Financial Analysis Summary

18 May 2021

Issuer

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

MZ INVESTMENT SERVICES

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

18 May 2021

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 in 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**" or "**Gap Group**"); Gap QM Limited being the guarantor in relation to the issue of 3.70% secured bonds 2023 – 2025 (ISIN: MT0001231225) (the "**2020 Bond Guarantor**"); Gap Mellieħa (I) Limited and Gap Luqa Limited being the guarantors in relation to the issue of 3.65% secured bonds 2022 (ISIN: MT0001231217) (the "**2019 Bond Guarantors**"); and Gap Mellieħa (I) Limited being the guarantor in relation to the issue of 4.25% secured Bonds 2023 (ISIN: MT0001231209) (the "**2016 Bond Guarantor**). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the years ended 31 December 2018 to 31 December 2020 has been extracted from the audited consolidated financial statements of Gap Group p.l.c.

(b) Historical financial data has been extracted from the audited financial statements of Gap Mellieħa (I) Limited (FY2018 to FY2020) and Gap Luqa Limited (FY2018 to FY2020).

(c) The projected consolidated financial data relating to the Issuer for the year ending 31 December 2021, and the projected financial information relating to the 2020 Bond Guarantor for the period 23 September 2020 to 31 December 2021 have been provided by management.

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(d) Our commentary on the results of Gap Group and on its financial position is based on the explanations provided by management.

(e) The ratios quoted in the Analysis have been computed by us applying the definitions set out in Part 4 of the Analysis.

(f) 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 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,

Evan Mohnani
Senior Financial Advisor

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DEFINITIONS

2016 Bond(s)	the €40,000,000 4.25% secured bonds 2023 issued by the Issuer pursuant to a prospectus dated 16 September 2016 and carrying ISIN MT0001231209. The outstanding nominal value of the said bonds as at the date of this report amounts to €19,247,300;
2019 Bond(s)	the €40,000,000 3.65% secured bonds 2022 (ISIN: MT0001231217) issued by the Issuer pursuant to a prospectus dated 4 March 2019. The outstanding nominal value of the said bonds as at the date of this report amounts to €29,812,200;
2020 Bond(s)	the €21,000,000 3.70% secured bonds 2023 - 2025 (ISIN: MT0001231225) issued by the Issuer pursuant to a prospectus dated 20 November 2020. The outstanding nominal value of the said bonds as at the date of this report amounts to €21,000,000;
2016 Bond Guarantor	GML, being the guarantor in relation to the issue of the 2016 Bonds;
2019 Bond Guarantors	each of GML and GLL, being the guarantors in relation to the issue of the 2019 Bonds;
2020 Bond Guarantor	GQM, being the guarantor in relation to the issue of the 2020 Bonds;
Gap Group or **Group**	the Issuer, its parent, GDL, GHL, GGF, GGL, GGCL, GML, GPL, GQM, MHL and GLL;
GDL	Geom Developments Limited (C 50805);
GHL	Geom Holdings Limited (C 64409);
GGCL	Gap Group Contracting Limited (C 75879);
GGF	Gap Group Finance Limited (C 54352);
GGL	Gap Għargħur Limited (C 72015);
Għargħur Development	the 34 luxury apartments (6 of which are at penthouse level) and 41 garages/car spaces, spread over 4 blocks with a variety of one, two and three bedroom units, all in a completely finished state, forming part of the development on the site in Triq Caravaggio, Għargħur, Malta measuring approximately 2,585m^2;
GLL	Gap Luqa Limited (formerly Qawra Investments Limited) (C 32225);
GML	Gap Mellieħa (I) Limited (C 72013);
GPL	Gap Properties Limited (C 47928);
GQM	Gap QM Limited (C 96686);
Hypothecated Property	the immovable property described hereunder, namely: (i) Block A of the Mellieħa Development is secured in favour of the security trustee for the benefit of the holders of the 2016 Bonds; (ii) Block B to Block E of the Mellieħa Development and Zone A to Zone E of the Luqa Development are secured in favour of the security trustee for the benefit of the holders of the 2019 Bonds;

	(iii) The Qawra Site and Mosta Site and all constructions to be developed thereon (namely, the Qawra II Development and Mosta Development) are secured in favour of the security trustee for the benefit of the holders of the 2020 Bonds;
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, Tigné, Sliema SLM 3060, Malta;
Luqa Development	the construction, development and finishing of a total of 268 apartments and 301 garages spread over 5 zones with a mix of one, two and three bedroom units over the site having a developable area of approximately 8,500m^2 known as Ta' Blejkiet in Luqa;
Mellieħa Development	the 159 residential units and 174 lock-up garages, spread over 10 blocks with a variety of one, two and three bedroom residential units, all in a completely finished state, over the site known as Ta' Masrija in Mellieħa measuring approximately 5,100m^2;
Mosta Development	the construction, development and finishing of a total of 94 residential units, 4 commercial outlets and 109 car spaces, spread over 10 blocks with a variety of two and three bedroomed residential units over the Mosta Site;
Mosta Site	the site having a façade directly on Triq id-Difiża Ċivili and on Triq tal- Qares, in Mosta, measuring approximately 5,895m^2, including its subterrain;
MHL	Manikata Holdings Limited (C 53818);
Qawra I Development	the 151 residential units and 181 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, all in a completely finished state, forming part of the development of the site in Triq il-Porzjunkola, Qawra, Malta measuring approximately 3,508m^2;
Qawra II Development	the construction, development and finishing of a total of 80 residential units, comprising a mix of two and four bedroomed units, and 90 lock-up garages spread over 6 blocks, over the Qawra Site;
Qawra Site	the site located in Triq in-Nakkri, Qawra, measuring approximately 1,924m^2;
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 Level 3, 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 (Chapter 331 of the laws of Malta); and
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 GAP GROUP

1. KEY ACTIVITIES

1.1 INTRODUCTION

The Issuer was incorporated in June 2016 as a public limited liability company under the Companies Act (Chapter 386 of the laws of Malta) 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.

The Gap Group is primarily involved in the construction and development of the Luqa Development, and 3 smaller projects located in Marsascala, Birkirkara and San Pawl tat-Tarġa, Naxxar (see section 5.3 of this report). In Q4 2020, the Issuer, through GQM, acquired 2 additional sites located in Mosta and Qawra for development, details of which are set out in section 4 of this report.

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 its projects.

1.2 OVERVIEW OF HISTORICAL DEVELOPMENTS

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 acquired the site known as Ta' Masrija, by virtue of a deed published by Notary Dr Sam Abela on 21 October 2016, over which the Mellieħa Development has been constructed. GGL acquired the site over which the Għargħur Development was constructed by virtue of a deed published by Notary Dr Andre Farrugia on 4 February 2016. The Għargħur Development is fully complete and the last few remaining units were contracted during 2019.

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 owned and developed the Żebbuġ Development.

GDL owned 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 I Development were developed and are, as at the date of this report, completed. The other undivided portion of land was owned by its affiliate Geom Holdings Limited. The last remaining apartment is subject to promise of sale agreements.

In September 2016, the Issuer issued the 2016 Bonds to finance the Mellieħa Development, the Għargħur Development and the Qawra I Development.

In December 2016, the Group (through GML) made an investment of €2.3 million in GLL (which at the time was a related party), to enable the latter company to enter into a preliminary agreement and settle other ancillary costs relating to the acquisition of a site over which the Luqa Development is being constructed. The deed of purchase was executed on 26 April 2017 and the then outstanding balance of consideration was financed mainly through a bank loan facility. On 24 January 2019, by virtue of a share transfer agreement, the Issuer acquired the entire issued share capital of GLL.

In March 2019, the Issuer issued the 2019 Bonds and thereby reduced the outstanding nominal amount of 2016 Bonds from €40,000,000 to €19,931,000.

In 2019, GPL acquired a parcel of land located in Marsascala by virtue of a deed published by Notary Andre Farrugia on 3 October 2019. That same year, GGL acquired a parcel of land located in Birkirkara by virtue of a public deed published by Notary Anthony Abela on 2 December 2019 and another parcel of land located in San Pawl tat-Targa by virtue of a public deed published by Notary Andre Farrugia on 28 November 2019. All three sites were acquired for the purposes of the development of residential units and garages.

In December 2020, the Issuer issued the 2020 Bonds for the purposes of acquiring through GQM the Qawra Site and Mosta Site and to part finance the development of residential units and garages thereon as further described in section 4 of this report entitled "New Projects".

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 and Executive Director
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 2016 BOND GUARANTOR, 2019 BOND GUARANTORS AND 2020 BOND GUARANTOR

The following are the directors of each of **GLL, GML and GQM:**

George Muscat	Executive Director
Paul Attard	Executive Director
Adrian Muscat	Executive Director

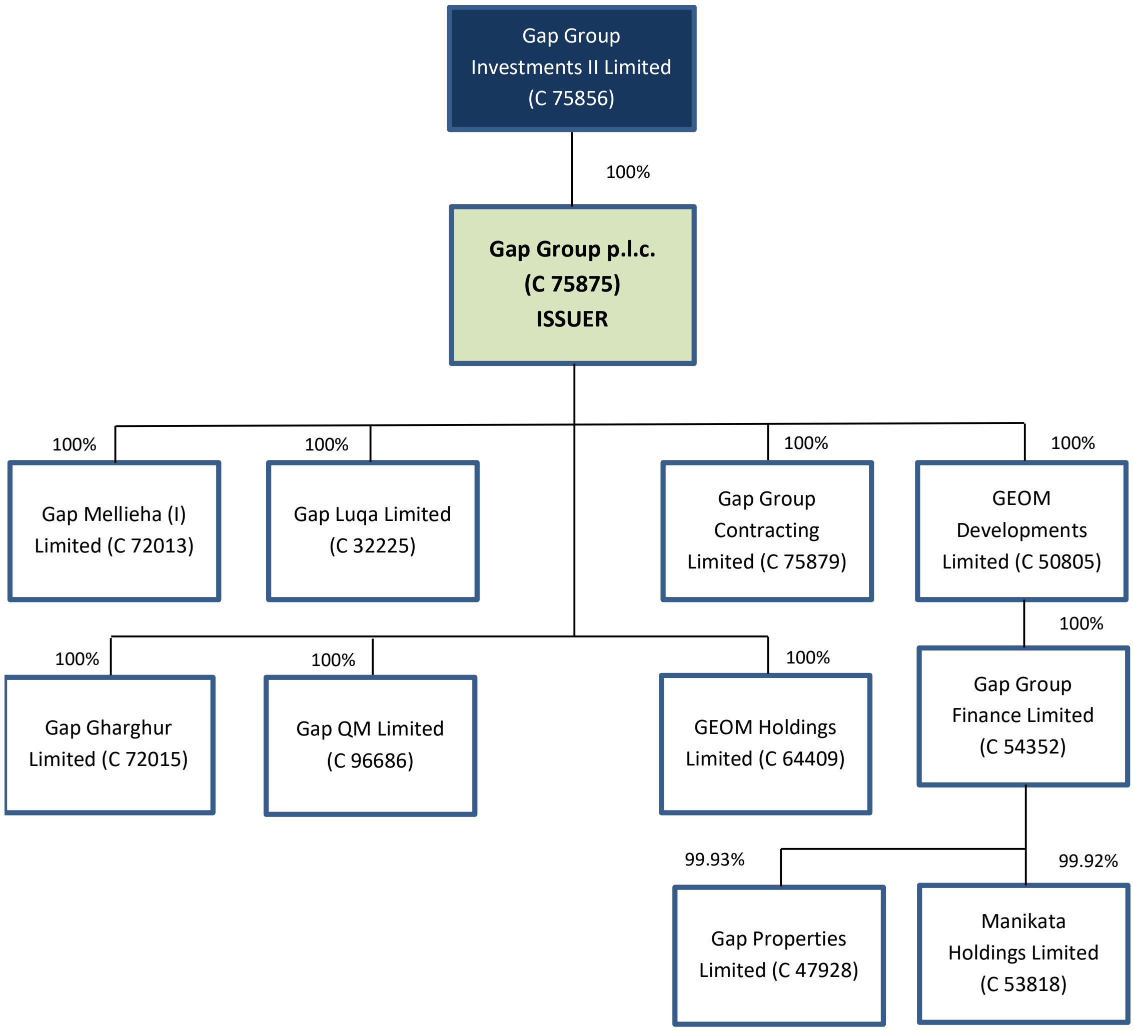
2.3 SENIOR MANAGEMENT

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
Adrian Muscat	Director of Sites
Keith Fenech	Chief Financial Officer
Raymond Grixti	Project Manager
Chris Gauci	Sales Manager
Elton Deguara	Sales Manager

3. ORGANISATIONAL STRUCTURE



The organisational structure of the Gap Group is depicted above. The Group is equally owned by three individual shareholders, namely, Paul Attard, Adrian Muscat and George Muscat, through Gap Group Investments II Limited (C 75856). Each of GML, GPL, GGL, GDL, GHL, GLL and GQM are project companies each entrusted with the construction and development of real-estate projects which, as at the date of this report, have been completed or are ongoing.

3.1 2020 BOND GUARANTOR

3.1.1 Gap QM Limited

GQM is a private limited liability company, registered and operating in Malta in terms of the Act with company registration number C 96686, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GQM has an authorised share capital of €5,000 (five thousand Euro) and an issued share capital of €5,000 (five thousand Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GQM was set up on 23 September 2020 to acquire the Qawra Site and Mosta Site and develop the Qawra II Development and Mosta Development.

3.2 2019 BOND GUARANTORS

3.2.1 Gap Luqa Limited

GLL is a single member private limited liability company, registered and operating in Malta in terms of the Act with company registration number C 32225, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GLL has an authorised share capital of €4,658.75 (four thousand six hundred fifty eight Euro and seventy five cents) divided into 2,000 ordinary shares of €2.329373 each, and an issued share capital of €1,397.62 (one thousand three hundred ninety seven Euros and sixty two cents) divided into 600 Ordinary Shares of €2.329373 each, fully paid up. GLL was set up on 10 October 2003 to operate any land and/or buildings it acquires.

3.2.2 Gap 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.

3.3 2016 BOND GUARANTOR

3.3.1 Gap Mellieħa (I) Limited

See section 3.2.2 above.

4. NEW PROJECTS

4.1 QAWRA II DEVELOPMENT

In Q4 2020, GQM acquired a building site located in Triq in-Nakkri, Qawra (in the limits of St Paul's Bay) for a consideration of €4.6 million. The site has a superficial area of approximately 1,924m^2 which, on completion, shall comprise 6 blocks of apartments consisting, in aggregate, of 80 apartments.

The Qawra II Development shall be spread over eight levels and shall include 90 lock-up garages spread over two underground levels. The combined gross floor space of the apartments and garages shall consist of an area of 16,810m^2. The apartments shall be sold in a complete state and will comprise a mix of two and four bedroomed residential units. Each block shall have separate entrances served with passenger lifts accessing both the residential units and the underlying garage levels. Furthermore, the topmost floor of each block shall consist of penthouses having full ownership of the respective roof and airspace.

The village of Qawra is located in the northern part of Malta. Being a coastal village, Qawra is a popular tourist destination but is also attractive to locals seeking to purchase a summer home or a reasonably priced residency. The Qawra II Development will include a mix of two and four bedroomed apartments, measuring approximately 120m^2 to 210m^2, shall be priced to target primarily first-time buyers and buy-to-let investors. The Directors are of the view that, in the current economic conditions, the pricing strategy adopted has been designed to promote the sale of the residential units forming part of the Qawra II Development to a market where the Directors believe demand will remain strong.

The overall costs of construction and finishings of the Qawra II Development, excluding the cost of acquisition of the Qawra Site, is expected to be in the region of €7.6 million. Construction commenced in Q1 2021 and such works are envisaged to be completed by Q1 2022. The project including finishing works is expected to be finalised by Q1 2023. Development works are being carried out by GGCL pursuant to a works contract entered into between GQM and GGCL for a value of approximately €7.6 million. Payment under the said contract is being settled by GQM according to agreed fixed monthly payments.

Projected revenues to be generated from the sale of units of the Qawra II Development is expected to amount to €19.7 million.

4.2 MOSTA DEVELOPMENT

In Q4 2020, GQM acquired a building site located directly on Triq id-Difiża Ċivili and on Triq tal-Qares, in Mosta, for a consideration of €10 million. The site has a superficial area of *circa* 5,895m^2 which on completion, shall comprise 94 apartments spread over 10 blocks.

The Mosta Development shall be spread over four levels and shall include 109 parking spaces, spread over one underground level, as well as four commercial units. The combined gross floor space of the apartments and garages shall consist of a saleable area of 20,208m^2. The apartments shall be sold in a complete state, including all common areas except for the commercial units which will be sold in shell form internally and finished externally. Each block shall have separate entrances served with passenger lifts accessing both the apartments and the underlying garage levels. Furthermore, the penthouses at the topmost level of each block, shall be owned by third parties and shall include full ownership of the respective roof and airspace.

The village of Mosta is located in the northern region of Malta and is sought after by locals for the purposes of their primary residence. Mosta is a relatively large town which boasts of historical sites, shopping centres and other amenities. The Mosta Development is located on the outskirts of Mosta in a quieter area of the village. The project targets two different segments of prospective buyers. The majority of the development (68% of the Mosta Development) is targeted at the medium segment of the market. Such part of the development consists of two to three bedroomed apartments which have an approximate square meterage of 120m^2 – 165m^2 per apartment. The remainder of the development (32% of the Mosta Development) is targeted at the medium to high segment of the market. Such part of the development consists of larger apartments having a square meterage of 200m^2 per apartment, with each apartment enjoying unobstructed valley and distant views and is targeted at the medium to high segment of the market.

The overall construction and finishing expenditure of the Mosta Development is expected to be in the region of €9.1 million. Preparation works under the supervision of the Superintendent of Cultural Heritage commenced in December 2020. Construction is envisaged to be completed by Q3 2022 and fully finished by Q1 2023. Development works are being carried out by GGCL pursuant to a works contract entered into between GQM and GGCL for a value of approximately €9.1 million.

Projected revenues to be generated from the sale of units of the Mosta Development is expected to amount to €31.3 million.

5. CURRENT PROJECTS

5.1 LUQA DEVELOPMENT

In April 2017, GLL acquired the legal title over a site, including its sub-terrain and airspace, having *circa* 8,500m^2 of developable land in Luqa, accessible from eight streets, namely, Triq Ġorġ Zahra, Triq Tumas Galea, Triq l-Iskola, Triq Ġeraldu Spiteri, Triq W. Briffa, Triq Indri Micallef, Triq l-Aħwa Vassallo and Triq Ġuzeppi Callus, in an area known as Ta' Blejkiet in Luqa. The site is situated in the heart of the residential area of Luqa with close and direct access to the town's village core. The public school of the village and one of the largest supermarkets in the south of Malta are also in close vicinity and directly accessible from the proposed development. Furthermore, the property is located within a few metres from the arterial road which links the Malta International Airport to the rest of the island.

The Luqa Development is split into five zones and on completion shall comprise 21 blocks having 301 underlying lock-up garages/car spaces and 268 residential units, as detailed below.

Zone	Footprint (m^2)	Blocks (qty)	Garages/Car Spaces (qty)	Residential Units (qty)
A	2,182	6	52	69
B	951	3	21	37
C	2,800	6	137	81
D	980	2	33	38
E	1,545	4	58	43
	8,458	**21**	**301**	**268**

The development of Zone A and Zone B is fully complete. The construction of Zone C and Zone D is 100% complete and finishing works are ongoing. Development of Zone E is 35% complete. All zones are expected to be completed by Q4 2021. Total estimated cost for completion of all zones is *circa* €17.5 million. The outstanding development costs are being funded principally from net proceeds of the 2019 Bonds, deposits received pursuant to preliminary sale agreements and from proceeds receivable on signing of sale contracts. All five zones are covered by full development permits.

Development works are carried out by GGCL pursuant to a works contract entered into between GLL and GGCL for a value of approximately €17.5 million. Payment under the said contract is being settled by the company according to agreed fixed monthly payments. GLL and GGCL entered into a public deed in the records of Notary Dr Andre Farrugia and dated 14 February 2019 which makes provision for the contractual waiver by GGCL of its right at law to register a special privilege for any amount over the Luqa Development in the event of non-payment by GLL.

The project will include a mix of 1, 2 and 3 bedroomed residential units, measuring approximately 60m^2 to 160m^2, and are priced to target primarily first-time buyers and buy-to-let investors.

The units are being sold finished in a complete state, including all common areas. Each block will have separate entrances served with passenger lifts accessing both the apartments and the underlying garage levels. The finishes of each apartment will include electrical, plumbing, telephone and air conditioning installations points, gypsum plastering and two coats of white paint, floor tiles and bathrooms, and external apertures in double glazed aluminium.

To date, GLL has launched all units on the market through various real estate agents in Malta, as well as through the Group's website and other forms of social media. As at 31 December 2020, 101 units were sold and a further 101 units were subject to promise of sale agreements, representing 75% of a total of 268 units.

5.2 THE MELLIEĦA DEVELOPMENT

In October 2016, GML acquired a plot of land measuring *circa* 5,100m^2 with access from the three streets surrounding the property situated in the Ta' Masrija area in Mellieħa over which the Mellieħa Development was developed.

The Mellieħa Development comprises 159 luxury apartments which are being sold finished in a complete state, including all common areas. The development encompasses 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 also have access to roof level and enjoy full ownership thereof. The development also includes 174 lock-up underground garages spread over 3 underground levels. To date, the project is fully complete in terms of construction works and finishings.

As at 31 December 2020, GML had entered into sale contracts for 117 residential units, some comprising garages/car spaces, whilst 28 residential units (including garages/car spaces in some cases) are subject to promise of sale agreements. The remaining 12 units are expected to be sold during FY2021.

5.3 OTHER MAJOR PROJECTS

In 2019, the Group acquired 3 parcels of land located in Marsascala, San Pawl tat-Tarġa and Birkirkara, as further explained hereinbelow. All 3 sites are covered by Planning Authority permits and development works have commenced. Management expects construction and finishes to be concluded by Q3 2021.

5.3.1 Marsascala Development

In 2019, GPL acquired a site measuring 2,402m^2 which is accessible from three streets, namely Triq il-Kappara, Triq il-Vajrita and Triq Ġuzeppi Lanzon, Marsascala. Construction works have commenced and once completed, the project shall comprise 63 residential units and 93 garages. Aggregate development costs, including acquisition of land, are estimated to amount to €13.9 million and are being funded from own funds and a bank loan facility.

As at 31 December 2020, construction works were 85% complete while finishes were at *circa* 20% complete. The residential units were placed on the market in April 2020 and as at 31 December 2020, 13 units were subject to promise of sale agreements. The projected revenue from the sale of units forming part of this project amounts to €18.6 million.

5.3.2 San Pawl tat-Tarġa Development

In 2019, GGL acquired a site measuring 330m^2 and situated in Triq Jean de la Vallette, San Pawl tat-Tarġa, Naxxar, over which 9 residential units and 8 garages shall be developed. Aggregate development costs, including acquisition of land, are estimated to amount to €2.25 million and are being funded from own funds and a bank loan facility.

As at 31 December 2020, construction works were 85% complete while finishes were at an initial stage. The residential units were placed on the market towards the end of Q3 2020 and as at 31 December 2020, 1 unit was subject to promise of sale agreement. The projected revenue from the sale of units forming part of this project amounts to €2.8 million.

5.3.3 Birkirkara Development

In 2019, GGL acquired a site measuring 450m^2 and situated in Triq Qormi, Birkirkara, over which 14 residential units and 9 garages shall be constructed. Aggregate development costs, including acquisition of land, are estimated to amount to €2.6 million and are being funded from own funds and a bank loan facility.

As at 31 December 2020, the property was fully constructed and finishes were 35% complete. The residential units were placed on the market towards the end of Q3 2020 and as at 31 December 2020, 1 unit was subject to promise of sale agreement. The projected revenue from the sale of units forming part of this project amounts to €3.4 million.

6. THE RESERVE ACCOUNT

All sales of units, including residential units and garages/car spaces, 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.

All amounts received by the Trustee from the sales proceeds of units, forming part of the Hypothecated Property, shall be credited to the Reserve Account and shall be retained for the purpose of redeeming the 2016 Bonds, 2019 Bonds and, or the 2020 Bonds (as the case may be) on maturity. In the absence of unforeseen circumstances and subject to there being no material adverse changes in circumstances, the directors of the Issuer 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 outstanding Bonds on maturity.

7. TREND INFORMATION AND BUSINESS STRATEGY

7.1 MALTA ECONOMIC UPDATE[1]

Malta's economy should see a robust recovery in 2021 and 2022, provided that the tourism sector opens up safely. The recovery is expected to be driven by a rebound in tourism-related services exports, household consumption and investment. Given the supportive fiscal policy stance, the general government deficit is set to widen further in 2021 before improving in 2022 on the back of an accelerating recovery and a winding-down of fiscal support measures.

The COVID-19 pandemic has decimated tourism proceeds and made a deep dent in consumption. Malta's GDP[2] fell significantly in 2020 with services exports and household consumption contracting sharply under the pressure of the pandemic and related safety measures. On the contrary, financial services and gaming sector exports continued to perform robustly. Although the pandemic has clearly depressed economic activity in Malta, the government's sizeable stimulus package has managed to partially offset some of the impact. Wage supplement schemes and other business support measures appear to have cushioned the drop in consumption.

Consumption and investment are expected to pick up as the recovery takes hold, helped by high levels of accumulated savings. The faster-than-expected rollout of vaccinations in Malta, the high rate of vaccination in the UK, and a gradual easing of restrictions in the EU, should put the tourism sector back on the path to recovery in the second half of 2021 and re-invigorate domestic demand. In 2021, real GDP growth is expected to reach 4.6%, mainly driven by domestic consumption and net exports, as inbound tourism and global trade recover. Robust government expenditure is likely to continue supporting the economy, including via public investment. With both exports and imports recovering, the current account deficit is still expected to widen this year before starting to decrease in 2022.

Supported strongly by policy measures, headcount employment actually increased in 2020 especially in the public sector, professional services, and construction, while there was only a limited increase in Malta's unemployment rate, to 4.3% from 3.6% in 2019. As employment is expected to continue growing at a slow pace, the decrease in unemployment is expected to be gradual.

Harmonised Index of Consumer Prices (HICP)[3] inflation averaged 0.8% in 2020, contained mainly by lower energy and services inflation against a backdrop of contracting demand. In 2021, inflation is expected to rise to 1.2% as domestic demand and tourism services recover. In line with a stronger economic recovery in 2022, inflation is set to increase further to 1.5%.

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[1] Economic Forecast – Spring 2021 (European Commission Institutional Paper 149 May '21).

[2] Gross Domestic Product (GDP) is an estimate of the value of goods and services produced in the economy over a period of time.

[3] The Harmonised Indices of Consumer Prices (HICP) measure the changes over time in the prices of consumer goods and services acquired by households.

The government deficit increased to over 10% of GDP in 2020. The major increase in expenditure related to pandemic-mitigating measures was the main reason behind the deteriorating fiscal balance. These measures included a wage support scheme, a voucher scheme to support the hospitality and retail sectors, utility and rent subsidies for businesses, and healthcare-related outlays, which overall amounted to somewhat less than 6.5% of GDP in 2020. On the revenue side, the steep fall in household and tourist consumption led to a drop in indirect tax revenue. Corporate tax revenues plunged, reflecting the worsened profitability of companies. Sustained by government measures and the relatively good performance of the labour market, revenue from social contributions actually increased.

In 2021, the government deficit is projected to increase further to 11.8% of GDP reflecting ongoing supportive fiscal policy. Growing private consumption and a gradual revival of tourism are expected to support the government's intake from indirect taxes. Revenue from income taxes is projected to grow in line with modest wage growth and the stabilised operating environment for businesses. Proceeds from the investor citizenship scheme are expected to stabilise at last year's level. The measures to sustain the recovery including the extended wage supplement scheme, a new round of the voucher scheme, and newly introduced measures to restore the tourism sector, are expected to continue in 2021. As the economy accelerates and economic support measures wear off, the deficit is forecast to decline in 2022 to around 5.5% of GDP.

The government debt-to-GDP ratio surged to 54.3% in 2020 following the deterioration of the fiscal position. Reflecting ongoing high primary deficits, the debt ratio is set to increase further and reach 65.5% in 2022.

7.2 PROPERTY MARKET

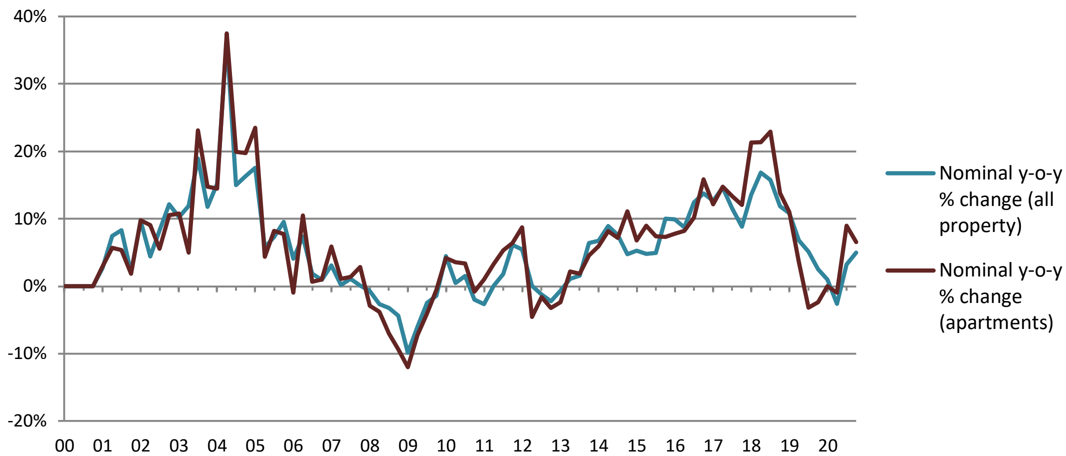
During the last five years (Q4 2015 to Q4 2020), property prices increased by 49%, primarily on account of a strong economy and a robust labour market. Further analysis of the chart[4] below shows that the 12-month upward trend in prices (in percentage terms) increased at an accelerating rate from Q2 2013 up to Q2 2018, after having gone through a volatile period between FY2008 to FY2012 as a result of the global financial crisis and its aftermath. In the subsequent 6 quarters - Q3 2018 to Q4 2019 - property prices continued to increase albeit at a slower pace. Property prices in Q2 2020 registered a decline of 2.6% over the comparative period a year earlier as a consequence of the COVID-19 outbreak which brought the whole economy to an abrupt halt. Notwithstanding the subdued economic activity in Q3 and Q4 2020, property prices in each of the said quarterly periods were higher compared to the prior year by 3.3% and 5.0% respectively.

The nominal year-on-year change in apartment prices broadly tracked the aggregate property price movements over the periods under review, except for the periods Q1 2018 to Q4 2019, wherein the yearly increase in prices of apartments between Q1 2018 and Q3 2018 was higher when compared to the broader property market but declined comparably faster in the subsequent periods (Q4 2018 to Q4 2019). Moreover, in Q3 2019, apartment prices registered a decrease of 3.2% compared to Q3 2018

[4] https://www.centralbankmalta.org/real-economy-indicators (property prices index based on advertised prices (base 2000 = 100)).

and declined by a further 2.4% in the subsequent quarter on a comparable basis. In Q1 and Q2 2020, prices of apartments were broadly unchanged, but were higher by 9.0% and 6.5% in Q3 and Q4 2020 respectively (on a yearly basis).

CHART I: Change in Property Prices



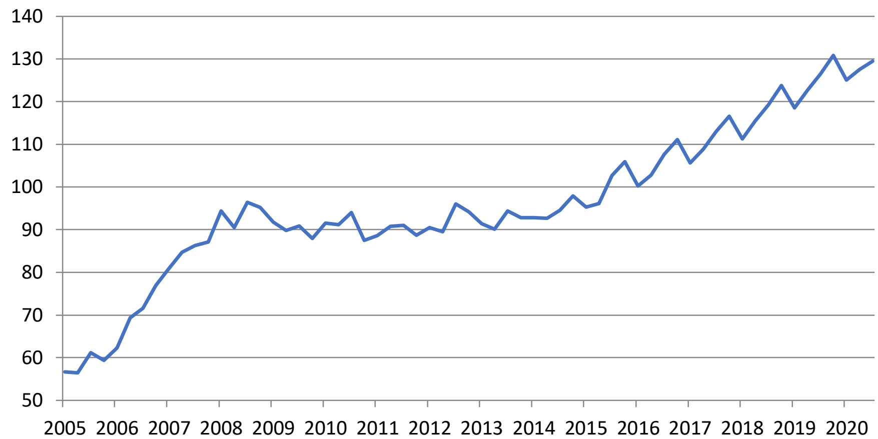
Source: Central Bank of Malta

The above data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place.

Eurostat's House Price Index for Malta[5] – which captures price changes of all residential properties purchased by households (including flats, detached houses, terraced houses, etc) - also indicates that residential property prices increased. The latest data available refers to Q3 2020 and shows that said prices increased by 2.4% compared with the same quarter of 2019, and over a 5-year period (Q3 2015 to Q3 2020), prices increased by 26% (vide Chart II below).

[5] https://ec.europa.eu/eurostat/tgm/download.do?tab=table&plugin=1&language=en&pcode=tipsho40 (the data is expressed as quarterly index (2015 = 100)).

CHART II: Malta House Price Index



Source: Eurostat

Prior to the pandemic crisis, residential property prices were supported by numerous factors, including the low-interest rate environment that makes property more attractive as an investment, as well as the Government's schemes for first-time and second-time buyers. Demand for residential property was also driven by favourable labour market conditions, strong growth in tourism (particularly in private accommodation), disposable income and an increase in foreign workers. The Individual Investor Programme also contributed, although property acquisitions under this Programme account for a limited proportion of all property transactions.[6]

On 8 June 2020, the Government of Malta announced a plan to regenerate the economy following the impact of COVID-19 on the country. Measures relating to immovable property include a reduction in taxation from 8% to 5% on sales of property, whilst stamp duty levied on the acquisition of property will be charged at 1.5% for the first €400,000. These reductions apply to preliminary agreements entered into until the end of July 2021, provided the final transfer is made by 31 January 2022. Also, Budget 2021 extended or introduced more favourable terms on a number of existing schemes supporting the property market.

In 2020, the number of final deeds of sale relating to residential property amounted to 11,045 compared to 14,013 deeds in 2019. The value of deeds completed in 2020 amounted to €2,086.6 million, a decrease of 23% when compared to the prior year (2019: €2,699.7 million).

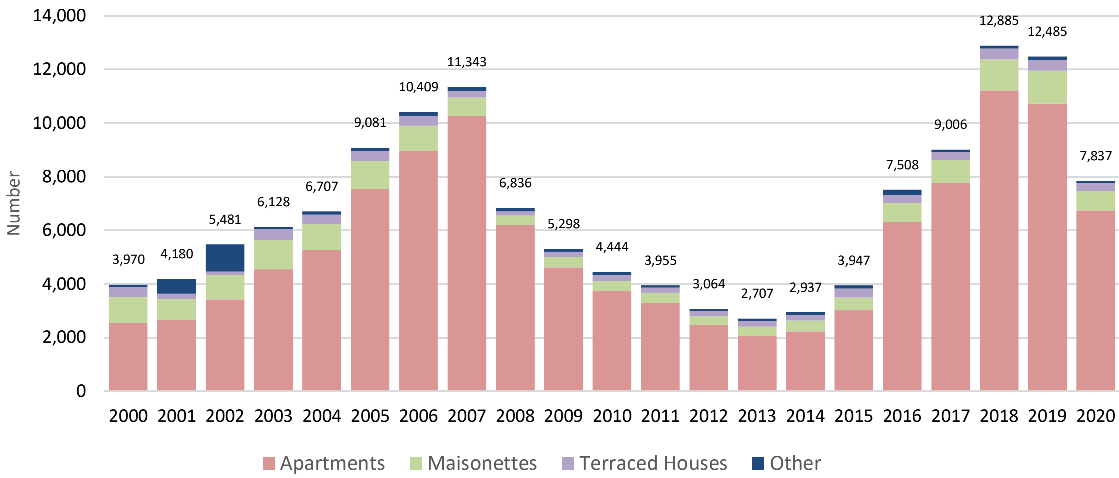
In the first quarter of 2021, 3,213 final deeds of sale were registered, an annual increase of 8.7% (Q1 2020: 2,956 deeds). The value of deeds registered during this period rose by 15.2% over the same quarter of the previous year and amounted to €649.7 million. In Q1 2021, the number of promise of sale agreements reached 3,980. This represents an annual increase of 56.9%.[7]

[6] Central Bank of Malta Quarterly Review 2020:1 (page 43).
[7] https://nso.gov.mt/en/News_Releases/Documents/2021/04/News2021_069.pdf

The number of permits issued for the construction of residential dwellings declined in 2019 following five consecutive years of substantial growth but remained high from a historical perspective (standing at 12,485 units compared to 12,885 units in 2018) (see Chart III below). This was entirely due to a lower number of permits issued for the construction of apartments, which were down by 4.3% (in terms of residential units).

The COVID-19 pandemic could have contributed to a 37% decline in permits issued in 2020 compared to the prior year, from 12,485 units in 2019 to 7,837 units. Apartments accounted for 85.9% of total residential permits issued during the year (2019: 85.9%), while maisonettes and terraced houses accounted for 9.3% (2019: 9.8%) and 3.8% (2019: 3.2%) respectively.

CHART III: Development Permits for Dwellings (number of units)



Although the construction and property sectors were not part of the containment measures taken by Government to stem the spread of COVID-19, such sectors have been impacted negatively due to the high level of uncertainty concerning the duration of this pandemic and the resulting short to medium term adverse effect on the Maltese economy and market sentiment.

7.3 STRATEGY

The Group's long-term strategy is to focus on acquiring suitable sites for the development of residential units.

The strong response from investors for the Group's latest projects - Mellieħa Development and the Luqa Development - has shown that there is steady demand for real estate in Malta, which continues to support the current level of prices, notwithstanding the rise in the number of developments undertaken in Malta in the last few years and others which are due to commence in the near term, over and above the present economic crisis instigated by the COVID-19 pandemic.

In view of the above, the directors of the Issuer are cautiously optimistic on the health of the Maltese property market, which opinion is based on the assumption that the general economy can recover from the impact of the pandemic within a short period of time without materially affecting business confidence, primary industries such as hospitality, and demand for property.

In the immediate term, Gap Group will be principally focused on completing the Luqa Development and will continue to market the remaining units available for sale at the Luqa Development and the Mellieħa Development. At the same time, the Group will direct resources towards the development and sale of units relating to its latest projects in Marsascala, San Pawl tat-Tarġa and Birkirkara, and initiate construction of the Qawra II Development and Mosta Development.

PART 2 – GAP GROUP PERFORMANCE REVIEW

8. FINANCIAL INFORMATION RELATING TO THE 2016 BOND GUARANTOR AND 2019 BOND GUARANTORS

8.1 GAP MELLIEĦA (I) LIMITED

The historical financial information about GML is included in the audited financial statements for the year ended 31 December 2018 to 31 December 2020.

Gap Mellieha (I) Limited Income Statement for the year ended 31 December	**2018 Audited (€'000)**	**2019 Audited (€'000)**	**2020 Audited (€'000)**
Revenue	16,193	12,953	13,016
Cost of sales	(10,390)	(8,111)	(5,362)
Administrative expenses	(1,012)	(630)	(635)
Operating profit	**4,791**	**4,212**	**7,019**
Net finance costs	(1,056)	(1,109)	(2,940)
Profit/(loss) before tax	**3,735**	**3,103**	**4,079**
Taxation	(1,256)	(1,003)	(790)
Total comprehensive income for the year	**2,479**	**2,100**	**3,289**

Gap Mellieha (I) Limited
Cash Flow Statement
for the year ended 31 December

	2018 Audited (€'000)	2019 Audited (€'000)	2020 Audited (€'000)
Net cash used in operating activities	(3,419)	(2,853)	18,890
Net cash from investing activities	106	103	93
Net cash from financing activities	3,800	2,796	(19,480)
Net movement in cash and cash equivalents	**487**	**46**	**(497)**
Cash and cash equivalents at beginning of period/year	14	501	547
Cash and cash equivalents at end of year	**501**	**547**	**50**

Gap Mellieha (I) Limited
Balance Sheet
as at

	31 Dec'18 Audited (€'000)	31 Dec'19 Audited (€'000)	31 Dec'20 Audited (€'000)
ASSETS			
Non-current assets			
Loans and other receivables	2,404	2,534	-
	2,404	2,534	-
Current assets			
Inventory - development project	14,503	13,640	8,350
Trade and other receivables	12,941	20,419	1,997
Cash and cash equivalents	501	547	50
	27,945	34,606	10,397
Total assets	**30,349**	**37,140**	**10,397**
EQUITY			
Capital and reserves			
Called up share capital	1	1	1
Retained earnings	2,473	4,573	7,861
	2,474	**4,574**	**7,862**
LIABILITIES			
Current liabilities			
Other financial liabilities	19,170	22,119	200
Other current liabilities	8,705	10,447	2,335
	27,875	**32,566**	**2,535**
Total equity and liabilities	**30,349**	**37,140**	**10,397**

During FY2018, GML generated revenue amounting to €16.2 million from the sale of 43 residential units from the Mellieħa Development, representing 27% of the total residential units to be developed. Total comprehensive income for the year amounted to €2.5 million. As at year end, a further 37 residential units were subject to preliminary sale agreements.

The asset side of the balance sheet as at 31 December 2018 included inventory (work-in-progress on development projects) amounting to €14.5 million (FY2017: €16.4 million), whilst liabilities mainly comprised capital creditors (primarily GGCL) of €19.1 million (FY2017: €15.3 million) and advance deposits amounting to €2.6 million (FY2017: €1.3 million).

Revenue generated by GML in FY2019 amounted to €13.0 million, compared to €16.2 million in FY2018, from the sale of 36 residential units (FY2018: 43 units). Accordingly, a total of 79 units have been sold out of a total of 159 residential units, and a further 24 units were subject to promise of sale agreements. Profit for the year decreased from €2.5 million in FY2018 to €2.1 million in FY2019.

As at 31 December 2019, the first seven blocks were fully complete, while Blocks A, B and C were 100% complete in terms of construction and finishing works were 95% complete. Inventory as at year end amounted to €13.6 million. Apart from inventory, the majority of total assets included receivables from related parties amounting to €23.0 million.

Capital creditors (primarily GGCL) as at 31 December 2019 amounted to €22.1 million and advance deposits amounted to €1.3 million.

Revenue generated by GML in FY2020 amounted to €13.0 million, compared to €13.0 million in FY2019, from the sale of 38 residential units (FY2019: 36 units). Accordingly, a total of 117 units have been sold out of a total of 159 residential units, and a further 28 units were subject to promise of sale agreements. Profit for the year increased from €2.1 million in FY2019 to €3.3 million in FY2020.

As at 31 December 2020, the project was fully developed. Inventory as at year end amounted to €8.4 million. Apart from inventory, the majority of total assets included receivables from related parties amounting to €1.9 million.

Capital creditors (primarily GGCL) as at 31 December 2020 amounted to €200,279 and advance deposits amounted to €0.5 million.

8.2 GAP LUQA LIMITED

The historical financial information about GLL is included in the audited financial statements for the financial years ended 31 December 2018 to 2020.

Gap Luqa Limited **Income Statement** **for the year ended 31 December**	**2018** **Audited** **(€'000)**	**2019** **Audited** **(€'000)**	**2020** **Audited** **(€'000)**
Revenue	2,002	11,819	9,316
Cost of sales	(1,185)	(6,533)	(4,850)
Administrative expenses	(33)	(552)	(285)
Operating profit	**784**	**4,734**	**4,181**
Net finance costs	-	(351)	(466)
Profit before tax	**784**	**4,383**	**3,715**
Taxation	(145)	(920)	(539)
Total comprehensive income for the year	**639**	**3,463**	**3,176**

Gap Luqa Limited **Cash Flow Statement** **for the year ended 31 December**	**2018** **Audited** **(€'000)**	**2019** **Audited** **(€'000)**	**2020** **Audited** **(€'000)**
Net cash from (used in) operating activities	(6,690)	6,396	1,020
Net cash from investing activities	1	-	-
Net cash from (used in) financing activities	6,544	(5,816)	(1,582)
Net movement in cash and cash equivalents	**(145)**	**580**	**(562)**
Cash and cash equivalents at beginning of year	197	52	632
Cash and cash equivalents at end of year	**52**	**632**	**70**

Gap Luqa Limited Balance Sheet As at	31 Dec'18 Audited (€'000)	31 Dec'19 Audited (€'000)	31 Dec'20 Audited (€'000)
ASSETS			
Current assets			
Inventory - development project	11,260	12,215	14,863
Trade and other receivables	9,399	8,872	8,457
Cash and cash equivalents	52	632	70
	20,711	21,719	23,390
Total assets	**20,711**	**21,719**	**23,390**
EQUITY			
Capital and reserves			
Called up share capital	1	1	1
Retained earnings	1,378	4,841	8,017
	1,379	**4,842**	**8,018**
LIABILITIES			
Non-current liabilities			
Bank loans and other financial liabilities	7,522	2,534	-
	7,522	2,534	-
Current liabilities			
Bank loans and other financial liabilities	8,684	7,731	11,210
Other current liabilities	3,126	6,612	4,162
	11,810	14,343	15,372
	19,332	**16,877**	**15,372**
Total equity and liabilities	**20,711**	**21,719**	**23,390**

During FY2018, revenue amounted to €2.0 million and primarily comprised further sales of units from the Lija project and the disposal of a plot within the Luqa Development. GLL registered total comprehensive income for the financial year of €0.6 million.

In FY2019, revenue generated amounted to €11.8 million from the sale of 59 units forming part of the Luqa Development. Such sales contributed €4.7 million to operating profit, while net profit for the year amounted to €3.5 million.

The Luqa Development consists of 21 blocks. By 31 December 2019, the first 9 blocks were fully complete. Construction works had started on the next 6 blocks, whereas excavation works were complete in relation to the last remaining 6 blocks.

Revenue in FY2020 amounted to €9.3 million compared to €11.8 million in the prior year. Operating profit was lower on a comparable basis, from €4.7 million in FY2019 to €4.2 million. Overall, comprehensive income amounted to €3.2 million (FY2019: €3.5 million). Out of 21 blocks, 15 blocks have been fully completed. With regard to the remaining 6 blocks, construction works are expected to be completed in Q3 2021 while finishes should be completed in Q4 2021.

Total assets as at 31 December 2020 amounted to €23.4 million (FY2019: €21.7 million) and principally included inventory (work-in-progress on development project) of €14.9 million (FY2019: €12.2 million) and related party loans receivable of €8.5 million (FY2019: €8.9 million). Liabilities mainly comprised related party loans amounting to €11.2 million (FY2019: €10.3 million), advance deposits amounting to €2.1 million (FY2019: €1.4 million) and other creditors of €2.1 million (FY2019: €5.2 million).

9. PROJECTED FINANCIAL INFORMATION RELATING TO THE 2020 GUARANTOR

GQM was established on 23 September 2020 and since then has acquired the Qawra and Mosta sites and initiated development of the Qawra II Development and the Mosta Development. GQM has not published its first set of audited financial statements. The following projected financial information of GQM has been provided by management of the Issuer and covers the period 23 September 2020 to 31 December 2021.

Gap QM Limited **Projected Income Statement** **for the period 23 September 2020 to 31 December 2021**	**(€'000)**
Administrative expenses	(25)
Loss for the period	**(25)**

Gap QM Limited **Projected Cash Flow Statement** **for the period 23 September 2020 to 31 December 2021**	**(€'000)**
Net cash used in operating activities	(19,020)
Net cash from financing activities	20,000
Net movement in cash and cash equivalents	**980**
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period	**980**

Gap QM Limited **Projected Balance Sheet** **As at 31 December 2021**	
	(€'000)
ASSETS	
Current assets	
Inventory - development project	20,000
Cash and cash equivalents	980
	20,980
Total assets	**20,980**
EQUITY	
Capital and reserves	
Called up share capital	5
Retained earnings	(25)
	(20)
LIABILITIES	
Current liabilities	
Borrowings and other financial liabilities	20,000
Other current liabilities	1,000
	21,000
	21,000
Total equity and liabilities	**20,980**

During the period under review, GQM will be principally involved in the development of the Qawra Site and Mosta Site.

Inventory is projected to amount to €20.0 million and comprises cost of acquisition of the above-mentioned property of €15.6 million and development costs of €4.4 million. Such expenditure is being funded from amounts advanced by the Issuer (derived from net proceeds of the 2020 Bonds).

10. FINANCIAL INFORMATION RELATING TO THE ISSUER

The following financial information is extracted from the audited consolidated financial statements of the Issuer for the years ended 31 December 2018 to 2020. The projected consolidated financial information for the year ending 31 December 2021 of Gap Group has been provided by management of the Issuer.

The projected financial information relates to events in the future and is 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.

The COVID-19 pandemic has caused disruption to businesses and economic activity which has also been reflected in volatility in the property market. Whilst the Directors believe that the pandemic may affect sales of property in the near term, they are confident that the Group has in place robust financial fundamentals and sufficient resources to enable it to meet the challenges that the pandemic may present.

GAP Group p.l.c. **Consolidated Statement of Comprehensive Income** **for the year ended 31 December**	**2018** **Actual** **€'000**	**2019** **Actual** **€'000**	**2020** **Actual** **€'000**	**2021** **Forecast** **€'000**
Revenue	30,444	28,287	23,786	52,255
Cost of sales	(21,747)	(20,500)	(13,600)	(32,445)
Administrative expenses	(1,701)	(1,650)	(1,167)	(3,226)
Operating profit	**6,996**	**6,137**	**9,019**	**16,584**
Investment income	683	729	592	500
Finance costs	(2,258)	(3,493)	(4,027)	(6,360)
Profit before tax	**5,421**	**3,373**	**5,584**	**10,724**
Taxation	(2,439)	(2,245)	(1,482)	(2,613)
Profit for the year	**2,982**	**1,128**	**4,102**	**8,111**
Other comprehensive income				
Movement in fair value of financial assets	191	157	(123)	50
Total comprehensive income for the year	**3,173**	**1,285**	**3,979**	**8,161**

Key Accounting Ratios	**FY2018 Actual**	**FY2019 Actual**	**FY2020 Actual**	**FY2021 Forecast**
Operating profit margin *(Operating profit/revenue)*	23%	22%	38%	32%
Interest cover (times) *(Operating profit/net finance cost)*	4.44	2.22	2.63	2.83
Interest cover 2 (times) *(Operating profit/finance cost)*	3.10	1.76	2.24	2.61
Net profit margin *(Profit after tax/revenue)*	10%	4%	17%	16%
Earnings per share (€) *(Profit after tax/number of shares)*	1.19	0.45	1.64	3.24
Return on equity *(Profit after tax/shareholders' equity)*	30%	10%	27%	35%
Return on capital employed *(Operating profit/total assets less current liabilities)*	14%	8%	10%	17%
Return on assets *(Profit after tax/total assets)*	5%	1%	4%	7%

Source: MZ Investment Services Limited

In FY2018, the Group generated revenues of €30.4 million as compared to €15.0 million a year earlier, mainly from sales contracts for units in the Mellieħa Development as to €16.2 million and the remaining amount principally from the Qawra Development and Għargħur Development. Operating profit increased from €2.9 million in FY2017 to €7.0 million, while comprehensive income amounted to €3.2 million in FY2018 (FY2017: €0.7 million).

During FY2019, the Gap Group was principally involved in the construction and development of the following projects:

- Mellieħa Development – the whole project was completed in April 2020; and
- Luqa Development – out of 21 blocks, 9 blocks were fully complete, while construction works on another 6 blocks have commenced. Development of the final 6 blocks will started later in that year. It is envisaged that the project will be completed in its entirety by Q4 2021.

Furthermore, in FY2019, the Group acquired another 3 sites in Marsascala, San Pawl tat-Tarġa and Birkirkara, all of which are earmarked for the development of residential units.

In the afore-mentioned financial year, the Group generated aggregate revenue of €28.3 million, a decrease of €2.2 million when compared to the prior year. Revenue was principally derived from the sale of units forming part of the Mellieħa Development and the Luqa Development. Operating profit was lower on a comparable basis by €0.9 million and amounted to €6.1 million. In FY2019, net finance costs (being investment income less finance costs) were materially higher from FY2018 by 75% to €2.8 million, which adversely impacted net profit for the year. An amount of *circa* €1 million in finance costs was a one-off item and resulted from the premium paid by the Issuer to holders of the 2016 Bonds who had opted to exchange same to the 2019 Bonds. Overall, GAP Group reported total comprehensive income for FY2019 of €1.3 million compared to €3.2 million in FY2018.

In FY2020, the Group generated revenue amounting to €23.8 million compared to €28.3 million in FY2019 (-16%). Approximately 55% of revenue was derived from sales of units forming part of the Mellieħa Development and *circa* 39% from the Luqa Development. Operating profit for the year amounted to €9.0 million, an increase of €2.9 million from a year earlier, and total comprehensive income amounted to €4.1 million (FY2019: €1.3 million).

Operating profit margin improved from 22% in FY2019 to 38%, while net profit margin increased from 4% in FY2019 to 17%. Due to higher operating profits, interest cover increased from 2.22 times in FY2019 to 2.63 times in the last financial year.

In FY2021, the Group expects revenue to more than double from €23.8 million in FY2020 to €52.3 million. Approximately 85% of revenue is projected to be generated from the Luqa Development and Mellieħa Development, while 15% is expected to be derived from projects described in section 5.3 of this report (primarily from the Marsascala Development). As such, operating profit is projected to increase by €7.6 million (+84% y-o-y) to €16.6 million (FY2020: €9.0 million), and comprehensive income is expected to increase by 98% to €8.1 million (FY2020: €4.1 million).

GAP Group p.l.c. Consolidated Statement of Financial Position as at 31 December	2018 Actual €'000	2019 Actual €'000	2020 Actual €'000	2021 Forecast €'000
ASSETS				
Non-current assets				
Property, plant and equipment	30	32	23	21
Investments	2,145	6,012	6,097	6,597
Loans and other receivables	11,583	10,111	10,382	10,582
Sinking fund	3,975	24	6,480	2,480
	17,733	16,179	22,982	19,680
Current assets				
Inventory - development project	22,786	48,958	62,649	36,954
Trade and other receivables	387	2,553	4,303	4,503
Cash and cash equivalents	624	7,698	2,060	1,435
Sinking fund	13,707	12,498	11,901	45,865
	37,504	71,707	80,913	88,757
Total assets	**55,237**	**87,886**	**103,895**	**108,437**
EQUITY				
Capital and reserves				
Called up share capital	2,500	2,500	2,500	2,500
Other capital	2,900	3,057	2,934	2,983
Retained earnings	4,469	5,598	9,700	17,811
	9,869	**11,155**	**15,134**	**23,294**
LIABILITIES				
Non-current liabilities				
Borrowings and other financial liabilities	5	6,141	7,737	5,737
Debt securities	39,473	56,991	69,864	69,864
	39,478	63,132	77,601	75,601
Current liabilities				
Bank overdrafts	7	-	500	500
Borrowings and other financial liabilities	111	2,610	657	907
Other current liabilities	5,772	10,989	10,003	8,135
	5,890	13,599	11,160	9,542
	45,368	**76,731**	**88,761**	**85,143**
Total equity and liabilities	**55,237**	**87,886**	**103,895**	**108,437**

Key Accounting Ratios	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Forecast
Gearing ratio *(Total net debt/net debt and shareholders' equity)*	66%	78%	78%	47%
Gearing ratio 2 (times) *(Total net debt/shareholders' equity)*	1.94	3.54	3.45	0.89
Net debt to Operating profit (years) *(Net debt/Operating profit)*	2.74	6.44	5.79	1.24
Net assets per share (€) *(Net asset value/number of shares)*	3.95	4.46	6.05	9.32
Liquidity ratio (times) *(Current assets/current liabilities)*	6.37	5.27	7.25	9.30

Source: MZ Investment Services Limited

As at 31 December 2018, inventory amounted to €22.8 million (FY2017: €33.7 million), primarily on account of progress works on the Mellieħa Development. Liquid assets (including sinking fund and cash) amounted to €20.4 million (FY2017: €12.1 million). Other assets mainly comprise loans due from related parties of €11.6 million (FY2017: €10.2 million). As to liabilities, the Group had outstanding €40 million in 4.25% secured bonds due 2023, advance deposits amounting to €3.3 million and capital creditor balances of €1.7 million.

The Group's balance sheet as at 31 December 2019 included total assets amounting to €87.9 million, made up of inventory (being acquisition of sites in Marsascala, San Pawl Tat-Tarġa and Birkirkara and works-in-progress on property developments) of €49.0 million, related party balance of €12.7 million and cash balances amounting to €20.2 million. Moreover, an amount of €6.0 million represented investments in various corporate bonds.

Liabilities principally included debt securities of €57.0 million, while bank loans and other financial liabilities amounted to €8.8 million. Shareholders' equity as at 31 December 2019 amounted to 11.2 million compared to €9.9 million a year earlier.

In FY2020, the Group raised €21 million through the issue of the 2020 Bonds, of which, €15 million of proceeds was used to acquire the Qawra Site and the Mosta Site. The remaining balance was utilised to settle capital creditor balances and to part fund ongoing development costs in relation to the Qawra II Development and the Mosta Development. Inventory increased from €49.0 million in FY2019 to €62.6 million, while cash balances (including sinking fund amounts) increased from €20.2 million in FY2019 to €20.4 million.

In FY2020, the leverage of the Group (gearing) remained stable at 78% despite the increase in borrowings. The liquidity ratio was at 7.25 times particularly in view of the significant amount of property inventory held in current assets, while the majority of borrowings are non-current liabilities repayable after more than 1 year.

In view of the anticipated increase in turnover during FY2021, the statement of financial position as at 31 December 2021 is projected to show a substantial decrease in net debt from €52.2 million in FY2020 to €20.6 million, thereby resulting in a projected decrease in gearing from 78% in FY2020 to 47%. Moreover, net debt to operating profit is expected to improve from 5.79 years to 1.54 years. The equity of the Gap Group is projected to increase by 54% from €15.1 million in FY2020 to €23.3 million, mainly due to a projected y-o-y increase of €8.1 million in retained earnings to €17.8 million.

GAP Group p.l.c. **Consolidated Cash Flow Statement** **for the year ended 31 December**	**2018** **Actual** **€'000**	**2019** **Actual** **€'000**	**2020** **Actual** **€'000**	**2021** **Forecast** **€'000**
Net cash from (used in) operating activities	7,489	(20,317)	(10,862)	31,487
Net cash from (used in) investing activities	6,939	(1,206)	507	(500)
Net cash from (used in) financing activities	(1,285)	27,395	3,620	2,352
Net movement in cash and cash equivalents	**13,143**	**5,872**	**(6,735)**	**33,339**
Cash and cash equivalents at beginning of year	1,181	14,324	20,196	13,461
Cash and cash equivalents at end of year	**14,324**	**20,196**	**13,461**	**46,800**

Net cash outflow from operating activities in FY2020 amounted to €10.9 million compared to cash outflows of €20.3 million in FY2019. The cash outflow in FY2020 was mainly due to a y-o-y increase of €13.7 million in property inventory. Net cash from investing activities amounted to €0.5 million (FY2019: cash used in investing activities of €1.2 million) and primarily represented investment income.

Net cash from financing activities in FY2020 amounted to €3.6 million which was principally raised from issuance of bonds and bank loan facilities. In FY2020, net movement in cash and cash equivalents amounted to €6.7 million (adverse balance) compared to €5.9 million in FY2019 (positive balance).

Net movement in cash and cash equivalents in FY2021 is projected at €33.3 million (FY2020: adverse balance of €6.7 million). Net cash from operating activities is expected to amount to €31.5 million, primarily on account of cash inflows from final sale contracts. Net cash used in investing activities is expected to amount to €0.5 million compared to inflows of €0.5 million in the prior year. Net cash from financing activities is estimated at €2.4 million, comprising mainly drawdowns from proceeds of debt securities.

Reserve Account

In terms of the respective prospectus, the Issuer is required to build a sinking fund, the value of which will, by the redemption dates of the respective bonds, be equivalent to 100% of the outstanding value of bonds. Below is a table outlining the actual and expected balance to be held in the reserve account as at the end of the financial years indicated hereunder.

Contributions to Reserve Account as at 31 December	**2018 Actual €'000**	**2019 Actual €'000**	**2020 Actual €'000**	**2021 Forecast €'000**
4.25% Secured Bonds 2023	17,682	17,712	18,405	19,433
3.65% Secured Bonds 2022		822	1,700	32,713
3.70% Secured Bonds 2023 - 2025			4,373	
	17,682	**18,534**	**24,478**	**52,146**

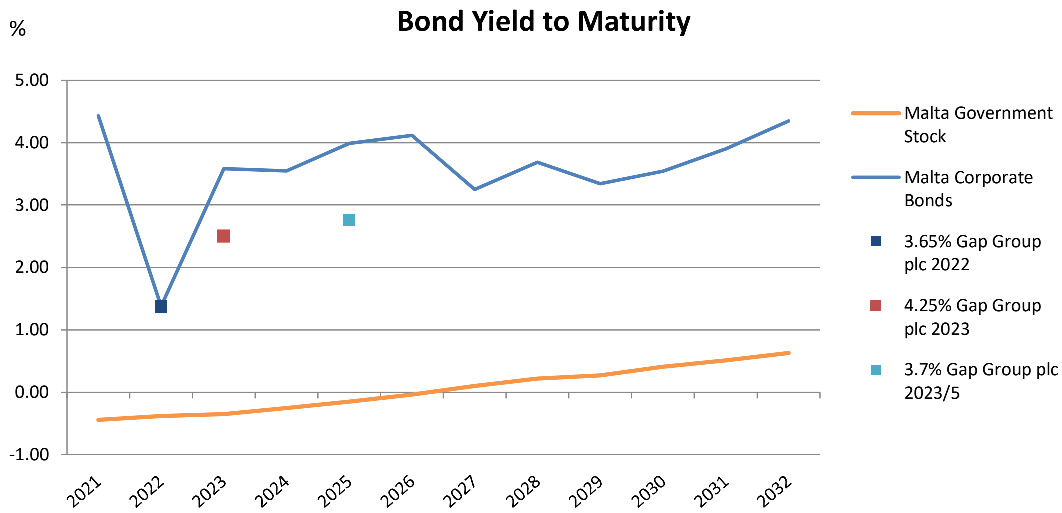
PART 3 - COMPARABLES

The table below compares the Issuer and its bond issues 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** (%)
5.80% International Hotel Investments plc 2021	20,000,000	4.43	- 0.61	1,544,099	773,176	41.87
3.65% GAP Group plc Secured € 2022	**30,049,800**	**1.38**	**2.24**	**103,895**	**15,134**	**73.44**
6.00% Pendergardens Developments plc Secured € 2022 Series	21,845,300	3.63	1.79	60,578	29,491	36.39
4.25% GAP Group plc Secured € 2023	**19,247,300**	**2.50**	**2.24**	**103,895**	**15,134**	**73.44**
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	3.58	1.44	36,921	8,038	70.88
5.80% International Hotel Investments plc 2023	10,000,000	4.50	- 0.61	1,544,099	773,176	41.87
6.00% AX Investments Plc € 2024	40,000,000	4.08	0.76	348,657	217,449	25.57
6.00% International Hotel Investments plc € 2024	35,000,000	4.37	- 0.61	1,544,099	773,176	41.87
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	3.55	3.66	100,350	50,297	48.12
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	3.45	2.04	122,396	47,319	52.86
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.59	3.09	135,492	45,574	27.66
4.25% Best Deal Properties Holding plc Secured € 2024	14,776,400	2.98	-	27,453	4,128	81.72
3.7% GAP Group plc Secured € 2023-2025 Series 1	**21,000,000**	**2.76**	**2.24**	**103,895**	**15,134**	**73.44**
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	4.91	- 0.61	1,544,099	773,176	41.87
5.10% 6PM Holdings plc Unsecured € 2025	13,000,000	4.62	7.33	160,836	54,602	29.84
4.50% Hili Properties plc Unsecured € 2025	37,000,000	3.99	1.46	149,639	62,675	54.94
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	4.12	3.16	43,383	5,522	81.61
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.90	- 0.51	1,717,057	828,470	42.64
4.00% International Hotel Investments plc Secured € 2026	55,000,000	3.57	- 0.61	1,544,099	773,176	41.87
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.10	7.39	278,759	53,003	75.22
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	3.60	- 0.61	1,544,099	773,176	41.87
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	2.66	0.76	348,657	217,449	25.57
4.35% SD Finance plc Unsecured € 2027	65,000,000	3.97	6.86	324,427	137,612	28.31
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.25	- 0.50	190,466	108,369	31.32
4.00% Stivala Group Finance plc Secured € 2027	45,000,000	3.38	2.30	354,069	231,437	26.54
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	3.69	3.87	628,916	110,128	77.11
3.65% Stivala Group Finance plc Secured € 2029	15,000,000	3.34	2.30	354,069	231,437	26.54
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	3.73	3.87	628,916	110,128	77.11
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.34	0.76	348,657	217,449	25.57

11-May-21

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, MZ Investment Services Ltd



Source: Malta Stock Exchange, Central Bank of Malta, MZ Investment Services Ltd 11 May 2021

To date, there are no corporate bonds which have a redemption date beyond 2032. The Malta Government Stock yield curve has been included as it is the benchmark risk-free rate for Malta.

The 2019 Bonds are trading at a yield of 1.38%, which is at par when compared to other corporate bonds maturing in the same year. The premium over FY2022 Malta Government Stock is 176 basis points.

The 2016 Bonds are trading at a yield of 2.50%, which is *circa* 108 basis points lower when compared to other corporate bonds maturing in 2023. The premium over FY2023 Malta Government Stock is 285 basis points.

The 2020 Bonds have been priced at a yield of 2.76%, which is *circa* 123 basis points lower when compared to other corporate bonds maturing in 2025. The premium over FY2025 Malta Government Stock is 291 basis points.

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.
Operating profit	Operating profit 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.
Net debt to operating profit	The net debt to operating profit ratio is a measurement of leverage, calculated as a company’s interest bearing liabilities minus cash or cash equivalents, divided by its operating profit. This ratio shows how many years it would take for a company to pay back its debt if net debt and operating profit are held constant.
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. Alternatively, the gearing ratio can be calculated by dividing a company’s net debt by shareholders’ equity.