-2023**<br>**(€'000)** | **Total**<br>**(€'000)** |
|---|---|---|---|---|---|
| Qawra & Għargħur (previous development) | 610 | 226 | 76 | - | 912 |
| Żebbuġ | 5,974 | 3,820 | 465 | 340 | 10,599 |
| Qawra | 548 | 2,660 | 12,141 | 449 | 15,798 |
| Għargħur | - | 225 | 4,780 | 5,290 | 10,295 |
| Mellieħa | 244 | 809 | 8,528 | 44,573 | 54,154 |
| **Total cash inflows from deposits and contracts** | **7,376** | **7,740** | **25,990** | **50,652** | **91,758** |

As presented in the above table, cash inflows over the 8-year term ending 2023 is projected at €91.8 million and is expected to be derived principally from sales proceeds of four real estate developments. It is forecasted that the Mellieħa Development will generate the largest portion of total projected cash inflows, estimated at *circa* 59%. Given that each Project has a different timeline in terms of development and sales tempo, the Gap Group is expected to generate continual cash inflows on a yearly basis, which will enable the Group to service its borrowings and part of development costs from said cash balances.

### 4.6 PROJECT FUNDING

The Issuer intends to fund each of the New Developments, except for Blocks D, E, F and G that form part of the Qawra Development, through a mix of Bond proceeds and cash flows generated from the sales of units from the Projects. The development of the afore-mentioned Blocks D, E, F and G will be funded from cash flows generated from the sales of units in the respective blocks and other sources of funds. It is expected that in the initial months, such cash flow will be derived from sales of the completed Żebbuġ Development. As the New Developments progress to a position where the Group can commence marketing each New Development, it is expected that preliminary agreements will start being executed with deposits from these preliminary agreements being retained by the Group to further fund construction and other completion costs of each New Development.

The funding of the New Developments is therefore partly dependent on the proceeds from the gradual sale of units in each New Development. In the event that projected sales of units are not attained or are delayed, the Group may well not have sufficient funds to complete all the New Developments, to complete the New Developments within the time-frames envisaged in this document, or to pay GGCL for works performed.

As depicted in the table hereunder, the sum of €13.4 million from the total projected cost of the New Developments of *circa* €31.8 million will be financed out of the Bond proceeds, whilst the balance of approximately €18.4 million is to be funded from the proceeds of sales of each of the Projects.

The remaining amount of projected net sales proceeds from the Projects, estimated at €73.4 million (€91.8 million less €18.4 million), shall be utilised principally to settle tax of property sales, cover the annual interest payments on the Bond, pay administrative & other expenses of the Group and fund a reserve account to be held by the Security Trustee for the purpose of redeeming the Bond of €40 million on maturity (the "**Reserve Account**").

| **GAP Group p.l.c.** | |
|---|---|
| **Project Funding** | **(€'000)** |
| | |
| **Use of net proceeds from Bond Issue** | |
| Repayment of bank borrowings | 3,000 |
| Acquisition of Group companies | 13,100 |
| Net balance of consideration payable for the Mellieha land | 9,895 |
| Part funding of New Developments (excluding Qawra Development - Blocks D, E, F and G) | 13,405 |
| | **39,400** |
| **Estimated development cost payments (by Project)** | |
| Żebbuġ | 3,705 |
| Qawra | 8,157 |
| Għargħur | 3,652 |
| Mellieħa | 16,323 |
| | **31,837** |
| | |
| **Source of funding** | |
| Maximum funding through Bond Issue proceeds | 13,405 |
| Minimum funding required through property sales | 18,432 |
| | **31,837** |

## 4.7 RESERVE ACCOUNT

All sales of units forming part of the Hypothecated Property shall be made on condition that units are released of all hypothecary rights and privileges encumbering the units being sold. For this purpose, the Security Trustee shall be empowered to release individual units of the Hypothecated Property from the security interest encumbering such unit/s upon receipt by it from the Issuer or from a prospective purchaser of a fixed amount of the purchase price attributed to each unit forming part of the Hypothecated Property.

For this purpose, the Security Trustee and the Issuer have agreed that a fixed amount shall be set for each unit, and it is only upon receipt by the Security Trustee of such an amount that the Security Trustee shall be bound to release a particular unit from the effects of any security interests encumbering the Hypothecated Property. Accordingly, the security created for the interest of Bondholders shall only be reduced against a cash payment made by the Issuer in the Reserve Account to be held by the Trustee for the benefit of Bondholders. The Security Trustee shall hold the funds received in a segregated bank account with a credit institution in Malta and shall hold such funds for the benefit of Bondholders with a view to meeting the redemption of the Bonds on maturity.

Any shortfall in the amount receivable by the Security Trustee pursuant to the foregoing shall be required to be made up, in whole or in part, out of the available sale proceeds from any subsequent sale or sales until such shortfall shall have been made up in its entirety.

In accordance with the Trust Deed, the Security Trustee is authorised to release to the Issuer any funds held in and to the credit of the Reserve Account which are in excess of the aggregate value of Bonds outstanding, provided that there remain sufficient units, covered by the security interests, to be sold to cover the interest still to become payable on the Bonds until the redemption date.

The Trustee shall hold such monies standing to the credit of the Reserve Account to ensure their preservation and the Security Trustee may from time to time, but shall not be obliged to, through the engagement of a licensed investment advisor, invest such monies in such a manner and in such instruments as are herein provided, namely:

(i) investment or re-investment in any EU Government debt securities or other debt securities issued or guaranteed by an OECD sovereign state and without any currency exchange risk, in either case for a term not exceeding the redemption date of the Bonds; or
(ii) Re-purchase of the Bonds for cancellation; or
(iii) not more than 20 per cent of any amounts held in the Reserve Account may be invested in debt securities listed on the Malta Stock Exchange or in other rated (not less than AA or its equivalent) debt securities denominated in Euro and traded on a regulated market in the European Union.

All amounts received by the Trustee from the sales proceeds of units in any one of the Projects shall be credited to the Reserve Account and shall, subject to the immediately preceding paragraph, be retained for the purpose of redeeming the Bonds on maturity. The Group intends to utilise all sales proceeds arising from the Għargħur Development to meet development and construction costs of the New Developments and as such, none of those proceeds are earmarked to be allocated to the Reserve Account. 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 Reserve Account will be sufficient to cover the redemption of the Bonds on maturity.

### 4.8 THE RESERVE ACCOUNT - PROJECTIONS

On the basis of the current projections of sales and the projected sales prices for units and garage spaces prepared by the Issuer and taking into account the requirements of cash for the completion of the New Developments, it is expected that, save for unforeseen circumstances, the Security Trustee shall receive funds in the Reserve Account from GPL, GDL and GML as follows:

| **The Reserve Account** | **€'000** |
|---|---|
| **Allocation to Security Trustee during life-time of the Bond (by Project):** | |
| Żebbuġ Development | 860 |
| Qawra Development | 5,441 |
| Mellieħa Development | 40,616 |
| **Total** | **46,917** |

During the initial term of the Bond, a significant part of the cash flows generated will be applied for the financing of development costs, taxes, and finance costs whilst the allocation to the Reserve Account will start at a low level from the Żebbuġ Development and increases significantly from the sales proceeds of the Mellieħa Development. Significant reliance is made on sales proceeds emanating from the Mellieħa Development that is expected to contribute approximately 86% of the contributions to the Reserve Account principally between 2018 and 2020.

It is the intention of the Issuer and Trustee to apply part of the funds standing to the credit of the Reserve Account to re-purchase Bonds in the market, thus reducing the total value of Bonds outstanding prior to its maturity. The funds standing to the credit of the Reserve Account which are not utilised to re-purchase Bonds in the market shall be invested in line with the investment parameters set out in the Trust Deed and which are summarised above. Interest or other income from such investments will accrue to the credit of the Reserve Account.

Taking into account all of these factors including interest and other income receivable in the Reserve Account, without the re-purchase of Bonds in the market, the amount transferred to the Reserve Account over the life-time of the Bonds will be in the region of €47 million, which should cover the redemption of the principal of the Bonds in 2023. The Security Trustee shall be under no obligation to receive in the Reserve Account an amount in excess of the principal amount outstanding on the Secured Bonds from time to time.

## 5. OVERVIEW OF THE CONSTRUCTION & PROPERTY MARKET IN MALTA

The recovery that began in the construction sector in 2013 extended into 2015. This was reflected in increases in the number of permits issued for the construction of residential dwellings, as well as in the value added and investment generated by the sector. This expansion in activity, in turn, has positive effects on employment income.

The improved performance in the construction sector in 2015 was supported by measures aimed at streamlining the issue of permits. The low interest rate environment, the extension of fiscal incentives for first-time buyers, the Individual Investor Programme (IIP) which fuelled demand for top-end properties, and an inflow of foreign workers have also spurred demand for dwellings.

Over €2 billion worth of property was registered in 15,557 contracts of sale concluded in 2015, a 35% increase over 2013 figures when 12,272 contracts, worth €1.3 billion, were concluded. A total 73,402 promises of sales have been registered since 2008 with an indicated value of close to €11 billion. The lowest number of promises of sale was 7,841 in 2011 with €1.074 billion worth of property.

Almost 1,000 properties, worth €400 million, were sold to foreigners (having obtained an Acquisition of Immovable Property Permit (AIP)) over the last four years (2012 – 2015). In 2015, foreigners acquired 280 properties for an aggregate value of €189.5 million (2014: 208 properties, €70.7 million).

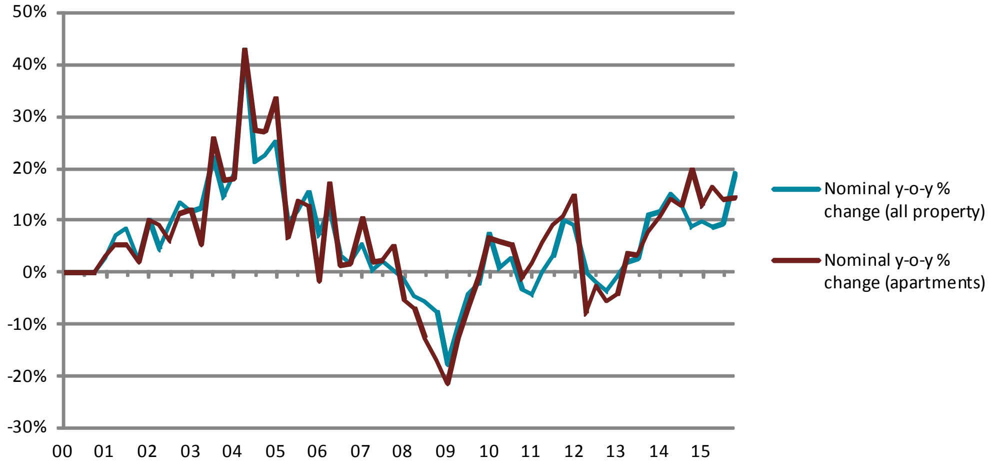
| **Properties sold to Foreigners** | **2012** | **2013** | **2014** | **2015** | **Total** |
|---|---|---|---|---|---|
| **Southern harbour** | | | | | |
| Number of units | 11 | 20 | 21 | 29 | 81 |
| Value (€) | 3,020,121 | 3,224,753 | 5,737,720 | 24,534,356 | 36,516,950 |
| Average price (€) | 274,556 | 161,238 | 273,335 | 846,012 | 450,927 |
| **Northern harbour** | | | | | |
| Number of units | 112 | 111 | 111 | 148 | 482 |
| Value (€) | 36,260,476 | 25,972,957 | 40,628,063 | 72,529,586 | 175,391,082 |
| Average price (€) | 323,754 | 233,991 | 366,019 | 490,065 | 363,882 |
| **Northern** | | | | | |
| Number of units | 61 | 36 | 36 | 42 | 175 |
| Value (€) | 31,253,259 | 13,699,353 | 7,139,338 | 81,913,504 | 134,005,454 |
| Average price (€) | 512,349 | 380,538 | 198,315 | 1,950,322 | 765,745 |
| **Other** | | | | | |
| Number of units | 62 | 40 | 40 | 61 | 203 |
| Value (€) | 16,510,623 | 9,970,050 | 17,214,324 | 10,489,188 | 54,184,185 |
| Average price (€) | 266,300 | 249,251 | 430,358 | 171,954 | 266,917 |

*Source: Parliamentary question 23925*

It is to be noted that the above data excludes any foreigners in Malta who have bought immovable property without the need of an "AIP", which would include those properties sold in Special Designated Areas.

The aforementioned factors also supported the pick-up in house prices (see Chart I below). Residential property prices continued to rise during the fourth quarter of 2015. The Central Bank of Malta's advertised property price index shows that house prices rose at an annual rate of 10.0% in the last quarter of 2015, following a 5.0% increase in the previous quarter. Prices of apartments – the major component – continued to grow strongly in Q4 2015, though at a similar pace as in the previous quarter. Although they indicate trends, advertised property prices may not accurately reflect the prices at which sales actually take place.

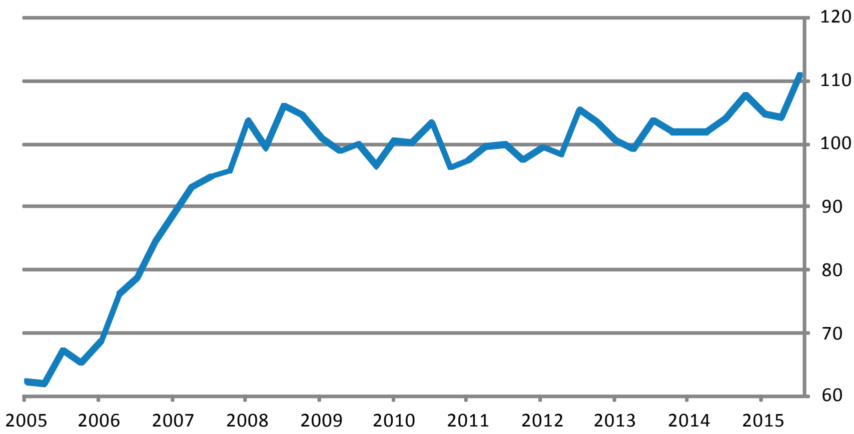
## CHART I: CHANGE IN PROPERTY PRICES




*Source: Central Bank of Malta*

Eurostat's House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q3 2015 and shows that said prices increased by 6.7% compared with the same quarter of 2014 (vide Charts II below).

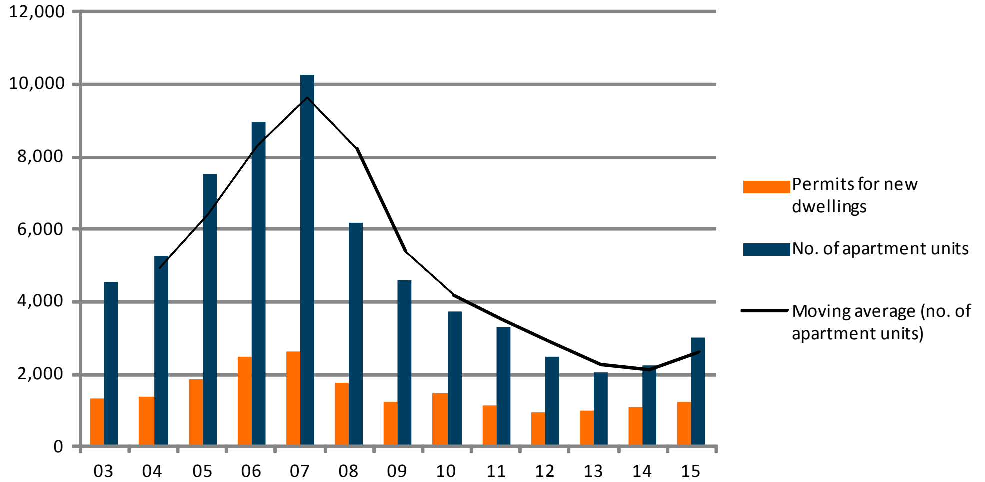
## CHART II: MALTA HOUSE PRICE INDEX




*Source: Eurostat*

With regard to the number of permits, the Malta Environment and Planning Authority issued 3,947 permits during 2015, over one-third more than in 2014. This followed growth of 8.6% in 2014, marking two consecutive years of growth following a period of decline. The increase in permits issued in 2015 was mostly driven by the largest residential category, namely apartments, which accounted for just over three-fourths of total permits granted.

## CHART III: DEVELOPMENT PERMITS FOR DWELLINGS




*Source: Malta Environment & Planning Authority*

The gross value added of the construction industry rose significantly, going up by 9.0% in nominal terms during 2015 (from €296 million to €322 million), following an increase of just 0.9% in 2014. This reflected robust growth in the output of the construction sector.

As a consequence, the expansion in output in the sector was mirrored in employment data. In the first nine months of 2015, total employment in the construction sector rose compared with the corresponding period average in 2014. As a result, the industry's share in the total gainfully occupied population rose to 6.1% from 5.7% in 2014. Employee compensation in the construction sector rose by 2.5% in 2015, when compared with growth of 1.1% in 2014. Notwithstanding this, the construction sector recorded improved profitability.

| **Construction Activity Indicators** [1] | **2013** | **2014** | **2015** |
|---|---|---|---|
| **Grossvalue added (€'million)** | **293** | **296** | **322** |
| Share of gross value added in GDP (%) | 3.8 | 3.7 | 3.7 |
| **Total employment** [2] | **11,488** | **9,263** | **10,376** |
| of which private employment | 8,807 | 8,962 | 9,250 |
| **Share of total gainfully occupied population (%)** | **7.3** | **5.7** | **6.1** |

*[1] Employment date are averages for the first nine months of the year, and are sourced from administrative records.*
*[2] The devline in total employment in the construction sector in 2014 reflcts the reclassification of employees within the public sector following changes in ministerial responsibilities.*

*Source: NSO*

A barometer carried out by PricewaterhouseCoopers (PwC Malta Middle Market Barometer – Real Estate Market, October 2015), real estate agents in Malta and Gozo generally reported an increase in sale and rental prices in 2015 when compared to prior years. Arguably, the Individual Investor Programme launched in 2014 has, to a noticeable extent, prompted further activity in the market and fuelled both sale and rental prices of property to the minimum thresholds, for the acquisition or rental of property in Malta by foreigners, as established by the same regulations.

The Sliema and St Julians area are the most sought for by prospective buyers and tenants. The barometer indicated that over 60% of the participating real estate agents consider these areas to be the most in demand, and have registered the highest increase in prices. Areas in central Malta and in the north of the island rank second and third respectively. Real estate agents anticipate that in the near months, property in Valletta will experience an increase in demand.

## 6. TREND INFORMATION & BUSINESS STRATEGY

The real estate market in Malta remains a particularly competitive one, in the context of existing and projected developments, particularly in the Sliema and St Julians area. The New Developments envisaged by the Group are intended to cater for a market which is not directly in competition, in terms of location, with the market for real estate in the Sliema and St Julians area. The strategy is to address the demand for a niche market of luxury apartments in other locations principally the north part of the island with views of both rural landscapes and seascapes. The target buyers, in the case of the Mellieħa and Għargħur Developments are the medium to high end customers, both locals and foreigners, who are more interested in residential units away from the urban sprawl of the Sliema – St Julians area. As far as the Issuer is aware, there are currently no comparable projects Mellieħa and Għargħur. The Directors believe that the New Developments should not face immediate direct competition from new residential developments in that area. The Group may however face new competition from developers who may enter this property market segment in the coming years.

The property market in Malta has been recovering from what can be termed a subdued last few years. The Directors believe that there is renewed and active demand for real estate in Malta, particularly in two segments namely first-time buyers and high-end residential property. The Directors have devised a pricing strategy that should allow them to successfully target these market segments with the diverse offerings through the Żebbuġ Development and the Qawra Development for the first segment and the Mellieħa Development and the Għargħur Development for the latter market segment. The Directors are satisfied of having attained their target of sale of units on the Żebbuġ Development, which were placed on the market to date, and are confident that demand for the New Developments will be in line with expectations. As at the date of this report, sales results for apartments that have been placed on the market in the New Developments have exceeded internal targets.

Management has acquired considerable knowledge from similar projects, not only from the construction and development perspective, but also from a prospective buyer's point of view. The Group's offerings are based on this experience, and the units will therefore be finished to a high quality standard and will also incorporate new features.

## PART 2 – GAP GROUP PERFORMANCE REVIEW

The Issuer was established in June 2016 and is the holding company of the Gap Group. Having no trading or operational activities of its own, the operating and financial performance of the Issuer is directly related to the financial and operating performance of the other Gap Group companies.

The companies that form part of the Gap Group as at the date of this report and which generated revenue during the financial years ended 31 December 2013 to 2015 include GPL, MHL and GDL. As such, the financial information reproduced hereunder relates to each of GPL, MHL and GDL, which has been extracted from the audited financial statements of each of GPL, MHL and GDL for the years ended 31 December 2013 to 2015.

The audited historical financial statements of each of GPL, MHL and GDL has been published and are available at the Issuer's registered office.

The audited financial statements of GDL contain an "emphasis of matter" in the auditor's report for the financial year ended 31 December 2015. That matter refers to a receivable of €3.0 million from Gap Group Holdings Limited, and that as auditors they have relied on a declaration by the directors and the unaudited financial statements of Gap Developments p.l.c. to determine that no impairment is required for the receivable.

The projected consolidated financial information for the years ending 31 December 2016 to 2018 of the Gap Group has been provided by management of the Issuer. The projected financial statements relate to events in the future and are based on assumptions which the Issuer believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

| **GAP Properties Limited<br>Income Statement<br>for the year ended 31 December** | **2013<br>Audited<br>(€'000)** | **2014<br>Audited<br>(€'000)** | **2015<br>Audited<br>(€'000)** |
|---|---|---|---|
| Revenue | - | 2,897 | 9,264 |
| Cost of sales | - | (1,796) | (5,261) |
| Administrative expenses | (62) | (105) | (523) |
| **EBITDA** | **(62)** | **996** | **3,480** |
| Depreciation | (1) | (2) | (7) |
| Net finance costs | (27) | (295) | (1,036) |
| **Profit/(loss) before tax** | **(90)** | **699** | **2,437** |
| Taxation | 33 | (244) | (752) |
| **Profit/(loss) for the year** | **(57)** | **455** | **1,685** |
| **Other comprehensive income** | | | |
| Movement in fair value of financial assets | 160 | 171 | 183 |
| **Total comprehensive income/(expense) for the year** | **103** | **626** | **1,868** |

| GAP Properties Limited<br>Cash Flow Statement<br>for the year ended 31 December | 2013<br>Audited<br>(€'000 | 2014<br>Audited<br>(€'000) | 2015<br>Audited<br>(€'000) |
|---|---|---|---|
| Net cash from operating activities | (852) | 2,931 | 13,008 |
| Net cash from investing activities | 5 | (5) | (7) |
| Net cash from financing activities | 23 | (2,240) | (13,437) |
| **Net movement in cash and cash equivalents** | **(824)** | **686** | **(436)** |
| Cash and cash equivalents at beginning of year | 860 | 36 | 722 |
| **Cash and cash equivalents at end of year** | **36** | **722** | **286** |

| Gap Properties Limited<br>Balance Sheet<br>As at 31 December | 2013<br>Audited<br>(€'000) | 2014<br>Audited<br>(€'000) | 2015<br>Audited<br>(€'000) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 2 | 5 | 6 |
| Loans and other receivables | 2,449 | 2,621 | 2,804 |
| Deferred income tax | 67 | - | - |
| | **2,518** | **2,626** | **2,810** |
| **Current assets** | | | |
| Stock | 9,283 | 12,241 | 7,418 |
| Trade and other receivables | 176 | 1,056 | 1,704 |
| Taxation | - | 25 | - |
| Cash and cash equivalents | 36 | 722 | 286 |
| | 9,495 | 14,044 | 9,408 |
| **Total assets** | **12,013** | **16,670** | **12,218** |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 1 | 1 | 1 |
| Retained earnings | (657) | (31) | 1,837 |
| | **(656)** | **(30)** | **1,838** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 10,500 | 8,521 | - |
| | **10,500** | **8,521** | **-** |
| **Current liabilities** | | | |
| Bank overdrafts | - | - | - |
| Borrowings and other financial liabilities | 978 | 3,362 | 6,306 |
| Other current liabilities | 1,191 | 4,817 | 4,074 |
| | 2,169 | 8,179 | 10,380 |
| | 12,669 | 16,700 | 10,380 |
| **Total equity and liabilities** | **12,013** | **16,670** | **12,218** |

During the years under review, GPL was involved in the development of the Żebbuġ project referred to in section 4.1 above. Sales commenced in FY2014 and aggregate revenue for FY2014 and FY2015 amounted to €12.2 million. In terms of profitability, GPL generated a profit after tax in each of FY2014 and FY2015 of €0.5 million and €1.7 million respectively.

As at 31 December 2015, units held as stock comprised 85 residential units (of which 37 units were subject to promise of sale agreements) and 144 garages (of which 17 units were subject to promise of sale agreements), which in aggregate amounted to €7.4 million. Outstanding borrowings and other financial liabilities as at 31 December 2015 amounted to €6.3 million (31 December 2014: €11.9 million).

| Manikata Holdings Limited<br>Income Statement<br>for the year ended 31 December | 2013<br>Audited<br>(€'000) | 2014<br>Audited<br>(€'000) | 2015<br>Audited<br>(€'000) |
|---|---|---|---|
| Revenue | - | 1,150 | 2,130 |
| Cost of sales | - | (891) | (1,642) |
| Administrative expenses | (47) | (9) | (12) |
| **EBITDA** | **(47)** | **250** | **476** |
| Depreciation | - | - | - |
| Net finance costs | 3 | (171) | (296) |
| **Profit/(loss) before tax** | **(44)** | **79** | **180** |
| Taxation | 16 | (28) | (141) |
| **Profit/(loss) for the year** | **(28)** | **51** | **39** |
| **Other comprehensive income** | | | |
| Movement in fair value of financial assets | 53 | 57 | 61 |
| **Total comprehensive income/(expense) for the year** | **25** | **108** | **100** |

| Manikata Holdings Limited<br>Cash Flow Statement<br>for the year ended 31 December | 2013<br>Audited<br>(€'000) | 2014<br>Audited<br>(€'000) | 2015<br>Audited<br>(€'000) |
|---|---|---|---|
| Net cash from operating activities | (739) | 2,730 | 1,344 |
| Net cash from investing activities | 3 | - | - |
| Net cash from financing activities | 226 | (2,709) | (1,397) |
| **Net movement in cash and cash equivalents** | **(510)** | **21** | **(53)** |
| Cash and cash equivalents at beginning of year | 542 | 32 | 53 |
| **Cash and cash equivalents at end of year** | **32** | **53** | **-** |

| Manikata Holdings Limited<br>Balance Sheet<br>As at 31 December | 2013<br>Audited<br>(€'000) | 2014<br>Audited<br>(€'000) | 2015<br>Audited<br>(€'000) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Loans and other receivables | 816 | 873 | 935 |
| Deferred income tax | 28 | - | - |
| | 844 | 873 | 935 |
| **Current assets** | | | |
| Stock | 5,276 | 5,815 | 4,004 |
| Trade and other receivables | 227 | 96 | 479 |
| Taxation | - | 80 | 105 |
| Cash and cash equivalents | 32 | 53 | - |
| | 5,535 | 6,044 | 4,588 |
| **Total assets** | **6,379** | **6,917** | **5,523** |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 1 | 1 | 1 |
| Retained earnings | (224) | (116) | (16) |
| | (223) | (115) | (15) |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 5,000 | 1,741 | - |
| | 5,000 | 1,741 | - |
| **Current liabilities** | | | |
| Borrowings and other financial liabilities | 281 | 1,161 | 1,565 |
| Other current liabilities | 1,321 | 4,130 | 3,973 |
| | 1,602 | 5,291 | 5,538 |
| | 6,602 | 7,032 | 5,538 |
| **Total equity and liabilities** | **6,379** | **6,917** | **5,523** |

During the years under review, MHL was involved in the development of 14 semi-detached villas in Manikata. The villas in Manikata were fully developed in FY2015. Sales commenced in FY2014 and aggregate revenue for FY2014 and FY2015 amounted to €3.3 million. In terms of profitability, MHL generated a profit after tax in each of FY2014 and FY2015 of €51,000 and €39,000 respectively.

As at 31 December 2015, MHL had 8 villas in stock, valued at €4.0 million, which were all subject to promise of sale agreements. Outstanding borrowings and other financial liabilities as at 31 December 2015 amounted to €1.6 million (31 December 2014: €2.9 million).

| Geom Developments Limited<br>Income Statement<br>for the year ended 31 December | 2013<br>Audited<br>(€'000) | 2014<br>Audited<br>(€'000) | Y2015<br>Audited<br>(€'000) |
|---|---|---|---|
| Revenue | 5,203 | 4,277 | 802 |
| Cost of sales | (3,628) | (3,138) | (571) |
| Administrative expenses | (165) | (147) | (40) |
| **EBITDA** | **1,410** | **992** | **191** |
| Net finance costs | (357) | (113) | (180) |
| **Profit/(loss) before tax** | **1,053** | **879** | **11** |
| Taxation | (369) | (308) | (62) |
| **Profit/(loss) for the year** | **684** | **571** | **(51)** |
| **Other comprehensive income** | | | |
| Movement in fair value of financial assets | (53) | (57) | (835) |
| **Total comprehensive income/(expense) for the year** | **631** | **514** | **(886)** |

| Geom Developments Limited<br>Cash Flow Statement<br>for the year ended 31 December | 2013<br>Audited<br>(€'000) | 2014<br>Audited<br>(€'000) | 2015<br>Audited<br>(€'000) |
|---|---|---|---|
| Net cash from operating activities | 2,539 | 2,772 | (3,397) |
| Net cash from investing activities | - | - | - |
| Net cash from financing activities | (2,891) | (2,511) | 3,369 |
| **Net movement in cash and cash equivalents** | **(352)** | **261** | **(28)** |
| Cash and cash equivalents at beginning of year | 22 | (330) | (69) |
| **Cash and cash equivalents at end of year** | **(330)** | **(69)** | **(97)** |

| Geom Developments Limited<br>Balance Sheet<br>As at 31 December | 2013<br>Audited<br>(€'000) | 2014<br>Audited<br>(€'000) | 2015<br>Audited<br>(€'000) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Loans and other receivables | 2,498 | 2,669 | 2,079 |
| | 2,498 | 2,669 | 2,079 |
| **Current assets** | | | |
| Stock | 3,228 | 842 | 2,576 |
| Trade and other receivables | 918 | 1,323 | 2,854 |
| Taxation | 8 | - | - |
| Cash and cash equivalents | 13 | 26 | 120 |
| | 4,167 | 2,191 | 5,550 |
| **Total assets** | **6,665** | **4,860** | **7,629** |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 1 | 1 | 1 |
| Retained earnings | 644 | 127 | (760) |
| | 645 | 128 | (759) |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank loans | 3,265 | 3,494 | 3,738 |
| | 3,265 | 3,494 | 3,738 |
| **Current liabilities** | | | |
| Bank overdrafts | 343 | 95 | 217 |
| Borrowings and other financial liabilities | 2,211 | 722 | 2,735 |
| Other current liabilities | 201 | 421 | 1,698 |
| | 2,755 | 1,238 | 4,650 |
| | **6,020** | **4,732** | **8,388** |
| **Total equity and liabilities** | **6,665** | **4,860** | **7,629** |

In FY2013, GDL was engaged in the development of two projects situated in Qawra and Għargħur (which are unrelated to the Qawra and Għargħur Developments described in sections 4.2 and 4.4 of this report). The former project comprised 32 residential units and 34 garages, and the latter project included 84 residential units and 75 garages. Both projects were completed during FY2013. In FY2015, development on the Qawra Development (which is co-owned by GDL and GHL) was initiated. This Project is described in section 4.2 above.

Total revenue generated by GDL from FY2013 to FY2015 amounted to €10.3 million, and principally related to the disposal of residential units and garages in the above-mentioned Qawra and Għargħur projects. By the end of 2015, practically all units of these two projects were sold.

GDL generated a profit after tax in FY2013 and FY2014 of €0.7 million and €0.6 million respectively, but incurred a loss in FY2015 of €51,000.

As at 31 December 2015, stock amounted to €2.6 million (31 December 2014: €0.8 million), primarily consisting of the land cost and construction works relating to Blocks A, B and C of the Qawra Development. Outstanding borrowings and other financial liabilities as at 31 December 2015 amounted to €6.7 million (31 December 2014: €4.3 million).

| **GAP Group p.l.c**<br>**Group Income Statement** | **FY2016**<br>**Projection**<br>**(€'000)** | **FY2017**<br>**Projection**<br>**(€'000)** | **FY2018**<br>**Projection**<br>**(€'000)** |
|---|---|---|---|
| Revenue | 9,193 | 8,228 | 27,770 |
| Cost of sales | (8,377) | (7,512) | (22,352) |
| Administrative expenses | (910) | (233) | (239) |
| **EBITDA** | **(94)** | **483** | **5,179** |
| Net finance costs | (67) | (98) | (587) |
| **Profit/(loss) before tax** | **(161)** | **385** | **4,592** |
| Taxation | (723) | (652) | (2,216) |
| **Profit/(loss) for the year** | **(884)** | **(267)** | **2,376** |
| **Other comprehensive income** | | | |
| Movement in fair value of financial assets | 89 | 108 | 113 |
| Total comprehensive income/(expense) for the year | (795) | (159) | 2,489 |

| **GAP Group p.l.c**<br>**Cash Flow Statement** | **FY2016**<br>**Projection**<br>**(€'000)** | **FY2017**<br>**Projection**<br>**(€'000)** | **FY2018**<br>**Projection**<br>**(€'000)** |
|---|---|---|---|
| Net cash from operating activities | (11,446) | (3,937) | 12,971 |
| Net cash from investing activities | (9,593) | 2,638 | (8,775) |
| Net cash from financing activities | 24,600 | (909) | (1,592) |
| **Net movement in cash and cash equivalents** | **3,561** | **(2,208)** | **2,604** |
| Cash and cash equivalents at beginning of year | 731 | 4,292 | 2,084 |
| **Cash and cash equivalents at end of year** | **4,292** | **2,084** | **4,688** |

| GAP Group p.l.c<br>Group Balance Sheet | 31 Dec '16<br>Projection<br>(€'000) | 31 Dec '17<br>Projection<br>(€'000) | 31 Dec '18<br>Projection<br>(€'000) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 6 | 6 |
| Loans and other receivables | 2,119 | 2,227 | 2,340 |
| Deferred income tax | - | - | - |
| | 2,125 | 2,233 | 2,346 |
| **Current assets** | | | |
| Stock | 41,306 | 49,083 | 34,202 |
| Trade and other receivables | 3,549 | 3,549 | 3,549 |
| Sinking fund | 730 | 2,728 | 11,704 |
| Short-term investments | 9,000 | 4,500 | 4,500 |
| Cash and cash equivalents | 4,292 | 2,084 | 4,688 |
| | 58,877 | 61,944 | 58,643 |
| **Total assets** | **61,002** | **64,177** | **60,989** |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 2,500 | 2,500 | 2,500 |
| Other capital | 5,001 | 4,092 | 2,500 |
| Retained earnings | 40 | (406) | 1,822 |
| | **7,541** | **6,186** | **6,822** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Debt securities | 40,000 | 40,000 | 40,000 |
| | 40,000 | 40,000 | 40,000 |
| **Current liabilities** | | | |
| Borrowings and other financial liabilities | 7,259 | 7,016 | 5,582 |
| Other current liabilities | 6,202 | 10,975 | 8,585 |
| | 13,461 | 17,991 | 14,167 |
| | **53,461** | **57,991** | **54,167** |
| **Total equity and liabilities** | **61,002** | **64,177** | **60,989** |

| Key Accounting Ratios | FY2016 | FY2017 | FY2018 |
|---|---|---|---|
| Operating profit margin<br>*(EBITDA/revenue)* | -1% | 6% | 19% |
| Interest cover (times)<br>*(EBITDA/net finance cost)* | -1.40 | 4.93 | 8.82 |
| Net profit margin<br>*(Profit(loss) after tax/revenue)* | -10% | -3% | 9% |
| Earnings per share (€)<br>*(Profit(loss) after tax/number of shares)* | -0.35 | -0.11 | 0.95 |
| Return on equity<br>*(Profit(loss) after tax/shareholders' equity)* | -12% | -4% | 35% |
| Return on capital employed<br>*(EBITDA/total assets less current liabilities)* | 0% | 1% | 11% |
| Return on assets<br>*(Profit(loss) after tax/total assets)* | -1% | 0% | 4% |
| Gearing ratio<br>*(Total net debt/net debt and shareholders' equity)* | 82% | 87 | 84% |

During the projected financial years (FY2016 - FY2018), the Gap Group will be principally involved in the construction and development of the following Projects:

- Qawra Development - completion is expected in the latter half of FY2017;
- Għargħur Development – completion is targeted for FY2018; and
- Mellieħa Development – the initial phase is expected to be completed in Q2 FY2018.

The Gap Group is projecting revenue for FY2016 and FY2017 at €17.4 million (in aggregate) to be generated primarily from sales of the remaining units at Żebbuġ and Manikata (cash consideration has already been received by MHL). Furthermore, in the second half of FY2017, the Group is expected to commence entering into sales contracts for units of the Qawra Project. As for FY2018, revenue is forecasted at €27.8 million and is expected to be generated principally from the developments at Qawra (48%), Għargħur (17%) and Mellieħa (30%).

As a consequence of the limited quantity of finished units available for disposal in both FY2016 and FY2017, the Gap Group is forecasting a loss of €0.9 million and €0.3 million in the respect years. However, in FY2018, the Group is anticipated to generate an EBITDA of €5.2 million and register a profit after tax of €2.5 million.

The balance sheet as at 31 December 2016 reflects the re-organisation of the Gap Group undertaken during the year, whereby the Issuer acquired the issued share capital of GML, GGL, GDL, GHL. As a result of such acquisitions, the Issuer indirectly obtained ownership of the New Developments, save for the site over which the Mellieħa Development will be constructed that is the subject matter of a preliminary agreement. The purchase of the Mellieħa site is expected to be completed after the Bond Issue, as a portion of Bond proceeds shall be partly allocated to the acquisition cost of the said site. Total assets of the Gap Group as at 31 December 2016 is projected at €61.0 million and primarily include stock representing real estate property held for resale (€41.3 million), and cash and liquid assets amounting to €13.4 million.

Other than equity (€7.5 million), the Gap Group is financed through debt securities (€40 million) and borrowings & other financial liabilities (€7.3 million). Other financial liabilities comprise an amount of €3.4 million being deposits received from customers pursuant to promise of sale agreements.

**Reserve Account**

In terms of the Prospectus, the Issuer is required to build a sinking fund, the value of which will by the redemption date of the bond be equivalent to 100% of the outstanding value of bonds. Below is a table outlining the balance expected to be held in the reserve account as at the end of the financial years 31 December 2016 to 31 December 2018.

| **Contributions to Reserve Account as at 31 December** | **2016 Projection €'000** | **2017 Projection €'000** | **2018 Projection €'000** |
|---|---|---|---|
| 4.25% Secured Bonds 2023 | 730 | 2,728 | 11,704 |
| | **730** | **2,728** | **11,704** |

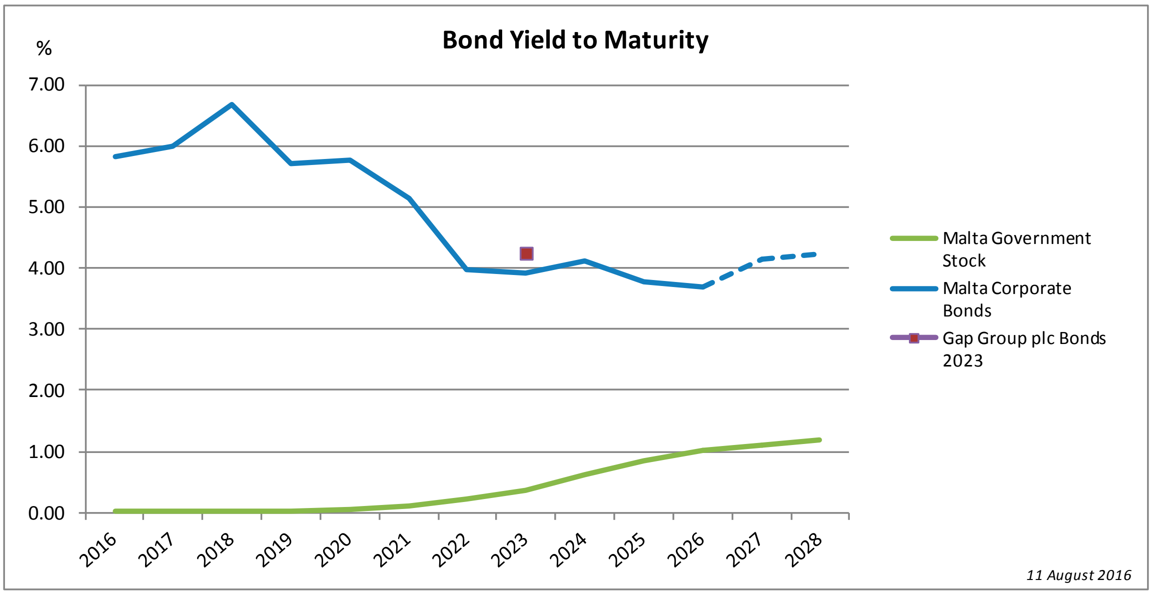
## PART 3 – COMPARABLES

The table below compares the Issuer and its proposed bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes issuers (excluding financial institutions) that have listed bonds. Although there are significant variances between the activities of the Issuer and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Group's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Gap Group.

| Comparative Analysis | Nominal Value (€) | Yield to Maturity (%) | Interest Cover (times) | Total Assets (€'000) | Net Asset Value (€'000) | Gearing Ratio (%) |
|---|---|---|---|---|---|---|
| 6.8% Premier Capital plc € Bond 2017-2020 | 24,641,000 | 5.99 | 4.58 | 72,208 | 17,739 | 64.59 |
| 6.6% Eden Finance plc 2017-2020 | 13,984,000 | 5.77 | 3.10 | 145,427 | 76,648 | 38.42 |
| 6% Pendergardens Dev. plc Secured € 2022 Series II | 27,000,000 | 3.99 | n/a | 58,098 | 11,734 | 61.87 |
| 5.8% International Hotel Investments plc 2023 | 10,000,000 | 5.14 | 1.45 | 1,159,643 | 608,288 | 36.49 |
| 6% AX Investments Plc € 2024 | 40,000,000 | 4.41 | 2.88 | 206,038 | 111,482 | 36.65 |
| 6% Island Hotels Group Holdings plc € 2024 | 35,000,000 | 4.74 | 0.58 | 145,140 | 54,053 | 53.19 |
| 5.3% Mariner Finance plc Unsecured € 2024 | 35,000,000 | 3.72 | 3.49 | 67,669 | 25,823 | 57.66 |
| 5% Hal Mann Vella Group plc Secured Bonds € 2024 | 30,000,000 | 4.12 | 0.05 | 81,842 | 31,150 | 55.46 |
| 5.1% PTL Holdings plc Unsecured € 2024 | 36,000,000 | 4.16 | 2.32 | 70,543 | 6,592 | 86.78 |
| 4.5% Hili Properties plc Unsecured € 2025 | 37,000,000 | 3.48 | 1.50 | 90,867 | 26,315 | 71.30 |
| 4.0% MIDI plc Secured € 2026 | 50,000,000 | 3.64 | 2.64 | 187,462 | 71,248 | 37.55 |
| **4.25% Gap Group plc Secured € 2023** | **40,000,000** | **4.25** | n/a | **61,002** | **7,541** | **81.51** |

*11 August'16*

*Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts Investment Management Service Limited*




To date, there are no corporate bonds which have a redemption date beyond 2026 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

## PART 4 – EXPLANATORY DEFINITIONS

| | |
|---|---|
| **Income Statement** | |
| Revenue | Total revenue generated by the Issuer from its business activities during the financial year. |
| Cost of sales | Operating expenses include the cost of construction and other related expenses. |
| EBITDA | EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. |
| Profit after tax | Profit after tax is the profit made by the Issuer during the financial year both from its operating as well as non-operating activities. |
| **Profitability Ratios** | |
| Operating profit margin | Operating profit margin is operating income or EBITDA as a percentage of total revenue. |
| Net profit margin | Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue. |
| **Equity Ratios** | |
| Earnings per share | Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date. |
| **Cash Flow Statement** | |
| Cash flow from operating activities | Cash generated from the principal revenue-producing activities of the Group. |
| Cash flow from investing activities | Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Issuer. |
| Cash flow from financing activities | Cash generated from the activities that result in change in share capital and borrowings of the Issuer. |
| **Balance Sheet** | |
| Non-current assets | Non-current asset are the Issuer's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Issuer amortises the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was acquired. Such assets include property, plant & equipment, and loans & other receivables. |

| | |
|---|---|
| Current assets | Current assets are all assets of the Issuer, which are realisable within one year from the balance sheet date. Such amounts include development stock, accounts receivable, cash and bank balances. |
| Current liabilities | All liabilities payable by the Issuer within a period of one year from the balance sheet date, and include accounts payable and short-term debt, including current portion of bank loans. |
| Non-current liabilities | The Issuer's long-term financial obligations that are not due within the present accounting year. The Issuer's non-current liabilities include long-term borrowings and debt securities. |
| Total equity | Total equity includes share capital, reserves & other equity components, and retained earnings. |
| **Financial Strength Ratios** | |
| Liquidity ratio | The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities. |
| Interest cover | The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period. |
| Gearing ratio | The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity. |