

Company Announcement
GAP Group plc (the “Company”)

Reference: GGP 018
Announcement Date: 30th April 2019
In terms of Chapter 5 of the Listing Rules LR 5.16.21

The following is a Company Announcement being made by the Company in compliance with Chapter 5.16.21 of the Listing Rules:

QUOTE

The Board of Directors of the Company make reference to Company Announcement Number GGP 17 dated 29th April 2019 and hereby enclose the financial statements for the year ended 31st December 2018 of the Company

UNQUOTE



Paul Attard
Company Secretary

GAP GROUP P.L.C.

GAP GROUP p.l.c.

FINANCIAL STATEMENTS

31st DECEMBER 2018

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31st DECEMBER 2018

The directors present their annual report and the audited parent company financial statements together with the group's consolidated financial statements (the "financial statements") of Gap Group p.l.c. for the year ended 31st December 2018.

Principal Activities

The principal activity of Gap Group p.l.c. is that of a holding company. The principal activity of the Group is to acquire, develop and dispose of immovable property and to construct, develop and enter into arrangements with contractors and other service providers in connection with its properties. The directors do not envisage any changes to the company's and group's principal activities in the foreseeable future.

Review of business

Works on the developments progressed well and within the scheduled time frames. The Group continued to sign new preliminary agreements at a steady pace whilst a good number of contracts from the Mellieha and Gharghur developments were signed during the financial year under review.

The Mellieha development

By the end of the year, the first four blocks (Blocks G, H, I, J) were fully complete. Blocks E and F were in the final stages of construction whilst trade works were approximately half way through. The latter four blocks (Blocks A, B, C, D) were circa 70% complete in terms of construction whilst the finishing works were yet to commence.

It is envisaged that the construction shall be fully completed by latest Q2 2019 whilst the project shall be completed in its entirety by latest Q1 2020.

Out of the planned 152 residential units, 43 units have been sold (contracted) and a further 37 units were subject to a Preliminary Agreement as at 31st December 2018.

This means that 83.33% of the residential units available on the market (Blocks E to J) were committed, out of which 44.79% have been contracted as at 31st December 2018. When compared to the total residential units of the development, 52.63% of the units were committed, out of which 28.29% have been contracted as at 31st December 2018.

The Gharghur Development

By the end of December 2018, the development was fully complete.

During the year, 29 out of the 34 residential units were contracted. The rest of the uncontracted residential units were all committed by way of a preliminary agreement. It is envisaged that the remaining contracts are to be signed by latest Q2 2019.

The Qawra Development (Blocks A, B and C only)

The project was completed in 2017. More residential units were contracted during 2018, bringing the total number of contracted units to 57 (92%). The remaining uncontracted apartments are all subject to preliminary agreements.

The development is a joint venture between GEOM Developments Limited (Blocks A, B and C) and GEOM Holdings Limited (Blocks D, E, F and G), both subsidiaries of the Company. Only Blocks A, B and C have been subject to hypothecation against the issue of the Secured Bonds.

Directors' report - continued

The Żebbuġ Development

The project was completed in 2017 and all the apartments were contracted by the end of Q2 2017. During 2018, the retail shop together with 6 garages were contracted. The remaining stock pertains to 16 garages out of which 10 were subject to a preliminary agreement.

Reserve Account

Pursuant to the bond prospectus, a reserve account had been created by the Security Trustee to cover for the redemption of the bonds. All sales of units forming part of the hypothecated property in favour of the bond issue shall be made on condition that these units are freed from hypothecary rights and privileges against an agreed amount from the sale proceeds being deposited in the said Reserve Account.

By the 31st December 2018, the Reserve Account carried a balance of **€17,682,319** (i.e. 44.21% of the total bond repayment).

Moreover, and unless any of the signed preliminary agreements (pertaining to the hypothecated properties) are rescinded, a further amount of circa €9.3 Million (i.e. a further 23% of the total bond repayment) will eventually be deposited in the Reserve Account upon the eventual signing of the final deeds. This amount represents the aggregate amount to be waived on the units which are presently subject to a preliminary agreement.

Principal risks and uncertainties

Although the development works of the afore-mentioned projects and the securing of new sales by way of preliminary agreements are progressing as planned, the company is still subject to several financial risk factors including the market, economic, counter-party, credit and liquidity risks amongst others that may affect the projects and their timely completion. Where possible, the board provides principles for the overall risk management as well as policies to mitigate these risks in the most prudent way.

Results and dividends

The results for the year ended 31st December 2018 are shown in the income statement on page 13. The Group registered a Profit of €3,172,979 (2017 - €691,944), while the Company registered a Profit of €294,009 (2017 - €225,809).

The directors do not recommend the payment of a dividend.

Directors

The directors of the Company who held office during the year were:

George Muscat (Chairperson)
Paul Attard (Executive Director and Company Secretary)
Adrian Muscat (Executive Director)
Francis Gouder (Non-Executive Director)
Mark Castillo (Non-Executive Director)
Dr Chris Cilia (Non-Executive Director)

The Company's Articles of Association do not require any directors to retire.

The Company's Secretary is Mr Paul Attard.

Directors' report - continued

Statement of Directors' responsibilities

The directors are required by the Companies Act (Chap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the company at the end of each financial year and of the profit or loss of the company for the year then ended. In preparing the financial statements, the directors should:

- Ensure that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the European Union;
- adopt the going concern basis unless it is inappropriate to presume that the company will continue in business;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- report comparative figures corresponding to those of the preceding accounting period.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and which enable the directors to ensure that the financial statements comply with the Companies Act (Chap. 386). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement by the Directors pursuant to Listing Rule 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Going Concern statement pursuant to Listing Rule 5.62

Having reviewed the performance to date and future projected cashflows in relation to the development projects being undertaken by the subsidiaries of the company, the Directors have a reasonable expectation, at the time of approving the financial statements, that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in the preparation of the financial statements.

Directors' report - continued

Post Balance Sheet events

Pursuant to a prospectus published on the 4th of March 2019, Gap Group p.l.c. (the "Company") issued €40,000,000 3.65% Secured Bonds 2022, having a nominal value of €100 per Bond and issued at par (the "New Gap Bonds"). The Bonds were admitted to listing on the Official List of the Malta Stock Exchange on Monday 15 April 2019 and trading commenced on Tuesday 16 April 2019.


The issue of the afore-mentioned bonds was made in two fungible tranches at par ("First Tranche Bonds" and "Second Tranche Bonds"). The First Tranche Bonds were issued to facilitate the conversion of holdings in the €40 million Gap Group p.l.c. 4.25% Secured Bonds 2023 ("Original Bonds") into the First Tranche Bonds; and depending on the rate of conversion from Original Bonds into First Tranche Bonds, for the purpose of raising new capital to fund the development and completion of the development in Luqa through the issue of the Second Tranche Bonds and the settlement of all amounts outstanding under the bank facility granted by MeDirect Bank (Malta) plc to Gap Luqa Limited. The entire issued share capital of the latter, GAP Luqa Limited (formerly Qawra Investments Limited) was acquired by the Company on the 24th of January 2019 by virtue of a share transfer agreement.

On the 5th of April 2019, the Company announced the basis of acceptance for the issue of the said New Gap Bonds. It was reported that the Company received from holders of the Original Bonds an aggregate total of €20,069,000 representing 50.17% of the total value of Original Bonds outstanding as at 4 March 2019 (the "Cut-Off Date"). As a result, the amount of Original Bonds was reduced from €40,000,000 to €19,931,000 and the aggregate issuance of debt securities by the Company following these transactions stood at €59,931,000.

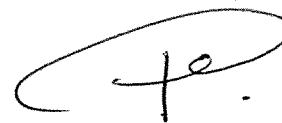
Auditor

A resolution to reappoint Mr. Emanuel P. Fenech F.I.A., A.C.I.B., C.P.A. as auditor of the company will be proposed at the forthcoming annual general meeting.

Approved by the Board of Directors and authorised for issue on 26 April 2019 and signed on its behalf by:



George Muscat
Chairperson



Paul Attard
Director

Gap Holdings Head Office,
Censu Scerri Street,
Tigne,
Sliema SIm 3060

Date : 26 April 2019

Corporate governance - Statement of compliance

1. Introduction

Pursuant to the Listing Rules issued by the Listing Authority of the Malta Financial Services Authority, GAP Group p.l.c. is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance contained in Appendix 5.1 of the Listing Rules.

GAP Group p.l.c. acts as a finance company to the Group and as such has minimal operations. Its primary function is the lending and monitoring of the proceeds of the public bond to the Group. GAP Group p.l.c. has no employees other than the directors and the company secretary.

2. Compliance with the Code

The Board of Directors of GAP Group p.l.c. (The Company) believe in the adoption of the Code and has endorsed it except where the size and/or circumstances of the company are deemed by the Board not to warrant the implementation of specific recommendations.

Additionally, the Board recognises that, by virtue of Listing Rule 5.101, the company is exempt from making available the information required in terms of Listing Rules 5.97.1 to 5.97.3, 5.97.6 to 5.97.8

Moreover, the Board also acknowledges that the requirements emanating from Directive 2014/95/EU as published in Circular 05/16 – Transposition of Directive 2014/95/EU do not apply to the company since it does not classify as a 'large company' under the definition of the Directive.

3. The Board of Directors

The board of directors is responsible for the Company's affairs, for the overall direction of the company and being dynamically involved in supervising the systems of control and financial reporting.

The Board meets at least four times annually and is currently composed of six members, three of whom are independent from the Company or related parties.

As at date of this statement, the Board of Directors is composed as follows:

George Muscat (*Executive Director*)
Paul Attard (*Executive Director and Company Secretary*)
Adrian Muscat (*Executive Director*)
Francis Gouder (*Non-Executive Director*)
Mark Castillo (*Non-Executive Director*)
Dr Chris Cilia (*Non-Executive Director*)

There is no CEO role required in the Company due to the nature of the Company and as such the board carries out the policy decisions regarding the Company.

Corporate governance - Statement of compliance (Continued)

4. Committees

i. Audit Committee

In accordance with the Listing Rules, GAP Group p.l.c. has established an Audit Committee, which terms of reference are based on the principles set out by the said Listing Rules. The Audit Committee is entirely composed of independent, non-executive directors. At present, Francis X. Gouder acts as chairperson, whilst Mark Castillo and Dr Chris Cilia LLD act as members. In compliance with the Listing Rules, Francis X. Gouder is the independent Non-Executive Director who is competent in accounting and auditing matters having previously served in various senior positions in several financial institutions.

The committee's primary object is to assist the board in fulfilling its supervisor and monitoring responsibility by reviewing the company's financial statements and disclosures, monitoring the system of internal control established by management as well as the audit process. The audit committee formally convened four times during the financial period ending 31st December 2018.

ii. Remuneration and Nomination Committees

Under present circumstances, the board does not consider it necessary to appoint a remuneration committee and a nomination committee as decisions on these matters are taken at shareholder level and by the board itself.

Remuneration paid to the Directors by the subsidiaries of the Company for the period 1st January 2018 to 31st December 2018 amounted to €159,530.

iii. Evaluation of the board's performance

Under present circumstances, the board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role as the board's performance is constantly under the scrutiny of the shareholders of the company.

5. Internal Control

While the Board is ultimately responsible for the company's internal controls as well as their effectiveness, authority to operate the company is delegated to the Executive Directors. The company's system of internal controls has been drawn up through the Internal Control Manual to manage risks in the most appropriate manner. Procedures are in place for the Company to control, monitor and assess risks and their implications through ongoing cash flow monitoring reports and strategic plans which are presented to the Executive Directors.

6. Relations with the market

The market and bondholders alike are kept up to date with all relevant information, the Annual Report and Financial statements, as well as, via company announcements made through the Malta Stock Exchange.

7. Institutional shareholders

This principle is not applicable since the company has no institutional shareholders.

Corporate governance - Statement of compliance (Continued)

8. Conflicts of interest

The directors always act in the interest of the Company and its shareholders. If any director has a conflict of interest, he will not be allowed to vote on the matter at hand. Furthermore, the board of directors and management of the company is in compliance with the obligations towards the rules of Insider Dealing.


9. Corporate Social Responsibility

The Group adhered to accepted principles of corporate social responsibility in its day to day practices by acting ethically in the day to day management of the business and strives to improve the quality of life of the workforce as well as of the society at large. The Group also regularly supports charitable causes.

Approved by the Board of Directors and authorised for issue on 26 April 2019 and signed on its behalf by:



George Muscat
Chairperson



Paul Attard
Director

Independent auditor's report

To the Shareholders of Gap Group p.l.c.

Report on the Audit of the Financial Statements for the year ended 31st December 2018.

Opinion

I have audited the parent company financial statements and the consolidated financial statements (the "financial statements") of Gap Group plc (the "Company") and its subsidiaries (together, the "Group"), set on pages 13 to 44 which comprise the statement of financial position as at 31st December 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements including 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 Group p.l.c. and its Group as at 31st December 2018, and of the Company's and its Group'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 of the Group 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.

My audit approach

Scope and timing of the Group audit engagement

I identified the characteristics of the group audit engagement and defined the scope of this engagement. The group audit engagement included the audit of the listed company and the audits of the companies within the group.

An audit strategy was set up to determine how the audits were to be conducted, setting out the scope, timing and direction of the audit. The audit strategy guided me for the development of the audit plan which contained my detailed responses to my risk assessment and to specific risks identified in the process. The risks were identified and discussed at the planning stage with the audit team and followed up throughout.

An audit timetable was drawn up at the beginning of the audit and communicated with management to abide by the tight deadline represented by reporting requirements of the listed entity to comply with corporate governance and listed rules.

Meetings between the audit engagement partner and the team were held on a weekly basis to discuss issues that arose during the audit so that they were tackled immediately and when necessary, the audit plan was amended accordingly. The team chosen for this engagement was a more senior team taking into consideration the tight deadline and complexity of the engagements in question. More resources were allocated to the group audit to ensure that all necessary audit work was completed and could be reviewed and discussed with partner to meet the deadline.

Levels of materiality and methodology used for the group audit engagement

The overall group materiality amounted to €552,000 which represents 1% of the consolidated total assets. I chose total assets as the accepted point of reference to the users of the financial statements as it is most commonly used. I chose 1% as it is within the range of acceptable quantitative materiality thresholds in auditing standards.

In line with the levels of materiality I agreed with the audit committee that I would report to them any qualitative misstatements greater than the materiality threshold of €55,000.

Independent auditor's report

To the Shareholders of Gap Group p.l.c.

Key Audit Matter

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements for the current period. These matters are addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. The following is the key audit matter identified.

Valuation of inventory

The Group consists of companies holding immovable property for development and resale. A bond was issued to the public to enable the Company to acquire shares of property development companies and to provide further finance to the group companies to carry on further development. At 31 December 2018, the carrying amount of immovable property held by the Group as inventory represented 41% of total assets.

At Company level, the carrying amount of inventory represents the cost of the land, development costs and borrowing costs.

At Group level, the acquisition method of accounting is applied to account for business combinations. Identifiable assets and liabilities assumed by the business combination are therefore initially measured at their fair values at the acquisition date. Therefore, at consolidated group level, inventory cost represents the fair value of inventory held by the acquired subsidiary as at date of acquisition of subsidiary, together with additional development and borrowing costs incurred following date of acquisition.

At year end, the directors assess whether inventory is carried at the lower of cost and net realisable value.

Inventory valuation has been identified as a key audit matter because of the significance of the carrying value of inventories in the Group's Statement of Financial Position and the judgemental nature of the assumptions used by the directors in the assessment described above.

My audit procedures included:

- Audit procedures carried out to verify cost included testing over source documentation, including vouching costs incurred to date, a review of labour costs and a re-calculation of borrowing costs.
- An assessment was made of the reasonableness of cost of property reversed from inventory upon the sale of property.
- Audit procedures carried out in relation to net realisable value included a comparison of estimated selling price to recent market transactions and to similar property on the market and an assessment of the reasonableness of estimated costs to completion.
- I also evaluated the appropriateness as audit evidence of the valuation carried out by an independent valuer.
- I evaluated the adequacy of related disclosures in the financial statements.

Based on my audit work I concluded that the inventories were fairly stated.

Independent auditor's report

To the Shareholders of Gap Group p.l.c.

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, the Statement of Compliance with the Principles of Good Corporate Governance 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). Pursuant to listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, I am required to review the directors' statement in relation to going concern.

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;
- The Directors' Report has been prepared in accordance with applicable legal requirements; and
- I have nothing to report in relation to the statement on going concern.

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 and other information that we obtained prior to the date of the auditor's report. We have nothing to report in this regard.

Responsibilities of the Directors and the Audit Committee

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.

The Audit Committee is responsible for overseeing the Company's and the Group's financial reporting process.

Independent auditor's report

To the Shareholders of Gap Group p.l.c.

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 obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- 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.

I communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Audit Committee with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, I determine those matters that are of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report

To the Shareholders of Gap Group p.l.c.

Report on Other Legal and Regulatory Requirements

Report on the Statement of Compliance with the Principles of Good Corporate Governance

Pursuant to Listing Rule 5.94 issued by the Malta Financial Services Authority, in its capacity as the Listing Authority in Malta, the directors are required to include in the Company's annual financial report a Corporate Governance Statement explaining the extent to which they have adopted the Code of Principles of Good Corporate Governance set out in Appendix 5.1 to Chapter 5 of the Listing Rules, and the effective measures that they have taken to ensure compliance with those principles. The Corporate Governance Statement of Compliance is to contain at least the information set out in Listing Rule 5.97.

My responsibility is laid down by Listing Rule 5.98, which requires the auditor to include a report to shareholders on the Corporate Governance Statement in the Company's annual financial report.

I read the Statement of Compliance and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. My responsibilities do not extend to considering whether this Statement is consistent with any other information included in the annual report.

I am not required to, and I do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures, or its risk and control procedures.

In my opinion, the Statement of Compliance set out on pages 5 to 7 has been properly prepared in accordance with the requirements of Listing Rules issued by the Malta Listing Authority.

Report on Other matters relating to the Companies Act

I am also responsible under the Companies Act (Cap. 386), 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.

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

I was appointed as auditor of the Group on 1 June 2016. My appointment has been renewed annually by resolution representing a total period of uninterrupted engagement period of 3 years.

My opinion on the audit of the financial statements is consistent with the additional report to the audit committee.

I have not provided any of the prohibited services as set out in the Accountancy Profession Act.



Emanuel P. Fenech F.I.A., A.C.I.B., C.P.A.
Certified Public Accountant

1, Tal-Providenza Mansions
Main Street
Balzan
Malta
Date: 26 April 2019

INCOME STATEMENT

FOR THE YEAR ENDED 31st DECEMBER 2018

	Notes	Group		Company	
		2018	2017	2018	2017
		€	€	€	€
Turnover	3	30,444,300	14,981,900	-	-
Cost of sales		(21,747,190)	(11,154,162)	-	-
Gross Profit		8,697,110	3,827,738	-	-
Administrative expenses		(1,701,121)	(934,934)	(46,994)	(9,336)
Operating profit / (loss)	4	6,995,989	2,892,804	(46,994)	(9,336)
Finance costs	6	(2,258,581)	(1,460,001)	(1,810,898)	(1,810,898)
Investment income	7	683,223	349,499	2,128,725	2,086,029
Profit before taxation		5,420,631	1,782,302	270,833	265,795
Tax expense	8	(2,439,584)	(1,196,960)	(56,824)	(39,986)
Profit for the year		2,981,047	585,342	214,009	225,809

STATEMENT OF COMPREHENSIVE INCOME

Other comprehensive income

Reserve arising on revaluation of investments and amortised cost of interest free long term loan receivable	191,932	106,602	80,000	-
Other comprehensive income for the year	191,932	106,602	80,000	-
Total Comprehensive income	3,172,979	691,944	294,009	225,809
Earnings per share	1.19	0.23	0.09	0.09

The notes on pages 18 to 44 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2018

	Notes	Group		Company	
		2018	2017	2018	2017
		€	€	€	€
ASSETS					
Non-current assets					
Property, plant and equipment	10	29,788	10,331	6,250	8,250
Investment in subsidiaries	11	-	-	21,242,032	21,242,032
Investments	12	4,087,500	10,371,800	2,580,000	8,864,300
Loans and other receivables	13	13,615,837	10,761,453	8,862,120	6,220,301
		<u>17,733,125</u>	<u>21,143,584</u>	<u>32,690,402</u>	<u>36,334,883</u>
Current assets					
Inventory - Development project	15	22,786,301	33,700,954	-	-
Trade and other receivables	16	346,102	819,295	21,708,992	20,531,267
Cash and bank balances	17	14,331,301	1,202,707	13,710,104	3,014
Income Tax refundable		39,804	39,773	-	-
		<u>37,503,508</u>	<u>35,762,729</u>	<u>35,419,096</u>	<u>20,534,281</u>
Total Assets		<u>55,236,633</u>	<u>56,906,313</u>	<u>68,109,498</u>	<u>56,869,164</u>

STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2018 (continued)

	Notes	Group		Company	
		2018 €	2017 €	2018 €	2017 €
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	18	2,500,000	2,500,000	2,500,000	2,500,000
Subordinated shareholders' loan - Quasi equity	20	2,500,000	2,500,000	2,500,000	2,500,000
Revaluation reserve	21	400,060	208,128	-	-
Retained earnings		4,469,063	1,488,016	524,958	230,948
Total equity		9,869,123	6,696,144	5,524,958	5,230,948
Non-current liabilities					
Other financial liabilities	23	4,907	4,907	-	-
Debt securities in issue	22	39,473,234	39,362,336	39,473,234	39,362,336
Total non-current liabilities		39,478,141	39,367,243	39,473,234	39,362,336
Current liabilities					
Bank overdraft and loans	22	7,339	22,067	-	-
Trade and other payables	23	5,770,922	10,818,139	7,120,471	7,112,219
Other financial liabilities	23	111,108	2,720	15,990,649	5,163,456
Taxation due		-	-	186	205
Total current liabilities		5,889,369	10,842,926	23,111,306	12,275,880
Total liabilities		45,367,510	50,210,169	62,584,540	51,638,216
Total equity and liabilities		55,236,633	56,906,313	68,109,498	56,869,164

The notes on pages 18 to 44 are an integral part of these financial statements.

The financial statements on pages 13 to 44 were approved by the board of directors and were signed on its behalf by:


George Muscat
Chairperson


Paul Attard
Director

Date : 26 April 2019

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31st DECEMBER 2018

	Note	Share Capital €	Quasi Equity €	Revaluation Reserve €	Profit and Loss Account €	Total €
Group						
Balance at 1st January 2017		2,500,000	2,500,000	101,526	902,674	6,004,200
Comprehensive income						
Profit for the year		-	-	-	691,944	691,944
Revaluation reserve	21	-	-	106,602	(106,602)	-
Balance at 31st December 2017		2,500,000	2,500,000	208,128	1,488,016	6,696,144
Balance at 1st January 2018		2,500,000	2,500,000	208,128	1,488,016	6,696,144
Comprehensive income						
Profit for the year		-	-	-	3,172,979	3,172,979
Revaluation reserve	21	-	-	191,932	(191,932)	-
Balance at 31st December 2018		2,500,000	2,500,000	400,060	4,469,063	9,869,123
Company						
Balance at 1st January 2017		2,500,000	2,500,000	-	5,140	5,005,139
Comprehensive income						
Profit for the year		-	-	-	225,809	225,809
Balance at 31st December 2017		2,500,000	2,500,000	-	230,949	5,230,948
Balance at 1st January 2018		2,500,000	2,500,000	-	230,949	5,230,948
Comprehensive income						
Profit for the year		-	-	-	294,009	294,009
Balance at 31st December 2018		2,500,000	2,500,000	-	524,958	5,524,957

The notes on pages 18 to 44 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31st DECEMBER 2018

	Group		Company	
	2018	2017	2018	2017
	€		€	
Cash flows from operating activities				
Net profit before taxation	5,420,631	1,782,302	270,833	265,795
Adjustments for:				
Depreciation	9,043	3,093	2,000	1,750
Investment income	(683,223)	(349,499)	(2,128,725)	(2,086,029)
Interest expenses	2,258,581	1,460,001	1,810,898	1,810,898
Fair value gain on interest-free long term receivable	191,932	106,602	80,000	-
Operating profit before working capital changes	7,196,964	3,002,499	35,006	(7,586)
Trade and other receivables	(46,692)	498,289	88,229	(1,696,533)
Inventory - Development Project	10,914,653	512,251	-	-
Trade and other payables	(5,877,564)	1,820,396	8,252	(31,329)
Cash generated from operations	12,187,361	5,833,435	131,487	(1,735,448)
Interest payable	(2,258,581)	(1,460,001)	(1,810,898)	(1,810,898)
Income tax paid	(2,439,615)	(1,123,166)	(56,843)	(42,548)
<i>Net cash from / (used in) operating activities</i>	<u>7,489,165</u>	<u>3,250,268</u>	<u>(1,736,254)</u>	<u>(3,588,894)</u>
Cash flows from investing activities				
Purchase of fixed assets	(28,500)	(10,000)	-	(10,000)
Investments (net)	6,284,300	228,200	6,284,300	1,735,700
Investment income	683,223	349,499	2,128,725	2,086,029
<i>Net cash from / (used in) investing activities</i>	<u>6,939,023</u>	<u>567,699</u>	<u>8,413,025</u>	<u>3,811,729</u>
Cash flows from financing activities				
Shareholders' loans	53,192	2,720	-	1,200
Related parties	1,405,428	(132,707)	9,561,239	3,551,837
Bonds and debentures	110,898	51,929	110,898	51,929
Payment to preference shareholder	-	(2,498,001)	-	-
Other loans	(2,854,384)	(3,762,474)	(2,641,819)	(5,908,846)
<i>Net cash (used in) / from financing activities</i>	<u>(1,284,866)</u>	<u>(6,338,533)</u>	<u>7,030,318</u>	<u>(2,303,880)</u>
Movement in cash and cash equivalents	13,143,322	(2,520,566)	13,707,089	(2,081,045)
Cash and cash equivalents at beginning of the year	1,180,640	3,701,206	3,015	2,084,060
Cash and cash equivalents at end of the year (note 17)	<u>14,323,962</u>	<u>1,180,640</u>	<u>13,710,104</u>	<u>3,015</u>

The notes on pages 18 to 44 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

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 .

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 2018

In 2018, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies impacting the financial performance and position.

IFRS 9 – Financial instruments

IFRS 9 replaced the existing guidance in IASS 39 Financial Instruments: Recognition and Measurement. The Group adopted IFRS 9 on 1 January 2018, which is the date of initial application of the standard. IFRS 9 has resulted in changes in accounting policies related to the classification and measurement and impairment of financial assets.

(a) Classification of financial assets under IFRS 9

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

The transition from IAS 39 to IFRS 9 did not have a material impact on the Group's measurement models applied to its financial assets. The differences between IAS 39 and IFRS 9 consist solely of reclassifications. Reclassification adjustments reflect the movement of balances between categories of financial assets with no impact to shareholders' equity. There is no change to the carrying value of financial instruments as a result of reclassifications.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

1 Summary of significant accounting policies

1.1 Basis of preparation - continued

IFRS 9 – Financial instruments (continued)

(a) Classification of financial assets under IFRS 9 (continued)

The application of IFRS 9 resulted in the reclassification of financial assets categorised as 'loans and receivables' under IAS 39 to 'financial assets at amortised cost' under IFRS 9. These assets comprise loans, trade and other receivables and cash and cash equivalents. The new classification requirements did not have a material impact on the Group's accounting for loans and receivables, which continued to be measured at amortised cost upon the adoption of IFRS 9 and they did not have an impact on the classification of the Group's financial liabilities. The changes in the classification accordingly had no impact on the Group's equity and tax balances.

The application of IFRS 9 also resulted in the reclassification of financial assets categorised as 'available-for-sale' under IAS 39 to 'financial assets designated at FVOCI' under IFRS 9. The new classification requirements did not have a material impact on the Group's accounting of these financial instruments. Accordingly, the changes in the classification had no impact on the Group's equity and tax balances.

(b) Impairment

From 1 January 2018, the Group had to assess on a forward-looking basis the expected credit losses 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. IFRS 9 replaced the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to the Group's financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

While cash and cash equivalents are subject to impairment requirements of IFRS 9, the expected losses are immaterial.

For loans and trade and other receivables, the Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for all trade receivables. The impact on the Group of this change in the impairment model and the loss allowance is also immaterial in view of the high quality of the counterparties to which the Group is exposed to credit risk.

IFRS 15 - Revenue from contracts with customers

The Group has initially applied IFRS 15 from 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 - Revenue, IAS 11 - Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. In implementing IFRS 15 there has been no changes to revenue recognition, measurement and disclosure and therefore no impact on opening 'statement of financial position' or 'profit or loss' categories.

Standards, interpretations and amendments to published standards that are not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the Group's accounting periods beginning after 1 January 2018. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

1 Summary of significant accounting policies

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.

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 Group classifies its 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.

Accounting policy applied until 31 December 2017

Classification

The Group classified its financial assets in the following categories: loans and receivables and available-for-sale investments. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They arose when the Company provided money, goods or services directly to a debtor with no intention of trading the asset. They were included in current assets, except for maturities greater than twelve months after the end of the reporting period. These were classified as non-current assets. The Company's loans and receivables comprised trade and other receivables and cash and cash equivalents in the statement of financial position.

Available-for-sale financial assets were non-derivatives that were either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which could be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices were classified as available-for-sale investments. They were included in current assets unless the asset matures or management intended to dispose of it after twelve months from the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

1 Summary of significant accounting policies

1.4 Financial assets - (continued)

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 Group 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 Group 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.

*Accounting policy applied until 31 December 2017
Recognition and measurement*

The Company recognised a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets were recognised on settlement date, which was the date on which an asset was delivered to or by the Company. Any change in fair value for the asset to be received was recognised between the trade date and settlement date in respect of assets which were carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

Financial assets were initially recognised at fair value plus transaction costs. Available-for-sale financial assets were subsequently carried at fair value. Loans and receivables were subsequently carried at amortised cost using the effective interest method. Amortised cost was the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets were derecognised when the rights to receive cash flows from the financial assets expired or when transferred and the Company had transferred substantially all risks and rewards of ownership or has not retained control of the asset.

When securities classified as available-for-sale were sold or impaired, the accumulated fair value adjustments recognised in equity were included in profit or loss within 'investment and other related income'.

Interest on available-for-sale investments, calculated using the effective interest method was recognised in profit or loss within 'investment and other related income'. Dividends on available-for-sale equity instruments were recognised in profit or loss when the Company's right to receive payments is established.

The fair values of quoted investments were based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These included the use of recent arm's length transactions, reference to other instruments that were substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

1 Summary of significant accounting policies

1.4 Financial assets - (continued)

1.4.3 Impairment

The Group 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.

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 difficulty 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 carrying amount of the assets.

Simplified approach model

For loans and trade and other receivables, the Group 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 2018 or 1 January 2018 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

1 Summary of significant accounting policies

1.4 Financial assets - (continued)

1.4.3 Impairment - (continued)

Accounting policy applied until 31 December 2017

The Company assessed at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets were impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'low event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could have been reliably estimated. The company first assessed whether objective evidence of impairment existed. The criteria that the Company used to determine that there was objective evidence of an impairment loss include:

- *significant financial difficulty of the issuer or obligor;*
- *a breach of contract, such as a default or delinquency in interest or principal payments;*
- *It became probable that the borrower will enter bankruptcy or other financial reorganisation.*

(a) Assets classified as available-for-sale

In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investments below its cost was considered an indicator that the securities were impaired. If objective evidence of impairment existed for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments were not reversed through profit or loss.

(b) Assets classified as loans receivables

All loans receivable were recognised when cash was advanced to the borrowers. Loans receivable were initially recognised at the fair value of cash consideration given or proceeds advanced, plus transaction costs. These financial assets were subsequently carried at amortised cost using the effective interest method. The Company assessed at the end of each reporting period whether there was objective evidence that loans receivable were impaired.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

1 Summary of significant accounting policies

1.5 Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. The Group financial statements include the financial statements of the parent Company and all its subsidiaries.

The company acquired the shares in its subsidiaries during the period ended 31st December 2016. The subsidiaries were acquired at the net asset value of the subsidiaries existing as at 31st December 2015 and adjusted with the increase in the value of the immovable property arising from a revaluation of the immovable property at market value.

In the Company's financial statements investments in subsidiaries are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses. Dividends from investments are recognised in the profit or loss.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value as are the identifiable net assets acquired.

1.6 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.

1.7 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.

1.8 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 2018

1 Summary of significant accounting policies

1.9 Revenue and cost recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of value added tax, returns, rebates and discounts. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met as described below.

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.

1.10 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 2018

1 Summary of significant accounting policies

1.11 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.

1.12 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.

1.13 Property, plant and equipment

All property, plant and equipment are initially recorded at cost and subsequently stated at cost less depreciation.

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. Depreciation is provided for on the straight line method in order to write off cost over the expected useful economic lives of the assets as follows:

	Years
Computer & Off. Equip.	4
Motor Vehicles	5
Furniture & Fittings	10

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each statement of financial position date.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount, and are taken into account in determining operating profit.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

1 Summary of significant accounting policies

1.14 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 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.

As stated in note 1.5 the Group accounts for business combinations using the acquisition method. Accordingly, at group level, the identifiable net assets acquired, including inventory held by the newly-acquired subsidiary, are measured at fair value as at date of acquisition of subsidiary. Therefore, at consolidated group level, inventory cost represents the fair value of inventory held by the acquired subsidiary as at date of acquisition of subsidiary, together with additional development and borrowing costs incurred following date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

1 Summary of significant accounting policies

1.15 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.

1.16 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.

1.17 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 2018

2 Financial risk management

2.1 Financial risk factors

The Group's activities potentially expose it 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 Group is subject to market and economic conditions generally

The Group 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 Group's planning during the construction and completion of the projects, this shall have an adverse impact on the financial condition of the Group 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 Group 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 Group 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 Group, they could have a material adverse impact on the Group and the Issuer's ability to meet its obligations.

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

The Group 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 Group 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 Group'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 Group'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 2018

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 Group's control, and which could adversely affect the economic performance and value of the Group'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, supply of raw materials
- acts of nature that may damage any of the properties or delay development thereof

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

The Group 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 Group 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 Group'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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

2 Financial risk management - continued

2.1 Financial risk factors - continued

(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 Group may well not have sufficient funds to complete all the projects within the projected time-frames or to pay the contractors for works performed.

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

Each of the projects being undertaken by the Group 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 a significant impact on the financial condition of the respective subsidiary and/or the Group, 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 Group'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 Group for units within the Project or Projects affected by such delay, which can have a significant adverse impact on the Group'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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

2 Financial risk management - continued

2.2 Financial risk factors - continued

(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.

(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 Group'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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

2 Financial risk management - continued

2.3 Financial risk management - continued

(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 Group 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 Group 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. 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 purchased in reliable Corporate Bonds (€4.06 Million) whilst the cash at Bank was held with three local quality financial institutions (€13.71 Million). The Reserve Account is administered by the Security Trustee of the 4.25% 2023 Secured Bonds issue and funds (€513K) are held in a bank account of high standing.

Furthermore, the Group manages its credit risk exposure in relation to receivables from fellow companies in an active manner, at arm's length and with accrued interest charges 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.

3 Turnover

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

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Sale of property held for Development and resale	30,444,300	14,981,900	-	-
	30,444,300	14,981,900	-	-
	30,444,300	14,981,900	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

4 Operating profit / (loss)

The operating profit / (loss) for the year is stated after charging :

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Directors' fees	159,530	125,120	-	-
Employment costs - Note 5	510,719	394,528	-	-
Depreciation - Note 10	9,043	3,093	2,000	1,750
Audit fees	31,550	31,550	5,950	5,850

5 Employees

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Employment costs comprise:				
Wages and salaries - administration	145,556	109,863	-	-
Wages and salaries - allocated to cost of sales	336,253	261,619	-	-
Social security costs - administration	7,660	6,816	-	-
Social security costs - allocated to cost of sales	21,250	16,230	-	-
	<u>510,719</u>	<u>394,528</u>	<u>-</u>	<u>-</u>

The average weekly number of persons employed by the group during the year was:

	<u>18</u>	<u>15</u>	<u>-</u>	<u>-</u>
Directors' Remuneration	12,000	12,000	-	-
Directors' salary - allocated to cost of sales	147,530	113,120	-	-
	<u>159,530</u>	<u>125,120</u>	<u>-</u>	<u>-</u>

6 Finance costs

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Bond interest and amortisation costs	102,122	97,912	1,810,898	1,810,898
Capitalised interest: Inventories - Property development				
At 1st January	2,670,526	1,825,122	-	-
Interest capitalised during year	1,840,712	2,207,493	-	-
At 31st December	(2,354,779)	(2,670,526)	-	-
Charge of capitalised interest for the year	2,156,459	1,362,089	-	-
	<u>2,258,581</u>	<u>1,460,001</u>	<u>1,810,898</u>	<u>1,810,898</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

7 Investment income

	Group		Company	
	2018	2017	2018	2017
	€	€	€	1
Interest from Maltese banks	381	581	15	403
Interest receivable from related parties	363,080	63,613	1,872,698	1,820,820
Securities interest - from local sources	319,762	285,305	256,012	264,806
	<u>683,223</u>	<u>349,499</u>	<u>2,128,725</u>	<u>2,086,029</u>

8 Tax expense

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

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Current income tax				
Income tax on the taxable profits for the year at 35%	5,187	205	5,187	205
Income tax on taxable income at 15%	61,254	40,452	51,637	39,781
Income tax subject to 8% final tax on sales of immovable property	2,373,143	1,156,303	-	-
Tax charge	<u>2,439,584</u>	<u>1,196,960</u>	<u>56,824</u>	<u>39,986</u>

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

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Net profit for the year	<u>5,420,631</u>	<u>1,782,302</u>	<u>270,833</u>	<u>265,795</u>
Income tax thereon at 35%	1,897,221	623,806	94,792	93,028
Deferred tax not accounted for	3,106	42,036	-	-
Difference resulting from different tax rates on bank interest received	(50,792)	(53,940)	(37,968)	(53,042)
Expenses disallowed for tax purposes	257,792	34,123	-	-
Difference arising on income subject to 8% withholding tax on sales	(753,718)	(323,658)	-	-
Difference arising on adjustment to revaluation of inventories	1,085,975	880,259	-	-
Exempt income	-	(5,666)	-	-
	<u>2,439,584</u>	<u>1,196,960</u>	<u>56,824</u>	<u>39,986</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

9 Fair value adjustment

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Difference arising on amortised cost on interest free loan given to Gap Holdings Limited (note 13)				
Amount as at 31st December	2,350,111	2,238,179	-	-
Amount as at 1st January	(2,238,179)	(2,131,577)	-	-
	<u>111,932</u>	<u>106,602</u>	<u>-</u>	<u>-</u>

10 Property, plant and equipment

GROUP

	Computer & Off. Equip.	Motor Vehicles	Furniture & Fittings	Total
	€	€	€	€
Cost				
At 1st January 2018	10,592	16,500	437	27,529
Additions during the year	-	28,500	-	28,500
At 31st December 2018	<u>10,592</u>	<u>45,000</u>	<u>437</u>	<u>56,029</u>
Depreciation				
At 1st January 2018	10,592	6,300	306	17,198
Charge for the year	-	9,000	43	9,043
At 31st December 2018	<u>10,592</u>	<u>15,300</u>	<u>349</u>	<u>26,241</u>
At 31st December 2018	<u>-</u>	<u>29,700</u>	<u>88</u>	<u>29,788</u>
At 31st December 2017	<u>-</u>	<u>10,200</u>	<u>131</u>	<u>10,331</u>

COMPANY

	Motor Vehicles	Total
	€	€
Cost		
At 1st January 2018	10,000	10,000
Additions during the year	-	-
At 31st December 2018	<u>10,000</u>	<u>10,000</u>
Depreciation		
At 1st January 2018	1,750	1,750
Charge for the year	2,000	2,000
At 31st December 2018	<u>3,750</u>	<u>3,750</u>
At 31st December 2018	<u>6,250</u>	<u>6,250</u>
At 31st December 2017	<u>8,250</u>	<u>8,250</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

11 Investment in subsidiary undertakings

	Group 2018 & 2017 €	Company 2018 & 2017 €
Shares in subsidiary undertakings		
Geom Developments Limited (C50805) - 2,000 ordinary shares of €1 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	10,580,444
Geom Holdings Limited (C64409) - 1,997 ordinary shares of €1 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	2,651,130
Gap Gharghur Limited (C72015) - 3,458 ordinary shares of €1 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	3,522,084
Gap Mellieha (I) Limited (C72013) - 1,200 ordinary shares of €1 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	4,487,174
Gap Group Contracting Limited (C75879) - 1,200 ordinary shares of €1 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	1,200
Total	-	21,242,032

Geom Developments Limited (C50805) is the parent company of Gap Group Finance Limited (C54352) which is the parent company of Manikata Holdings Limited (C53818) and Gap Properties Limited (C47928). The group owns all the shares with the exception of a few shares which are owned by third parties. The amount attributable to the minority interest is reflected in note 23.

The principal activity of all the subsidiaries, except for Gap Group Contracting Limited, is the acquisition of property for development and resale. The activity of Gap Group Contracting Limited is to provide services to the entities within the Group related to their trading activity.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

12 Investments

Investments - available for sale

	Interest rate	Redemption date	Group 2017	Company
			€	€
Corporate Bonds	4.25%	2023	1,507,500	-
Corporate Bonds	3.75%	2026	2,000,000	2,000,000
Corporate Bonds	4%	2027	1,000,000	1,000,000
Bank deposits				
Holdings in bank deposit account at 1.5% - 2%			5,864,300	5,864,300
			<u>10,371,800</u>	<u>8,864,300</u>

Investments -FVOCI

	Interest rate	Redemption date	Group 2018	Company
			€	€
Corporate Bonds	4.25%	2023	1,507,500	-
Corporate Bonds	3.75%	2026	2,060,000	2,060,000
Corporate Bonds	4%	2027	520,000	520,000
			<u>4,087,500</u>	<u>2,580,000</u>

13 Loans and other receivables

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Gap Holdings Limited - Maturity date 2023	2,350,111	2,238,179	-	-
Gap Holdings Limited - Maturity date 2023	6,829,801	5,707,475	6,829,801	5,707,475
Investment in related party - Gap Luqa Limited (formerly Qawra Investments Limited) - Maturity date 2021	2,403,606	2,302,973	-	-
Funds held by trustee for the redemption of the 2023 Bond	2,032,319	512,826	2,032,319	512,826
	<u>13,615,837</u>	<u>10,761,453</u>	<u>8,862,120</u>	<u>6,220,301</u>

The amount due by Gap Holdings Limited of €2,350,111 (2017 - €2,238,179) is non-interest bearing and is expected to be repaid by December 2023. The nominal amount of the loan is €3,000,000.

The amount due by Gap Holdings Limited of €6,829,801 (2017 - €5,707,475) is expected to be repaid by December 2023 and is unsecured. The amount receivable bears interest at 4.5% per annum.

The funds advanced to Gap Luqa Limited (formerly Qawra Investments Limited) of €2,403,606 (2017 - €2,302,973) bear interest at the rate of 4.5% per annum and is repayable by 2021.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

14 Reseve Account

	2018	2017
	€	€
The reserve fund is made up as follows:		
Amount advanced by the trustee as part of the Investments listed under Investments (See Note 12) and bank deposits listed under Cash and cash equivalents (See Note 17)	15,650,000	4,300,000
Funds held by trustee for the redemption of the 2023 Bond listed under Loans and other receivables (See Note 13)	2,032,319	512,826
	17,682,319	4,812,826

15 Inventory - Development project

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Property cost of land and development costs	16,618,018	24,114,139	-	-
Capitalised borrowing costs (refer to note 6)	2,354,779	2,670,526	-	-
Fair value adjustment on acquisition of subsidiaries	11,636,381	11,636,381	-	-
Fair value adjustment reversed on sale of property	(7,822,877)	(4,720,092)	-	-
	22,786,301	33,700,954	-	-

16 Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Amounts receivable	314,478	276,636	-	-
Amounts due from group companies	-	-	21,698,687	19,905,470
Amount due from related parties	-	519,885	-	527,263
Accrued interest receivable	26,476	22,774	10,305	98,534
Other taxation	5,148	-	-	-
	346,102	819,295	21,708,992	20,531,267

The amounts due by the group companies and the related parties are interest free and repayable on demand.

17 Cash and cash equivalents

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

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Cash in hand	148,015	97,065	-	-
Cash at bank	476,381	1,105,642	3,199	3,014
Bank deposits	13,706,905	-	13,706,905	-
	14,331,301	1,202,707	13,710,104	3,014
Bank overdraft	(7,339)	(22,067)	-	-
	14,323,962	1,180,640	13,710,104	3,014

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

18 Share capital

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Authorised				
2,500,000 Ordinary shares of €1 each	2,500,000	2,500,000	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
Issued and fully paid up				
2,500,000 Ordinary shares of €1 each	2,500,000	2,500,000	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>

19 Earnings per share

Earnings per share is calculated by dividing the result attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Profit for the year	2,981,047	585,342	214,009	225,809
Weighted average share in issue	2,500,000	2,500,000	2,500,000	2,500,000
Earnings per share	1.19	0.23	0.09	0.09

The company has not issued any dilutive instruments in the past, and therefore the basic and diluted earnings per share are equal.

20 Subordinated shareholders' loan - Quasi equity

	Group and Company	
	2018	2017
	€	€
Shareholders' loan	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>

The shareholders' loan, classified as "Subordinated shareholders' loan - Quasi equity" was advanced to the company by the shareholders in accordance with the Prospectus issued for the raising of funds through a bond issue (see note 22). The amount is interest free and is only repayable to the shareholders after the settlement of the amount due to the Bond holders.

21 Revaluation reserve

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Gain on amortisation of long term interest free loan receivable (see note 9)	320,060	208,128	-	-
Gain on revaluation of Investments at year end rates	80,000	-	80,000	-
	<u>400,060</u>	<u>208,128</u>	<u>80,000</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

22 Borrowings

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Short term - falling due within one year				
Bank overdrafts	7,339	22,067	-	-
Total short term borrowings	7,339	22,067	-	-
	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Long term - falling due after one year				
Bond				
Proceeds from bond issue	40,000,000	40,000,000	40,000,000	40,000,000
Amortised cost				
Issue of bond costs	715,133	715,133	715,133	715,133
Issue of bond costs amortised	(188,367)	(77,469)	(188,367)	(77,469)
	526,766	637,664	526,766	637,664
Amortised cost	39,473,234	39,362,336	39,473,234	39,362,336

In October 2016, the company raised €40,000,000 by issuing secured bonds to the public at the fixed rate of interest of 4.25% at face value and redeemable at par on the 3rd of October 2023 and are secured for the full nominal value of the Secured Bonds and interests thereon as follows:

- i. First ranking general hypothec over all the present and future property of the company and each of GAP Mellieha (I) Limited, GAP Properties Limited, GEOM Developments Ltd.
- ii. First ranking special hypothec over the land on which each of the Mellieha Development.
- iii. First ranking special hypothec over the land on Blocks A, B and C forming part of the Qawra Development.
- iv. First ranking special hypothec over the remaining residential units and garage spaces forming part of the Żebbuġ Development.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

23 Creditors

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Trade and other payables				
Trade creditors and accruals	1,662,789	7,554,745	441,627	433,375
Advance deposits received on promise of sale agreements	3,277,786	3,253,402	-	-
Amounts due to related parties	830,347	-	6,678,844	6,678,844
Other taxation	-	9,992	-	-
	<u>5,770,922</u>	<u>10,818,139</u>	<u>7,120,471</u>	<u>7,112,219</u>
Other financial liabilities				
Amounts due to shareholders	89,463	2,720	1,200	1,200
Amounts due to subsidiaries	-	-	15,989,449	5,162,256
Directors' current accounts	21,645	-	-	-
	<u>111,108</u>	<u>2,720</u>	<u>15,990,649</u>	<u>5,163,456</u>
Non-current liabilities				
Cumulative Preference shares held by a third party in Geom Holdings Limited	-	2,498,001	-	-
Payment to Preference shareholder on account of redemption of preference shares	-	(2,498,001)	-	-
Minority interests	4,907	4,907	-	-
	<u>4,907</u>	<u>4,907</u>	<u>-</u>	<u>-</u>
Total trade and other creditors	<u>5,886,937</u>	<u>10,825,766</u>	<u>23,111,120</u>	<u>12,275,675</u>

The amounts due to the group companies and the related parties are interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

24 Transactions with related parties

All companies forming part of Gap Group p.l.c. are considered by the directors to be part of the 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 related undertakings all of which arise in the ordinary course of business. The related party transactions were :

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Loans and other receivables				
Loans due from related companies	<u>11,583,518</u>	<u>10,248,627</u>	<u>6,829,801</u>	<u>5,707,475</u>
Trade and other receivables				
Amounts due from group companies	<u>-</u>	<u>-</u>	<u>21,698,687</u>	<u>19,905,470</u>
Amounts due from related companies	<u>-</u>	<u>519,885</u>	<u>-</u>	<u>527,263</u>
Trade and other payables				
Amounts due to related parties	<u>830,347</u>	<u>-</u>	<u>6,678,844</u>	<u>6,678,844</u>
Amounts due to subsidiaries	<u>-</u>	<u>-</u>	<u>15,989,449</u>	<u>5,162,256</u>

25 Contingent liabilities

One of the companies within the Group, Geom Developments Limited is involved into 2 pending court cases which might lead to litigation costs amounting to circa Eur75k. Consequently this was disclosed as a contingent liability.

26 Capital commitments

The company has entered into capital commitments with various contractors for the development of the Mellieha, Gharghur and Qawra projects. Outstanding contractual commitments as at period end amount to €18.9 million. This amount does not include payments made to suppliers till the end of 2018.

As at December 2018, the company has entered into promise of sale agreements with advance deposits amounting to €3,177,786 (2017 - €3,253,402). These agreements are expected to generate sales amounting to €14,817,000 (2017 - €24,131,500).

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2018

27 Statutory information

Gap Group p.l.c. is a limited liability company and is incorporated in Malta, with its registered address at Gap Holdings Head Office, Censu Scerri Street, Tigne, Sliema SIm 3060.

The parent company of Gap Group p.l.c is Gap Group Investments II Limited, a company registered in Malta, with its registered address at Gap Holdings Head Office, Censu Scerri Street, Tigne, Sliema SIm 3060.