

Geom Developments Limited

FINANCIAL STATEMENTS

31st DECEMBER 2017

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31st DECEMBER 2017

The directors present their report and the audited financial statements of Geom Developments Limited for the year ended 31st December 2017.

Principal Activities

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

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

Review of business

By the end of 2017, the project was fully completed, and a number of units were subject to the final deeds of sale. 51 apartments and 29 garages were contracted during 2017 which amount to 82% and 50% of the total available units respectively. All waiver funds were deposited with the Security Trustee and in line with the terms of the Prospectus.

The remaining apartments are all subject to preliminary agreements whilst 55% of the remaining garages are committed.

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.

Results and dividends

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

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

Directors

The Directors of the company as at 31st December 2017 who held office throughout the year were:-

George Muscat
Francis X Gouder

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

Directors' report - continued

Auditor

The auditor, Mr. Emanuel P. Fenech F.I.A., A.C.I.B., C.P.A. has expressed his willingness to continue in office and a resolution proposing his reappointment will be put before the members at the next annual general meeting.

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


George Muscat
Director


Francis X Gouder
Director

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

Date : 27 April 2018

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

Statement of the Directors' Responsibilities


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

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

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

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


George Muscat
Director


Francis X Gouder
Director

Date : 27 April 2018

Independent auditor's report

To the Shareholders of Geom Developments Limited.

Report on the Audit of the Financial Statements for the year ended 31st December 2017.

Opinion

I have audited the financial statements of Geom Developments Limited (the Company) set out on pages 7 to 32 which comprise the statement of financial position as at 31st December 2017 and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of Geom Developments Limited as at 31st December 2017, and of the Company's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent 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.

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

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

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

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

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

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

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

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

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

Independent auditor's report

To the Shareholders of Geom Developments Limited.

Responsibilities of the Directors

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence 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.

Independent auditor's report

To the Shareholders of Geom Developments Limited.

I communicate with those charged with governance 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.

Report on Other Legal and Regulatory Requirements

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

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

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

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



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: 27 April 2018

INCOME STATEMENT

FOR THE YEAR ENDED 31st DECEMBER 2017

	Notes	2017	2016
		€	€
Turnover	3	6,322,100	72,000
Cost of sales		<u>(3,729,610)</u>	<u>(53,999)</u>
Gross profit		2,592,490	18,001
Administrative expenses		<u>(300,896)</u>	<u>(12,786)</u>
Operating profit	4	2,291,594	5,215
Finance costs	6	(468,118)	(950)
Investment income	7	<u>20,499</u>	<u>-</u>
Profit before taxation		1,843,975	4,265
Tax expense	8	<u>(489,646)</u>	<u>(5,760)</u>
Profit / (loss) for the year		<u>1,354,329</u>	<u>(1,495)</u>

STATEMENT OF COMPREHENSIVE INCOME

Other comprehensive income

Items that may be reclassified to profit and loss:

Reversals/fair value movements of interest-free loans and receivables	<u>106,602</u>	<u>(160,156)</u>
Total Comprehensive income / loss	<u>1,460,931</u>	<u>(161,651)</u>
Earnings per share	<u>730.47</u>	<u>-</u>

The notes on pages 11 to 32 are an integral part of these financial statements.

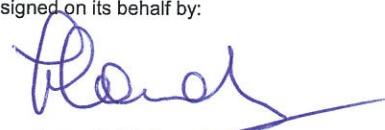
STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2017

	Notes	2017 €	2016 €
ASSETS			
Non-current assets			
Investment in subsidiaries	9	50,000	50,000
Investments - available for sale	10	1,507,500	-
Loans and other receivables	11	2,238,179	3,060,229
		3,795,679	3,110,229
Current assets			
Inventory - Development project	12	1,428,808	4,067,976
Trade and other receivables	13	3,537,755	5,956,378
Cash and bank balances	14	2,351	272,790
		4,968,914	10,297,144
Total Assets		8,764,593	13,407,373
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	2,000	2,000
Share Premium Account		5,177,398	5,177,398
Retained earnings / (Accumulated losses)		539,549	(921,382)
Total equity		5,718,947	4,258,016
Current liabilities			
Bank overdraft and loans	17	22,067	20,596
Trade and other payables	18	1,303,183	2,029,385
Other financial liabilities	18	1,706,039	7,088,134
Taxation due		14,357	11,242
Total current liabilities		3,045,646	9,149,357
Total liabilities		3,045,646	9,149,357
Total equity and liabilities		8,764,593	13,407,373

The notes on pages 11 to 32 are an integral part of these financial statements.

The financial statements on pages 7 to 32 were approved by the board of directors and were signed on its behalf by:


George Muscat
Director


Francis X Gouder
Director

Date : 27 April 2018

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31st DECEMBER 2017

	Share Capital €	Share Premium €	Profit and Loss Account €	Total €
Balance at 1st January 2016	1,200	-	(759,731)	(758,531)
Comprehensive income				
Reversal of fair value of loans and receivables	-	-	(261,681)	(261,681)
Gains from changes in fair value of loans and receivables	-	-	101,525	101,525
Loss for the year	-	-	(1,495)	(1,495)
Transactions with owners				
Increase in share premium	-	5,177,398	-	5,177,398
Issue of share capital	800	-	-	800
Balance at 31st December 2016	2,000	5,177,398	(921,382)	4,258,016
Balance at 1st January 2017	2,000	5,177,398	(921,382)	4,258,016
Comprehensive income				
Profit for the year	-	-	1,354,329	1,354,329
Gains from changes in fair value of loans and receivables	-	-	106,602	106,602
Balance at 31st December 2017	2,000	5,177,398	539,549	5,718,947

The notes on pages 11 to 32 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31st DECEMBER 2017

	2017	2016
	€	€
Cash flows from operating activities		
Net profit before taxation	1,843,975	4,265
Adjustments for:		
Investment income	(20,499)	-
Interest expenses	468,118	950
Extraordinary item	106,602	(160,156)
	2,398,196	(154,941)
Operating profit / (loss) before working capital changes		
Trade and other receivables	2,287,043	(3,659,540)
Inventory	2,639,168	(1,492,377)
Creditors	(726,202)	4,082,388
	6,598,205	(1,224,470)
Cash generated from operations		
Interest payable	(468,118)	(950)
Income tax paid	(486,531)	(5,760)
	5,643,556	(1,231,180)
<i>Net cash from / (used in) operating activities</i>		
Cash flows from investing activities		
Investments (net)	(1,507,500)	(1,000)
Investment income	20,499	-
	(1,487,001)	(1,000)
<i>Net cash used in investing activities</i>		
Cash flows from financing activities		
Increase in share capital	-	800
Share premium	-	5,177,398
Shareholders' loans	131,580	(253,000)
Related parties	(5,382,095)	735,638
Other loans	822,050	(4,079,844)
	(4,428,465)	1,580,992
<i>Net cash (used in) / from financing activities</i>		
Movement in cash and cash equivalents	(271,910)	348,812
Cash and cash equivalents at beginning of the year	252,194	(96,618)
Cash and cash equivalents at end of the year (note 14)	(19,716)	252,194

The notes on pages 11 to 32 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

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 2017

In 2017 the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period on 1st January 2017. The adoption of these revisions to the requirements of the IFRSs as adopted by the EU did not result in changes to the company's accounting policies impacting the company's financial performance and position.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

1 Summary of significant accounting policies

1.1 Basis of preparation - continued

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 but are mandatory to the Company's accounting profits beginning after 1st January 2017, including IFRS 9 'Financial Instruments', amongst other pronouncements. The company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, except as disclosed below, and the company's directors are of the opinion that there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

IFRS9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS9 was issued in July 2014. It replaces the guidance in IAS39 that relates to the classification and measurement of financial instruments. IFRS9 requires financial assets to be classified in two measurement categories: those measured at fair value and those measured at amortised costs. The determination is made at initial recognition. The classification depends on the entity's business model for managing financial instruments and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the IAS39 requirements. The Group is yet to assess the full impact of IFRS9 and considering the implications it has on the Group's financial results and position.

IFRS15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenues and cashflows arising from the entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations. The standard is effective for annual periods beginning or after 1 January 2017 and earlier application is permitted, subject to endorsements by the EU. The Group is assessing the impact IFRS 15 may have on the Group's financial results and position. It has not early applying IFRS15.

1.2 Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

1 Summary of significant accounting policies

1.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and Balances

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

1.4 Financial assets

1.4.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (notes 13 and 14).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are 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 may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investments. They are included in current assets unless the asset matures or management intends to dispose of it after twelve months from the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

1 Summary of significant accounting policies

1.4 Financial assets - (continued)

1.4.2 Recognition and measurement

The Company recognises 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 are recognised on settlement date, which is the date on which an asset is delivered to or by the Company. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

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

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

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

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

The fair values of quoted investments are 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 are 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 2017

1 Summary of significant accounting policies

1.4 Financial assets - (continued)

1.4.3 Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is 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) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The company first assesses whether objective evidence of impairment exists. The criteria that the Company uses to determine that there is 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 becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

(a) Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) 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 is considered an indicator that the securities are impaired. If objective evidence of impairment exists 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 – is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

1.5 Share Capital

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

1 Summary of significant accounting policies

1.6 Offsetting financial instruments

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

1.7 Provisions

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

1.8 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.

1.9 Borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

1 Summary of significant accounting policies

1.10 Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial. Bank loans are carried at face value due to their market rate of interest.

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

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 Investments in group undertakings

Shares in group undertakings are stated at cost less any provisions required for material diminution in value of an apparently permanent nature. Such diminution in value is normally calculated by reference to the net asset worth of the companies as disclosed by their audited or unaudited financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

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 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.

1.15 Trade and other receivables

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

1 Summary of significant accounting policies

1.16 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.

1.17 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.

1.18 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 2017

2 Financial risk management

2.1 Financial risk factors

The company forms part of a group of companies owned by Gap Group p.l.c. The financial risk factors that relate to the group as whole in many cases apply to the company. The following are the financial risk factors that affect the whole group which also apply to the company.

The Group's activities are potentially exposed to a variety of risks: market risk, economic risk, counterparty 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

2 Financial risk management - continued

2.1 Financial risk factors - continued

(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.

(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 and supply of raw materials, building materials;
- acts of nature that may damage any of the properties or delay development thereof

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

2 Financial risk management - continued

2.1 Financial risk factors - continued

(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 financial projections have been 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 2017

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 an 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 2017

2 Financial risk management - continued

2.1 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

2 Financial risk management - continued

2.1 Financial risk factors - continued

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

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

3 Turnover

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

	<u>2017</u>	<u>2016</u>
	€	€
Sale of property held for Development and resale	<u>6,322,100</u>	<u>72,000</u>
	<u>6,322,100</u>	<u>72,000</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

4 Operating profit

The operating profit for the year is stated after charging :

	2017	2016
	€	€
Audit fees	3,000	2,400

5 Employees

The wages have been recharged from Gap Group Contracting Limited during the year and capitalised with the development costs.

6 Finance costs

	2017	2016
	€	€
Other finance costs	-	950
Capitalised interest at 1st January	400,003	267,278
Capitalised interest during period	215,998	132,725
Capitalised interest at 31st December	(147,883)	(400,003)
	468,118	950

7 Investment income

	2017	2016
	€	€
Securities interest - from local sources	20,499	-
	20,499	-

8 Tax expense

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

	2017	2016
	€	€
Current income tax		
Income tax on the taxable profits for the year at 35%	-	-
Income tax on taxable income at 15%	646	-
Income tax subject to 8% final tax on sales of immovable property	489,000	5,760
	489,646	5,760
Tax charge	489,646	5,760

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

8 Tax expense (Continued)

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

	2017	2016
	€	€
Net profit for the year	1,843,975	4,265
Income tax thereon at 35%	645,391	1,493
Tax effect of:		
Difference resulting from different tax rates on bank interest received	(862)	-
Expenses disallowed for tax purposes	1,299	23,707
Difference arising on income subject to 8% withholding tax on sales	(150,516)	(19,440)
Exempt income	(5,666)	-
	489,646	5,760

9 Investment in subsidiary undertakings

	2017	2016
	€	€
Shares in subsidiary undertakings		
50,000 Ordinary shares of €1.00 each in Gap Group Finance Limited, representing 98% of the issued share capital of the company, with registered address at 'Gap Holdings Head Office', Censu Scerri Street, Tigne', Sliema.	50,000	50,000
	50,000	50,000
Total	50,000	50,000

The aggregate amount of capital and reserves of Gap Group Finance Limited as at 31 December 2017 was €4,873,145 (2016 - €4,876,100) and the loss for the year was €2,955 (2016 - profit of €4,820,074)

In the opinion of the directors, the value of the unquoted investments as at 31st December 2017 exceeded cost.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

10 Investments - available for sale

				2017	2016
	Redemption Date	Interest Rate	Fair Value €	€	€
Corporate Bonds	2023	4.25%	1,544,700	1,507,500	-
				<u>1,507,500</u>	<u>-</u>

11 Loans and other receivables

				2017	2016
				€	€
Loan receivable from Gap Holdings Limited - Maturity Date 2023				3,000,000	3,000,000
Amortisation				(761,821)	(868,423)
Amortised value				<u>2,238,179</u>	<u>2,131,577</u>
Loan receivable from Gap Holdings Limited - Maturity Date 2018				-	928,652

The amount due by Gap Holdings Limited of €2,238,179 (2016 - €2,131,577) is non-interest bearing and is expected to be repaid in December 2023. The nominal amount of the loan is €3,000,000. The amount due to Gap Holdings Limited is being stated at the fair value.

The amount due by Gap Holdings Limited of €928,652 is expected to be repaid by December 2018. The amount is unsecured and with effect from 1st January 2017 bears interest at 4.5% per annum.

12 Inventory - Development project

			2017	2016
			€	€
Property cost of land and development costs			1,428,808	4,067,976
			<u>1,428,808</u>	<u>4,067,976</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

13 Trade and other receivables

	2017	2016
	€	€
Prepayments	92,967	291,513
Amounts due from shareholders	-	131,580
Amounts due to group companies	2,027,129	5,533,285
Amounts due from related companies	1,417,659	-
	3,537,755	5,956,378

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

14 Cash and cash equivalents

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

	2017	2016
	€	€
Cash in hand	-	5,519
Cash at bank	2,351	267,271
	2,351	272,790
Bank overdraft	(22,067)	(20,596)
	(19,716)	252,194

15 Share capital

	2017	2016
	€	€
Authorised		
2000 Ordinary shares of €1 each	2,000	2,000
	2,000	2,000
Issued and fully paid up		
2000 Ordinary shares of €1 each	2,000	2,000
	2,000	2,000

16 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.

	2017	2016
	€	€
Profit / (loss) for the year	1,460,931	(161,651)
Weighted average share in issue	2,000	2,000
Earnings per share	730.47	-

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

17 Borrowings

	2017	2016
	€	€
Short term - falling due within one year		
Bank overdrafts	22,067	20,596
Total short term borrowings	22,067	20,596
Total borrowings	22,067	20,596

The company has an overdraft facility of €22,067 (2016 - €20,596) which is repayable through sales proceeds from residential units and garages.

The facilities are secured by a general and special hypothec over the company's assets.

18 Creditors

	2017	2016
	€	€
Trade and other payables		
Trade creditors	449,264	563,468
Deposits received	252,485	666,110
Amounts due to related companies	-	739,939
Accruals	601,434	59,868
	1,303,183	2,029,385
Other financial liabilities		
Shareholders' current accounts	1,000	1,000
Related parties current accounts	1,705,039	7,087,134
	1,706,039	7,088,134
Total trade and other creditors	3,009,222	9,117,519

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

19 Transactions with related parties

All companies owned by the same shareholders of Gap Group Finance p.l.c. are considered to be group companies. Companies which have common directors and shareholders are considered to be related.

Transactions with related parties mainly comprise the provision of funding by the shareholders and interest expense charged thereon, where applicable.

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 :

	2017	2016
	€	€
Loans and other receivables		
Amount receivable from related party	2,238,179	3,060,229
Trade and other receivables		
Amount due from shareholders	-	131,580
Amounts due from Group	2,027,129	5,533,285
Amounts due from related parties	1,417,659	-
	3,444,788	5,664,865
Trade and other payables		
Amounts due to related parties	-	739,939
Other financial liabilities		
Amounts due to related parties	1,705,039	7,087,134

20 Contingent liabilities

In October 2016, Gap Group Finance p.l.c 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 interest thereon as follows:

- i. First ranking general hypothec over all the present and future property of Geom Developments Limited.
- ii. First ranking special hypothec over the land on which each Blocks A, B and C forming part of the Qawra Development is to be developed together with all and any constructions and other erections to be developed thereon.

Geom Developments Limited is involved into 2 pending court cases which might lead to litigation costs amounting to circa Eur75,000. Consequently this was disclosed as a contingent liability.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

21 Statutory information

Geom Developments Limited is a limited liability company and is incorporated in Malta, with its registered address at Gap Holdings, Head Office, Censu Scerri Street, Tigne, Malta.

The ultimate controlling party of Geom Developments Limited is Gap Group p.l.c., a company registered in Malta, with its registered address at Gap Holdings, Head Office, Censu Scerri Street, Tigne, Malta. Geom Developments Limited is exempted from preparing consolidated accounts as they are included in the consolidated financial statements prepared by Gap Group p.l.c.

22 Consolidated accounts

In accordance with section 173 of the Companies Act, 1995 the company, being a parent company is exempted from the preparation of consolidated accounts of the group.

The ultimate controlling party of Geom Developments Limited is Gap Group p.l.c., a company registered in Malta, with its registered address at Gap Holdings, Head Office, Censu Scerri Street, Tigne, Malta. Geom Developments Limited is exempted from preparing consolidated accounts as they are included in the consolidated financial statements prepared by Gap Group p.l.c.