Reg. No. C 72013

# GAP MELLIEHA (I) LIMITED

## FINANCIAL STATEMENTS

## 31st DECEMBER 2019

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## DIRECTORS' REPORT

## FOR THE YEAR ENDED 31st DECEMBER 2019

The directors present their report and the audited financial statements of Gap Mellieha (I) Limited for the year ended 31st December 2019.

### Principal Activities

The statement of comprehensive income for the year is set out on page 7.

The principal activity of the company, which is unchanged since last year, is the sale of property held for development and resale.

### Review of business

*The Mellieħa development*

By the end of the year, the first seven blocks (Blocks D,E,F, G, H, I & J) were fully complete. Blocks A, B and C were 100% complete in terms of construction and finishing works were 95% complete. The project has been completely finished in April 2020.

Out of the 159 residential units, 79 units have been sold (contracted) and a further 24 units were subject to a Preliminary Agreement as at 31st December 2019.

This means that 65% of the residential units were committed, out of which 50% have been contracted as at 31st December 2019.

### Results and dividends

The results for the year are shown in the statement of comprehensive income on page 7.

The Directors do not recommend the payment of a final dividend.

### Directors

The Directors of the company as at 31st December 2019 who held office throughout the year were:-

Paul Attard
Adrian Muscat
George Muscat

In accordance with the company's memorandum and articles of association all the Directors remain in office.

**Directors' report - continued**

**Auditor**

The auditor of the company, EFS Audit Limited will not be seeking reappointment. A resolution to appoint another of the company will be proposed at the forthcoming annual general meeting.

**Approved by the Board of Directors and signed on its behalf by:**

**Paul Attard**
**Director**

**Adrian Muscat**
**Director**

Gap Holdings Head Office,
Censu Scerri Street,
Tigne,
Sliema

Date : 19 June 2020

# STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

**Statement of the Directors' Responsibilities**

The directors are required by the Maltese Companies Act 1995 to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of each financial period and of its income statement for that period. In preparing the financial statements, the directors are required to:-

- ensure that the financial statements have been drawn up in accordance with the International Financial Reporting Standards as adopted by the EU;
- make judgments and estimates that are reasonable and prudent;
- ensure that applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Maltese Companies Act 1995. They are also responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the company are properly safeguarded and that fraud and other irregularities will be prevented or detected.

**Approved by the Board of Directors and signed on its behalf by:**

**Paul Attard**
**Director**

**Adrian Muscat**
**Director**

Date : 19 June 2020

## Independent auditor's report

To the Shareholders of Gap Mellieha (I) Limited.

**Report on the Audit of the Financial Statements for the year ended 31st December 2019.**

**Opinion**

I have audited the financial statements of Gap Mellieha (I) Limited, set out on pages 7 to 28 which comprise the statement of financial position as at 31st December 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of Gap Mellieha (I) Limited as at 31st December 2019, and of the Company's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

**Basis for Opinion**

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap.281) in Malta, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

To the best of my knowledge and belief I have not provided any of the prohibited services as set out in the Accountancy Profession Act.

**Information other than the Financial Statements and Auditor's Report thereon**

The directors are responsible for the other information. The other information comprises the directors' report and the statement of the Directors' Responsibilities.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

With respect to the Directors' report, I also considered whether the Director's report includes the disclosure requirements of Article 177 of the Companies Act (Cap. 386).

In accordance with the requirements of sub-article 179(3) of the Companies Act (Cap. 386) in relation to the Director's Report, in my opinion, based on the work undertaken in the course of the audit:

The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

The Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Directors' report.

## Independent auditor's report

To the Shareholders of Gap Mellieha (I) Limited.

**Responsibilities of the Directors**

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the EU, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

## Independent auditor's report

To the Shareholders of Gap Mellieha (I) Limited.

### Report on Other Legal and Regulatory Requirements

I also read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. My responsibilities do not extend to any other information.

I am also responsible under the Companies Act (Cap. 386), I have responsibilities to report to you if, in my opinion:

- Adequate accounting records have not been kept, or that returns adequate for my audit have not been received from branches visited by me.
- The financial statements are not in agreement with the accounting records and returns.
- I have not received all the information and explanations I require for my audit.
- The information given in the Report of the Directors is not consistent with the financial statements.

I have nothing to report to you in respect of these responsibilities.

### Appointment

Mr Emanuel P. Fenech is the only shareholder and director of EFS Audit Limited, the current Company's auditor. EFS Audit Limited was appointed as auditor on the 1st of January 2020 as a continuation of the same auditor operating under the name of a company. Mr Emanuel P. Fenech was first appointed as auditor of the Company on the 1st of June 2016. His appointment was renewed annually by shareholder resoluton representing a total period of uninterrupted engagement period of 4 years.

This copy of the audit report has been signed by
Emanuel P. Fenech (Partner) for and on behalf of

**EFS Audit Limited**

1, Tal-Providenza Mansions
Main Street
Balzan
Malta
Date: 26 April 2020

## STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31st DECEMBER 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | € | € |
| Turnover | 3 | 12,952,540 | 16,193,600 |
| Cost of sales | | (8,111,246) | (10,390,218) |
| **Gross Profit** | | 4,841,294 | 5,803,382 |
| Administrative expenses | | (629,732) | (1,012,238) |
| **Operating profit** | 4 | 4,211,562 | 4,791,144 |
| Finance costs | 6 | (1,211,454) | (1,162,263) |
| Investment income | 7 | 102,537 | 106,338 |
| **Profit before taxation** | | 3,102,645 | 3,735,219 |
| Tax expense | 8 | (1,002,996) | (1,256,360) |
| **Profit for the year** | | 2,099,649 | 2,478,859 |
| **Total Comprehensive income** | | 2,099,649 | 2,478,859 |
| **Earnings per share** | | 1,749.71 | 2,065.72 |

The notes on pages 11 to 28 are an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | € | € |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Loans and other receivables | 9 | 2,533,871 | 2,403,606 |
| | | 2,533,871 | 2,403,606 |
| **Current assets** | | | |
| Inventory - Development project | 10 | 13,640,184 | 14,503,709 |
| Trade and other receivables | 11 | 20,418,613 | 12,941,190 |
| Cash and bank balances | 12 | 547,096 | 500,557 |
| | | 34,605,893 | 27,945,456 |
| **Total Assets** | | 37,139,764 | 30,349,062 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 13 | 1,200 | 1,200 |
| Retained earnings | | 4,572,333 | 2,472,684 |
| Total equity | | 4,573,533 | 2,473,884 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 10,447,235 | 8,705,104 |
| Other financial liabilities | 14 | 22,118,995 | 19,170,074 |
| Taxation due | | 1 | - |
| Total current liabilities | | 32,566,231 | 27,875,178 |
| Total liabilities | | 32,566,231 | 27,875,178 |
| **Total equity and liabilities** | | 37,139,764 | 30,349,062 |

The notes on pages 11 to 28 are an integral part of these financial statements.

The financial statements on pages 7 to 28 were approved by the board of directors and were signed on its behalf by:

**Paul Attard**
**Director**

**Adrian Muscat**
**Director**

Date : 19 June 2020

## STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31st DECEMBER 2019

| | Share Capital € | Profit and Loss Account € | Total € |
|---|---|---|---|
| Balance at 1st January 2018 | 1,200 | (6,175) | (4,975) |
| **Comprehensive income** | | | |
| Profit for the year | - | 2,478,859 | 2,478,859 |
| **Balance at 31st December 2018** | 1,200 | 2,472,684 | 2,473,884 |
| Balance at 1st January 2019 | 1,200 | 2,472,684 | 2,473,884 |
| **Comprehensive income** | | | |
| Profit for the year | - | 2,099,649 | 2,099,649 |
| **Balance at 31st December 2019** | 1,200 | 4,572,333 | 4,573,533 |

The notes on pages 11 to 28 are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31st DECEMBER 2019

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| **Cash flows from operating activities** | | |
| Net profit before taxation | 3,102,645 | 3,735,219 |
| Adjustments for: | | |
| Investment income | (102,537) | (106,338) |
| Interest expenses | 1,211,454 | 1,162,263 |
| **Operating profit before working capital changes** | 4,211,562 | 4,791,144 |
| Trade and other receivables | (7,477,423) | (12,918,416) |
| Inventory | 863,525 | 1,914,805 |
| Creditors | 1,763,424 | 5,212,168 |
| **Cash generated from operations** | (638,912) | (1,000,299) |
| Interest payable | (1,211,454) | (1,162,263) |
| Income tax paid | (1,002,995) | (1,256,360) |
| *Net cash used in operating activities* | (2,853,361) | (3,418,922) |
| **Cash flows from investing activities** | | |
| Investment income | 102,537 | 106,338 |
| *Net cash from investing activities* | 102,537 | 106,338 |
| **Cash flows from financing activities** | | |
| Shareholders' loans | (21,292) | 21,292 |
| Related parties | 2,948,920 | 3,878,329 |
| Other loans | (130,265) | (100,633) |
| *Net cash from financing activities* | 2,797,363 | 3,798,988 |
| **Movement in cash and cash equivalents** | 46,539 | 486,404 |
| **Cash and cash equivalents at beginning of the year** | 500,557 | 14,153 |
| **Cash and cash equivalents at end of the year (note 12)** | 547,096 | 500,557 |

The notes on pages 11 to 28 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

### 1.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) with the requirements of the the Maltese Companies Act, 1995. The financial statements are prepared under the historical cost convention, except as disclosed in the accounting policies below .

***COVID-19 Pandemic***

Following the developments, after the balance sheet date, of events pertaining to the COVID-19 pandemic, which is deemed to be a non-adjustable subsequent event, the Company prepared cash flow projections which factor for possible strain on the property market to assess the impact that the pandemic may have on the profitability, liquidity and going concern of the Group. The financial results and financial position of the company reported in these financial statements for the year ended 31 December 2019 have not been impacted by these events.

However the COVID-19 pandemic has caused disruption to businesses and economic activity which has also been reflected in volatility in the property market. The Directors consider that it is premature to forecast the impact of the pandemic on the financial and operational performance of the Company itself, more so since developments continue to unfold daily. Whilst the Directors believe that the pandemic will affect sales of property during 2020, they are confident that the Company has in place robust financial fundamentals and proper resources to enable it to meet the challenges that the pandemic may present.

Based on the outcome of, the Directors and senior management consider the going concern assumption in the preparation of the financial statements as appropriate as at the date of authorisation and believe that no material uncertainty that may cast significant doubt about the company's and the group's ability to continue as a going concern exists as at that date.

*Critical accounting estimates and judgements*

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires directors to exercise their judgements in the process of applying the company's accounting policies. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

*Standards, interpretations and amendments to published standards effective in 2019*

The company has not adopted any new standards or amendments that have a significant impact on the company's results or financial position. The following standards became effective for annual periods beginning on or after 1 January 2019:

## NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

### 1 Summary of significant accounting policies

### 1.1 Basis of preparation - continued

*IFRS 16 - Leases*

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The new Standard requires lessees to recognise a right-of-use asset and related lease liability in operating lease agreements except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. After considering the nature of the company's business activities, it was concluded that IFRS 16 had no impact on the company's results and financial position.

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the company*

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the company.

Management anticipates that all relevant pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncement. The company does not expect that new standards, interpretations and amendments will have a material impact on the company's financial statements.

*Going concern*

The company's principal activity is the development of residential immovable property for resale. The company's financial results are dependant on timely completion of the property development projects and on the proceeds generated from the sale of immovable properties.

In these financial statements the directors of the Company have referred to cash flow forecasts of the company for periods after 1st January 2020. The cash flow forecast assumes that the company will complete the residential properties in a timely manner and generate the projected revenue from the sales of these properties. The directors have assessed the impact resulting from the Covid-19 pandemic on such projections.

Based on the outcome of cash flow projections which factor for possible strain on the property market, the Directors consider the going concern assumption in the preparation of the financial statements as appropriate. The financial statements, however, do not include any adjustments in the event that the forecast and assumptions as set out above do not materialise as planned.

### 1.2 Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

## 1 Summary of significant accounting policies

### 1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in these Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These Financial Statements are presented in euro, which is the company's functional currency and presentation currency.

(b) Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary items, such as equities, are reported as part of the fair value gain or loss.

### 1.4 Financial assets

#### 1.4.1 Classification

The Company classifies it financial assets as measured at amortised cost, as designated at fair value through other comprehensive income (FVOCI) and as designated at fair value through profit or loss (FVTPL). The classification is based on the business model in which a financial asset is managed and its contractual cash flows.

#### 1.4.2 Recognition and measurement

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

i. the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principle and Interest ("SPPI").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

i. the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**1 Summary of significant accounting policies**

**1.4 Financial assets - (continued)**

**1.4.3 Impairment**

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

*Expected credit loss model*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**1 Summary of significant accounting policies**

**1.4 Financial assets - (continued)**

**1.4.3 Impairment - (continued)**

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

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

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

*Simplified approach model*

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

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the liability of the customers to settle the receivable. Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

**1.5 Share Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**1.6 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**1.7 Provisions**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

### 1 Summary of significant accounting policies

### 1.8 Revenue and cost recognition

Sales of property are recognised when the significant risks and rewards of ownership of the property being sold effectively transferred to the buyer. This is generally considered to occur at the later of the contract of sale and the date when all the company's obligations relating to the property are completed and the possession of the property can be transferred in the manner stipulated by the contract of sale. Amounts received in respect of sales that have not yet been recognised in the financial statements, due to the fact that the significant risks and rewards of ownership still rest with the company, are treated as payments received on account and presented within trade and other payable.

Other operating income consisting of the following is recognised on an accruals basis:
Interest
Dividends receivable are accounted for on a cash basis

Costs are recognised when the related goods and services are sold, consumed or allocated, or when their future useful lives cannot be determined.

### 1.9 Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of property are capitalised as part of the cost of the project and are included in its carrying amount. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare any distinct part of the project for its sale or intended use is completed. Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment or investment property are capitalized as part of its cost. Borrowing costs are capitalized which acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended. All other borrowing costs are recognized as an expense in the profit and loss account in the period as incurred.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

## 1 Summary of significant accounting policies

### 1.10 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 1.11 Other financial liabilities

Other financial liabilities are recognized initially at fair value of proceeds received, net of transaction costs incurred. Other financial liabilities are subsequently measured at amortised cost using the effective interest method unless the effect of discounting is immaterial. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of other borrowings is recognised in profit or loss over the term of the borrowings, unless the interest on such borrowings is capitalised in accordance with the company's accounting policy on borrowing costs.

### 1.12 Inventory - Development project

The main object of the Company is the development of land acquired for development and resale. This development is intended in the main for resale purposes, and is accordingly classified in the financial statements as Inventory. Any elements of a project which are identified for business operation or long-term investment properties are transferred at their carrying amount to Property, plant and equipment or investment properties when such identification is made and the cost thereof can reliably be segregated.

The development is carried at the lower of cost and net realisable value. Cost comprises the purchase cost and net realisable value. Cost comprises the purchase cost of acquiring the land together with other costs incurred during its subsequent development, including:

(i) The cost incurred on development works, including demolition, site clearance, excavation, construction, etc., together with the costs of ancillary activities such as site security.

(ii) The cost of various design and other studies conducted in connection with the project, together with all other expenses incurred in connection therewith.

(iii) Any borrowing costs, including imputed interest, attributable to the development phases of the project.

The purchase cost of acquiring the land represents the cash equivalent of the contracted price. This was determined at date of purchase by discounting to present value the future cash outflows comprising the purchase consideration.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

## NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

### 1 Summary of significant accounting policies

### 1.13 Trade and other receivables

Trade receivables are amounts due from customers for units sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the nominal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and other direct expenses.

When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against selling and other direct expenses in the income statement.

### 1.14 Cash and cash equivalents

Cash and cash equivalents as shown in the cashflow statement comprise cash in hand and deposits repayable on demand less bank overdrafts. Bank overdrafts are included in the statement of financial position as borrowings under current liabilities.

## NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

### 1 Summary of significant accounting policies

### 1.15 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

### 1.16 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

## 2 Financial risk management

### 2.1 Financial risk factors

The company's activities are potentially exposed to a variety of risks: market risk, economic risk, counter-party risk, credit risk and liquidity risk. Where possible, the board provides principles for overall risk management, as well as policies to mitigate these risks in the most prudent way.

*(i) The company is subject to market and economic conditions generally*

The company is subject to the general market and economic risks that may have a significant impact on the projects of the subsidiaries, the timely completion of the said projects and budgetary constraints. These include factors such as the state of the local property market, inflation, and fluctuations in interest rates, exchange rates, property prices and other economic and social factors affecting demand for real estate generally. If general economic conditions and property market conditions experience a downturn which is not contemplated in the company's planning during the construction and completion of the projects, this shall have an adverse impact on the financial condition of the company and the ability of the Company to meet its obligations.

*(ii) The property market is a very competitive market that can influence the sales of units in the Projects*

The real estate market in Malta is very competitive in nature. An increase in supply and/or a reduction in demand in the property segments in which the company operates and targets to sell the remaining units in stock and the properties being developed, may cause sales of units forming part of the projects to sell at prices which are lower than is being anticipated by the company or that sales of such units are in fact slower than is being anticipated. If these risks were to materialise, particularly if due to unforeseen circumstances there is a delay in the tempo of sales envisaged by the company, they could have a material adverse impact on the company and the Issuer's ability to meet its obligations.

*(iii) The company depends on third parties in connection with its business, giving rise to counterparty risks*

The company relies upon third-party service providers such as architects, building contractors and suppliers for the construction and completion of each of the projects of its subsidiaries. The company has engaged the services of third party contractors for the development of the projects including, excavation, construction and finishing of the developments in a timely manner and within agreed cost parameters. This gives rise to counter-party risks in those instances where such third parties do not perform in line with the company's expectations and in accordance with their contractual obligations. If these risks were to materialise, the resulting development delays in completion could have an adverse impact on the company's businesses, and their respective financial condition, results of operations and prospects, that could have a material adverse impact on the Issuer's ability to meet its obligations.

## NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

### 2 Financial risk management - continued

### 2.1 Financial risk factors - continued

*(iv) Material risks relating to real estate development may affect the economic performance and value of the Projects*

There are several factors that commonly affect the real estate development industry, many of which are beyond the company's control, and which could adversely affect the economic performance and value of the company's projects. Such factors include:

- changes in European and global economic conditions;
- changes in the general economic conditions in Malta;
- general industry trends, including the cyclical nature of the real estate market;
- changes in local market conditions, such as an oversupply of similar properties;
- a reduction in demand for real estate or change of local preferences and tastes;
- possible structural and environmental problems;
- changes in the prices and supply of raw materials, building materials;
- acts of nature that may damage any of the properties or delay development thereof

*(v) The company may be exposed to environmental liabilities attaching to real estate property*

The company may become liable for the costs of removal, investigation, or remediation of any hazardous or toxic substances that may be located on, or in or which may have migrated from, a property owned or occupied by it, which costs may be substantial. The company may also be required to remove or remedy any hazardous substances that it causes or knowingly permits at any property that it owns or may in future own. Laws and regulations, which may be amended over time, may also impose liability for the presence of certain materials or substances or the release of certain materials or substances into the air, land or water or the migration of certain materials or substances from a real estate investment, including asbestos, and such presence, release or migration could form the basis for liability to third parties for personal injury or other damages. These environmental liabilities, if realised, could have an adverse effect on the company's operations and financial position.

*(vi) Property valuations may not reflect actual market values*

The valuations of the properties on which the share acquisitions were based were prepared by an independent qualified architect in accordance with the valuation standards published by the Royal Institution of Chartered Surveyors (RICS). In providing a market value of the respective properties, the independent architect has made certain assumptions which ultimately may cause the actual values to be materially different from any future values that may be expressed or implied by such forward-looking statements or anticipated on the basis of historical trends as reality may not match the assumptions. There can be no assurance that such property valuations and property-related assets will reflect actual market values.

*(vii) General exposure to funding risks*

The funding of each project is partly dependent on the proceeds from the gradual sale of the units in each development. If the projected sale of the units is not attained or is delayed, the company may well not have sufficient funds to complete all the projects within the projected time-frames or to pay the contractors for works performed.

## NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

### 2 Financial risk management - continued

### 2.1 Financial risk factors - continued - continued

*(viii) The company may be exposed to cost overruns and delays in completion of the projects*

Each of the projects being undertaken by the company is prone to certain risks inherent in real estate development, most notably the risk of completing each project within its scheduled completion date and within the budgeted cost for that development. If either or both risks were to materialise they could have an impact on the financial condition of the respective subsidiary and/or the company, and the ability of the latter to meet its obligations. The risks of delays and cost overruns, could cause actual sales revenues and costs to differ from those projected and which are affected, amongst others, by factors attributable to counter-parties, general market conditions, and competition which are beyond the company's control. Delays in the time scheduled for completion of one or more of the projects may also cause significant delays in the tempo of the sales forecasted by the company for units within the Project or Projects affected by such delay, which can have a significant adverse impact on the company's financial condition and cash flows. Similarly, if any one or more of the projects were to incur significant cost overruns that were not anticipated, the company may have difficulties in sourcing the funding required for meeting such cost overruns and therefore may risk not completing one or more of the projects, which shall have a material adverse impact on the cash flows generated from sales of units in that Project and a material adverse impact on the financial condition of the specific subsidiary and ultimately the Issuer.

*(ix) Foreign Exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. As at reporting date, the Company has no currency risk since all assets and liabilities are denominated in Euro.

*(x) Fair value interest rate risk*

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its interest bearing financial instruments.

As at the reporting date, the Company holds available for sale investments which are limited to Corporate bonds and bank deposits. Borrowings are subject to fixed interest rates and principally consist of the public bonds. Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift at the reporting date to be quite contained.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued - continued**

*(xi) Liquidity risk*

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally trade and other payables and borrowings. Prudent liquidity risk management includes maintaining sufficient cash to ensure the availability of an adequate amount of funding to meet the company's financial obligations and to safeguard the Company's ability to continue as a going concern, in particular to complete of the company's projects in a timely manner.

*(xii) Capital risk management*

The Group's objectives, when managing capital are to safeguard the group's ability to continue as a going concern; to maximise the return to stakeholders through the optimisation of the debt and equity balance and to comply with the requirements of the Prospectus issued in relation to the 4.25% Secured Bonds.

The capital structure consists of items presented within equity in the statement of financial position. The company monitors the level of debt against total capital on an ongoing basis.

*(xiii) Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument leading to a financial loss.

The company is not significantly exposed to credit risk arising in the course of its principal activity relating to the sale of residential units in view of the way promise of sale agreements are handled through receipt of payments on account at established milestones up to delivery. The company monitors the performance of the purchases throughout the term of the related agreement in relation to meeting contractual obligations and ensures that contract amounts are fully settled prior to delivery of the residential unit.

Credit risk mainly arises from financial assets held in the Reserve Account, cash and cash equivalents and available for sale investments. Credit risk relating to financial assets is addressed through careful selection of the issuers of securities bought by the Company. All transactions of such transactions have been carried out solely by the Company's stockbroker (and Sponsor/Manager of the 4.25% 2023 Secured Bonds). During the year under review, the available for sale investments were limited to purchases in reliable Corporate Bonds (€4.56 Million) whilst the cash at Bank was held with local quality financial institutions (€5.86 Million). The Reserve Account is administered by the Security Trustee of the 4.25% 2023 Secured Bonds issue and funds are held in a bank account of high standing.

Furthermore, the company manages its credit risk exposure in relation to receivables from fellow companies in an active manner, at arm's length and with interest charged thereon. The Board retains direct responsibility for affecting and monitoring the investments made by the fellow companies. The Board considers these receivables to be fully performing and recoverable.

## NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

### 3 Turnover

Turnover represents the property held for development and resale, and is made up as follows:

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Sale of property held for Development and resale | 12,952,540 | 16,193,600 |
| | 12,952,540 | 16,193,600 |

### 4 Operating profit

The operating profit for the year is stated after charging :

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Employment costs - Note 5 | 82,970 | 245,417 |
| Audit fees | 3,540 | 3,000 |

### 5 Employees

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Employment costs comprise: | | |
| Wages and salaries | 82,970 | 231,540 |
| Social security costs | - | 13,877 |
| | 82,970 | 245,417 |

The wages and salaries have been recharged from Gap Group Contracting Limited during the current year. Part of these expenses were capitalised, and part of them expensed with administration expenses during the current year.

### 6 Finance costs

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Loan interest to third parties | 105,000 | 102,122 |
| Capitalised interest at 1st January | 1,593,611 | 1,418,991 |
| Capitalised interest during period | 1,272,526 | 1,234,761 |
| Capitalised interest at 31st December | (1,759,683) | (1,593,611) |
| | 1,211,454 | 1,162,263 |

## NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

### 7 Investment income

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Interest from Maltese banks | 173 | 94 |
| Interest received / receivable from related parties | 102,364 | 106,244 |
| | 102,537 | 106,338 |

### 8 Tax expense

The company's income tax charge for the year has been arrived at as follows:

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Current income tax | | |
| Income tax on taxable income at 15% | 26 | 14 |
| Income tax subject to 8% final tax on sales of immovable property | 1,002,970 | 1,256,346 |
| Tax charge | 1,002,996 | 1,256,360 |

The accounting profits and the tax charge for the year are reconciled as shown hereunder:

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Net profit for the year | 3,102,645 | 3,735,219 |
| Income tax thereon at 35% (statutory local income tax rate) | 1,085,926 | 1,307,327 |
| Tax effect of: | | |
| Difference resulting from different tax rates on bank interest received | (35) | (19) |
| Expenses disallowed for tax purposes | 10,144 | 181,599 |
| Difference arising on income subject to 8% withholding tax on sales | (93,039) | (232,547) |
| | 1,002,996 | 1,256,360 |

### 9 Loans and other receivables

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Investment in related party - Gap Luqa Limited - Maturity Date 2021 | 2,533,871 | 2,403,606 |
| | 2,533,871 | 2,403,606 |

The Funds advanced to Gap Luqa Limited bear interest at the rate of 4.5% per annum with effect from 1st January 2017 and is repayable by 2021.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

## 10 Inventory - Development project

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Property cost of land and development costs | 13,640,184 | 14,503,709 |
| | 13,640,184 | 14,503,709 |

## 11 Trade and other receivables

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Other debtors | 17,774 | 17,774 |
| Prepayments | 50,000 | 50,000 |
| Amounts due from group companies | 20,341,839 | 12,873,416 |
| Amounts due to related parties | 9,000 | - |
| | 20,418,613 | 12,941,190 |

All balances receivable from group companies are unsecured, interest free and have no fixed date for repayment.

## 12 Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise:

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| Cash in hand | 150 | 136,940 |
| Cash at bank | 546,946 | 363,617 |
| | 547,096 | 500,557 |

## 13 Share capital

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| **Authorised** | | |
| 1200 Ordinary shares of €1 each | 1,200 | 1,200 |
| | 1,200 | 1,200 |
| **Issued and fully paid up** | | |
| 1200 Ordinary shares of €1 each | 1,200 | 1,200 |
| | 1,200 | 1,200 |

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

## 14 Creditors

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| **Trade and other payables** | | |
| Trade creditors and accruals | 9,127,735 | 6,097,518 |
| Deposits received in advance for contracts of sale | 1,319,500 | 2,607,586 |
| | 10,447,235 | 8,705,104 |
| **Other financial liabilities** | | |
| Amounts due to shareholders | - | 21,292 |
| Amounts due to related companies | 22,097,702 | 19,148,782 |
| Directors' current accounts | 21,293 | - |
| | 22,118,995 | 19,170,074 |
| **Total trade and other creditors** | 32,566,230 | 27,875,178 |

The balances due to shareholders and related parties are unsecured, interest free and repayable on demand

## 15 Transactions with related parties

The Company is owned and jointly controlled by Gap Group p.l.c. and its group of companies. Companies having the same shareholders and directors are considered by the directors to be related parties.

During the course of the year the company entered into transactions with the respective related parties. The related party transactions were :

| | 2019 | 2018 |
|---|---|---|
| | € | € |
| **Loans and receivables** | | |
| Investments in related parties | 2,533,871 | 2,403,606 |
| **Trade and other receivables** | | |
| Amounts due from group companies | 20,341,839 | 12,873,416 |
| **Other financial liabilities** | | |
| Shareholders' current accounts | - | 21,292 |
| Amounts due to related companies | 22,097,702 | 19,148,782 |
| Directors' current accounts | 21,293 | - |

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**16 Contingent liabilities**

The 4.25% Secured Bonds 2023 and the 3.65% Secured Bonds 2022 of GAP Group plc are reedamable at par on the 3rd October 2023 and reedamable at par on the 5 April 2022 consequently. Both bonds are secured for the full nominal value of the Secured Bonds and interest thereon as follows:

1. Second ranking general hypothec over all the assets of GAP group plc and over all thepresent and future property of GAP Group plc.

2. First ranking special hypothec over Block A and Block E of Mellieha Development.

**17 Capital commitments**

As at 31 December 2019, the company has advanced deposits in relation to promise of sale agreements amounting to €1,319,500. These agreements were expected to generate sales amounting to €8,319,875.

**18 Post-Balance Sheet Items**

*Events after the end of the reporting period*

Following the developments, after the balance sheet date, of events pertaining to the COVID-19 pandemic, which is deemed to be a non-adjustable subsequent event, the Company has announced that it is closely monitoring the situation resulting from these events - and the effects which these may have on its stakeholders, operations and performance.

The COVID-19 pandemic has caused disruption to businesses and economic activity which has also been reflected in volatility in the stock and property markets.

The Directors consider that it is premature to forecast the impact of the pandemic on the financial and operational performance of the Company itself, more so since developments continue to unfold on a daily basis. Whilst the Directors believe that the pandemic will affect sales of property during 2020, they are confident that the Company has in place robust financial fundamentals and proper resources to enable it to meet the challenges that the pandemic may present.

Based on the outcome of cash flow projections which factor for possible strain on the property market, the Directors consider the going concern assumption in the preparation of the financial statements as appropriate as at the date of authorisation and believe that no material uncertainty that may cast significant doubt about the company's and the group's ability to continue as a going concern exists as at that date.

**19 Statutory information**

Gap Mellieha (I) Limited is a limited liability company and is incorporated in Malta, with its registered address at Gap Holdings Head Office, Censu Scerri Street, Tigne, Sliema.

The company's parent company is Gap Group p.l.c., a company registered in Malta, with its registered address at Gap Holdings Head Office, Censu Scerri Street, Tigne, Sliema. The financial statements of Gap Mellieha (I) Limited are included in the consolidated financial statements prepared by Gap Group p.l.c.