GAP GROUP p.l.c

FINANCIAL STATEMENTS

31st DECEMBER 2016

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DIRECTORS' REPORT

FOR THE PERIOD FROM 1st JUNE 2016 TO 31st DECEMBER 2016.

The directors present their report and the audited financial statements of Gap Group p.l.c. for the period from 1st June 2016 to 31st December 2016.

Principal Activities

The statement of comprehensive income for the period is set out on page 10.

The principal activity of GAP Group p.l.c. was set up to raise financial resources from the capital market to primarily finance the property development projects of the companies forming part of the group and also to restructure the Group.

Review of business

In October 2016, the company raised €40,000,000 by issuing secured bonds to the public. The proceeds from the Secured Bonds were utilised in conformity with the terms of the Prospectus issued on the 16th of September 2016 as follows:

i. The amount of €9,649,563 was used to finance the acquisition of the site in Mellieħa, together with related contract expenses;
ii. The aggregate amount of €13,110,185 has been applied in part settlement and discharge of the acquisition consideration from Gap Group Investments (III) Limited of the entire share capital of Geom Developments Limited and all the ordinary 'A' shares of Geom Holdings Limited.
iii. The amount of €3,000,000 was used to refinance a bank loan which was made available by Mediterranean Corporate Bank Limited to GAP Group Finance Limited;
iv. The remaining balance of the net bond proceeds after applicable bond issue expenses shall be applied progressively towards development costs of projects owned by the Group, namely the Mellieħa development, the Għargħur Development, the Qawra Development (Blocks A, B and C) and the Żebbuġ Development.

Developments

The Mellieħa development

By the end of the year under review, the site was fully excavated whilst construction up to the first residential floor of the first two blocks (Blocks I & J) had been achieved with an estimated works in progress figure of €979,375. Works are progressing as planned and full completion of these blocks is envisaged by Q3 2018.

Although the said two blocks (I & J) had just been launched on the market, the Company still managed to secure the sale of 10 Apartments and 8 Garages by way of Preliminary Agreement which amounted to €3,360,000 or 31.25% of the available residential units of Blocks I & J and 6.6% of the full development. The remaining eight blocks will be gradually placed on the sales market.

The Għargħur Development

Construction up to garage levels was progressing nicely whilst excavation of the entire site was completed. Works in progress by the end of the year amounted to €390,149. Construction of the residential floors is due to commence at the beginning of Q2 2017. The progress of works is in line with projected timelines and full completion of this development is expected to be accomplished by Q3 2018.

Directors' report - continued

The Għargħur Development - continued

The project was introduced on the market in November 2016 and by the end of the year, 4 apartments and 5 garages were already subject to preliminary agreements resulting in a total sales value of €1,090,000. The sold apartments represent 17.6% of the total available residential stock.

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

As at 31st December 2016, circa 80% of the construction of Block A up the 9th level had been completed whilst electricity, plastering and tiling up to 7th level had been completed in full whilst Block B had circa 95% of construction of the 8th residential level ready with 50% of Electricity, Plastering and Tiling of the 7th level also completed. Block C was fully completed in terms of construction up to the 8th level whilst Electricity, Plastering and Tiling up to the 7th level was circa half way through. Full completion of these three blocks is targeted for Q3 of 2017. Works in progress by the end of 2016 amounted to €1,610,218.

Even though works on the said Project are not yet fully completed, the company has already secured by way of preliminary agreement, the sale of approximately 90% of the total number of apartments and 50% of the garages which translates into €6,283,000 worth of sales. It is planned that the first deeds of sale are to be concluded by Q3, in tandem with completion. 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.

The Żebbuġ Development

During the year under review, the project was fully completed in terms of the overall development. The project consisted of 193 apartments, 2 retail outlets and 225 garages/car spaces. As at the end of 2016, the clear majority of apartments were contracted and the only unsold stock pertained to 1 retail outlet and 39 garages whilst another 3 apartments and 11 garages were still subject to preliminary agreements with the final deeds envisaged to be signed in 2017.

Reserve Account

Pursuant to the bond prospectus dated 16th September 2016, a reserve account has 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 all hypothecary rights and privileges against an agreed amount from the sale proceeds being deposited in the said Reserve Account.

By the end of 2016, the Reserve Account carried a balance of €311,455 which amount was derived from signed contracts of the Żebbuġ Development.

Unless any of the committed preliminary agreements signed up till the 31st December 2016 which pertain to the Mellieħa, Qawra and Żebbuġ developments are rescinded, the amount of €6,822,758 will also be deposited in the Reserve Account from waiver money upon the eventual signing of the final deeds. The total amount of €7,134,213 amounts to 17.84% of the total bond repayment. The first contracts of the Qawra and Mellieħa developments are due to be signed in Q3 2017 and Q3 2018 respectively.

Directors' report - continued

Results and dividends

The results for the period are shown in the statement of comprehensive income on page 10.The group registered a profit of €902,674 while the company registered a profit of €5,139.

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

Future Business developments

The directors feel that the local property market is gaining momentum and will continue to be one of the main factors driving the growth of the economy. The strategy of the directors is to expand the operations of the Company in a booming property market through acquisitions which are expected to render handsome levels of profitability whilst keeping the business activity and going concern of the group sustainable. In this regard, the Company invested part of its excess liquidity to its related parties to acquire property for development purposes.

Directors

The Directors of the company as at 31st December 2016 who held office since incorporation were:-

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

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

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.

Directors' report - continued

Statement of the Directors' Responsibilities - continued

The financial statements of Gap Group plc for the period ended 31 December 2016 are included in the Annual Report 2016, which is published in hard-copy printed form and is available on the company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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.

Pursuant to Listing Rule 5.68

Statement by the Directors on the Financial Statements and other Information included in the Annual Report

The directors declare that to the best of their knowledge, the financial statements included in the Annual Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit of the Company and that this report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

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:

Paul Attard
Director

Adrian Muscat
Director

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

Date : 29th April 2017

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. The Company 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 and 5.97.7.

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)
Adrian Muscat (Executive Director)
Francis X. 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 convenes four times per 12-month calendar period.

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 2016 to 31st December 2016 amounted to €80,600

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 29th April 2017 and signed on its behalf by:

Paul Attard
Director

Adrian Muscat
Director

Date : 29th April 2017

Independent auditor's report

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

Report on the Financial Statements for the year ended 31st December 2016.

I have audited the accompanying financial statements set out on pages 14 to 38 which comprise the statement of financial position as at 31st December 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements
As explained more comprehensively in the statement of directors' responsibilities for the financial statements on page 7, the directors are responsible for the preparation and fair presentation of these financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU; and the requirements of the Maltese Companies Act 1995 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.

Auditor's responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. These Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion the financial statements:

- give a true and fair view of the financial position of the company as at 31st December 2016 and of its financial performance and its cash flows for the period then ended in accordance with IFRSs as adopted by the EU; and
- and have been properly prepared in accordance with the requirements of Maltese Companies Act, 1995.

Report on Corporate Governance

Listing Rules issued by the Malta Listing Authority require the company's directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the Directors.

Independent auditor's report - continued

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

Report on Corporate Governance - continued

I read the Statement of Compliance and consider the implications for my report if we 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.

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.

Report on other legal and regulatory requirements for the year ended 31st December 2016

I am also responsible under the Companies Act, 1995 to report to you if, in my opinion:

- The information given in the Report of the Directors is not consistent with the financial statements.
- 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 : 29th April 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1st JUNE 2016 TO 31st DECEMBER 2016.

	Notes	Group	Company
		€	€
Turnover	4	14,804,450	-
Cost of sales		(10,595,057)	-
		4,209,393	-
Administrative expenses		(752,460)	(30,160)
Operating profit / (loss)	5	3,456,933	(30,160)
Finance costs	8	(1,446,182)	(419,178)
Investment income	9	53,314	457,244
Profit before taxation		2,064,065	7,906
Tax expense	10	(1,161,391)	(2,767)
Profit for the period		902,674	5,139
Other comprehensive income			
Fair value gain on interest free long term loan receivable	12	101,526	-
Other comprehensive income for the year		101,526	-
Total Comprehensive income		1,004,200	5,139
Earnings per share		0.20	0.00

The notes on pages 14 to 38 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2016

	Notes	Group	Company
		€	€
ASSETS			
Non-current assets			
Property, plant and equipment	13	3,424	-
Investment in subsidiaries	14	-	21,242,032
Investments - available for sale	15	10,600,000	10,600,000
Loans and other receivables	16	6,998,980	311,455
		17,602,404	32,153,487
Current assets			
Inventory - Development project	17	34,213,205	-
Trade and other receivables	18	1,434,672	14,047,318
Cash and bank balances	19	3,721,802	2,084,059
Income Tax refundable		113,567	-
		39,483,246	16,131,377
Total Assets		57,085,650	48,284,864
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	2,500,000	2,500,000
Subordinated shareholders' loan - Quasi equity		2,500,000	2,500,000
Revaluation Reserve	12	101,526	-
Retained earnings		902,674	5,139
Total equity		6,004,200	5,005,139
Non-current liabilities			
Other financial liabilities	23	2,502,909	-
Debt securities in issue	22	39,310,407	39,310,407
Total non-current liabilities		41,813,316	39,310,407
Current liabilities			
Bank overdraft and loans	22	20,596	-
Trade and other payables	23	9,247,538	3,655,751
Other financial liabilities	23	-	310,800
Taxation due		-	2,767
Total current liabilities		9,268,134	3,969,318
Total liabilities		51,081,450	43,279,725
Total equity and liabilities		57,085,650	48,284,864

The notes on pages 14 to 38 are an integral part of these financial statements.

The financial statements on pages 10 to 38 were approved by the board of directors and were signed on its behalf by:

Paul Attard
Director

Adrian Muscat
Director

Date : 29th April 2017

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1st JUNE 2016 TO 31st DECEMBER 2016.

	Note	Share Capital €	Quasi Equity €	Fair Value Reserve €	Profit and Loss Account €	Total €
Comprehensive income		33				
Profit for the period		-	-	-	902,674	902,674
Fair value gain on long term interest free loan receivable	12	-	-	101,526	-	101,526
Transactions with owners						
Issue of share capital		2,500,000	-	-	-	2,500,000
Subordinated shareholders' loan - Quasi equity		-	2,500,000	-	-	2,500,000
Balance at 31st December 2016		2,500,000	2,500,000	101,526	902,674	6,004,200

The notes on pages 14 to 38 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1st JUNE 2016 TO 31st DECEMBER 2016.

	Group	Company
	€	€
Cash flows from operating activities		
Net profit before taxation	2,064,065	7,906
Adjustments for:		
Depreciation	3,777	-
Investment income	(53,314)	(457,244)
Interest expenses	1,446,182	419,178
Extraordinary item	101,526	-
Operating profit / (loss) before working capital changes	3,562,236	(30,160)
Trade and other receivables	(1,434,672)	(14,047,318)
Inventory	(34,213,205)	-
Creditors	9,247,538	3,655,751
Cash generated from operations	(22,838,103)	(10,421,727)
Interest payable	(1,446,182)	(419,178)
Income tax paid	(1,274,958)	-
Net cash used in operating activities	(25,559,243)	(10,840,905)
Cash flows from investing activities		
Purchase of fixed assets	(7,201)	-
Investments (net)	(10,600,000)	(31,842,032)
Investment income	53,314	457,244
Net cash from / (used in) investing activities	(10,553,887)	(31,384,788)
Cash flows from financing activities		
Increase in share capital and subordinated shareholders loan	5,000,000	5,000,000
Related parties	2,502,909	310,800
Bonds and debentures	39,310,407	39,310,407
Other loans	(6,998,980)	(311,455)
Net cash (used in) / from financing activities	39,814,336	44,309,752
Movement in cash and cash equivalents	3,701,206	2,084,059
Cash and cash equivalents at beginning of the period	-	-
Cash and cash equivalents at end of the period (note 19)	3,701,206	2,084,059

The notes on pages 14 to 38 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

1 **Company's incorporation**

The company was incorporated on 1st June 2016. The financial statements relate to the period from 1st June 2016 to 31st December 2016.

2 **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.

2.1 **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 Group

In Group the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accouting period on 1st January 2016. 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 2016

2 Summary of significant accounting policies

2.1 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 2016, 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 applicaiton.

IFRS 9 'Financial instruments' address the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made on intial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The company is yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9, subject to endorsement by the EU, not later than the accounting period beginning on or after 1 January 2018.

2.2 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.~~

2.3 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

2 Summary of significant accounting policies

2.4 Financial assets

2.4.1 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 18 and 19).

(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 2016

2 Summary of significant accounting policies

2.4 Financial assets - (continued)

2.4.2 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 2016

2 Summary of significant accounting policies

2.4 Financial assets - (continued)

2.4.3 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 exits. 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.

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.

2.5 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 subisidiaries.

The company acquired the shares in its subsidiaries during the year 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. Though the company acquired the shares of the subsidiaries during 2016 the effective date of the acquitsition in terms of profits was 1st January 2016. Accordingly, the results in the profit and loss account reflect the results from 1st January 2016 to 31st December 2016.

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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

2 Summary of significant accounting policies

2.6 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.

2.7 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.

2.8 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.

2.9 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

2 Summary of significant accounting policies

2.10 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.

2.11 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.

2.12 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.

2.13 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

2 Summary of significant accounting policies

2.13 Property, plant and equipment (Continued)

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.

2.14 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

2 Summary of significant accounting policies

2.15 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.

2.16 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

2 Summary of significant accounting policies

2.17 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.

2.18 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 2016

3 Financial risk management

3.1 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 2016

3 Financial risk management - continued

3.1 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 2016

3 Financial risk management - continued

3.1 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 2016

3 Financial risk management - continued

3.1 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.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

3 Financial risk management - continued

3.1 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. 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 (€4.8 Million) whilst the cash at Bank was held with three local quality financial institutions (€9.5 Million). The Reserve Account is administered by the Security Trustee of the 4.25% 2023 Secured Bonds issue and funds (€311K) 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.

4 Turnover

Turnover represents the value of goods sold (services provided), and is made up as follows:

	Group	Company
	€	€
Sale of property held for Development and resale	14,804,450	-
	14,804,450	-

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

5 Operating profit

The operating profit for the period is stated after charging :

		Group	Company
		€	€
Directors' salaries and remuneration		80,600	-
Employment costs	- Note 6	267,295	-
Depreciation	- Note 13	3,777	-
Audit fees		22,800	3,600

6 Employees

	Group	Company
	€	€
Employment costs comprise:		
Wages and salaries - administration	110,157	-
Wages and salaries - allocated to cost of sales	140,572	-
Social security costs - Administration	7,734	-
Social security costs - allocated to cost of sales	8,832	-
	267,295	-
The average weekly number of persons employed by the company during the period including directors was:	10	-

7 Directors' emoluments

	Group	Company
	€	€
Directors' remuneration	7,000	-
Director's salary - allocated to cost of sales	73,600	-
	80,600	-

8 Finance costs

	Group	Company
	€	€
Bond interest and amotisation costs	591,182	419,178
Captialised interest: *Inventories - Property development*		
At date of acquisiton of subsidiaries shares	2,168,676	-
Interest capitalised during period	511,446	-
At 31st December	(1,825,122)	-
Charge of capitalised interest for the period	855,000	-
	1,446,182	419,418

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

9 Investment income

	Group	Company
	€	€
Interest from Maltese banks	305	-
Interest received from group companies	-	457,244
Loan interest - from local sources	35,713	-
Interest from other Maltese sources	17,296	-
	53,314	457,244

10 Tax expense

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

	Group	Company
	€	€
Current income tax		
Income tax on the taxable profits for the period at 35%	5,897	2,767
Income tax on taxable income at 15%	19	-
Income tax subject to 8% final tax on sales of immovable property	1,155,475	-
Tax charge	1,161,391	2,767

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

	Group	Company
	€	€
Net profit for the period	2,064,065	7,906
Income tax thereon at 35% (statutory local income tax rate)	722,423	2,767
Tax effect of:		
Difference resulting from different tax rates on bank interest received	(88)	-
Difference arising on income subject to 8% withholding tax on sales	439,056	-
	1,161,391	2,767

12 Fair Value Adjustment

	Group	Company
	€	€
Fair value gain arising on interest free loan given to Gap Holdings Limited (see note 16)		
Fair value as at 31st December 2016	2,131,577	-
Fair value as at date of acquistion of shares by the company	(2,030,051)	-
	101,526	-

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

13 Property, plant and equipment

	Computer & Off. Equip.	Motor Vehicles	Furniture & Fittings	Total
	€	€	€	€
Cost				
Cost of subsidiaries - pre acquisition	10,592	6,500	437	17,529
At 31st December 2016	10,592	6,500	437	17,529
Depreciation				
Deprecitation of subsidiaries - pre acquisition	8,159	1,950	219	10,328
Charge for year	2,433	1,300	44	3,777
At 31st December 2016	10,592	3,250	263	14,105
Net book value				
At 31st December 2016	-	3,250	174	3,424

14 Investment in subsidiary undertakings

	Group	Company
	€	€
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) - 2,000 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 Holdings Limited (C64409) 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 21.

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 is to provide services in to the entities within the group related to their trading acivity.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

15 Investments - available for sale

	Redemption date	Interest rate	Fair value €	Group €	Company €
Corporate Bonds	2026	3.75% - 4%	2,812,500	2,812,500	2,812,500
Corporate Bonds	2017	4,5%	2,000,000	2,000,000	2,000,000
Holdings in bank deposit account at 1.5% - 2%				5,787,500	5,787,500
				10,600,000	10,600,000

16 Loans and other receivables

	Group €	Company €
Gap Holdings Limited - Maturity date 2023	2,131,577	-
Gap Holdings Limited - Maturity date 2018	2,252,978	-
Investment in related party -Qawra Investments Limited	2,302,973	-
Funds held by trustee for the redeption of the 2023 Bond	311,452	311,455
	6,998,980	311,455

The amount due by Gap Holdings Limited of €2,131,577 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 to Gap Holdings Limited is being stated at the fair value.

The amount due by Gap Holdings Limited of €2,252,978 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.

The funds advanced to Qawra Investments Limited bear interest at the rate of 4.5% per annum with effect from 1st January 2017 and is repayable by 2021. This investment related to the acquistion of property for development in accordance with the strategy outlined in the "Future business developments" in the directors report.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

17 Inventory - Development project

	Group	Company
	€	€
Property cost of land and development costs	22,956,768	-
Capitalised borrowing costs	1,825,122	-
Initial surplus resulting on the revaluation of the the Inventory of the company's subsidiaries when the company acquired its subsidiaries	11,636,381	-
Reduction in the revaluation surplus resulting from sales of the inventory	(2,205,066)	-
	34,213,205	-

The last valuation carried out by an independent architect was dated 31st May 2016. The revaluation surplus amounting to €11,636,381 arose from the revaluation of the inventory held by the Company's subsidiaries as at the date of the valuation certificates. This exercise was carried out in connection with the acquisition of shares by GAP Group p.l.c. from the existing shareholders at the time of acquisition.

18 Trade and other receivables

	Group	Company
	€	€
Prepayments	312,508	-
Amounts due from group companies	-	13,615,614
Amount due by related party - Qawra Investments Limited	636,973	-
Accrued interest receivable	485,191	431,704
	1,434,672	14,047,318

The amount due by Qawra investments Limited is interest free and repayable on demand.

19 Cash and cash equivalents

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

	Group	Company
	€	€
Cash in hand	89,980	-
Cash at bank	3,631,822	2,084,059
	3,721,802	2,084,059
Bank overdraft	(20,596)	-
	3,701,206	2,084,059

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

20 Share capital

	Group	Company
	€	€
Authorised		
2,500,000 Ordinary shares of €1 each	2,500,000	2,500,000
	2,500,000	2,500,000
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

21 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 period.

	Group	Company
	€	€
Profit for the period	902,674	5,139
Weighted averge share in issue	2,500,000	2,500,000
Earnings per share	0.36	0.00

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

22 Borrowings

	Group	Company
	€	€
Short term - falling due within one year		
Bank overdrafts	20,596	-
Total short term borrowings	20,596	-

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

22 Borrowings (Continued)

	Group	Company
	€	€
Long term - falling due after one year		
Bond		
Proceeds from bond issue	40,000,000	40,000,000
Amortised cost		
Issue of bond costs	715,133	715,133
Issue of bond costs amortised	(25,540)	(25,540)
	689,593	689,593
Amortised cost	39,310,407	39,310,407

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 Mellieħa Development and 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.

iii. 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 2016

23 Creditors

	Group	Company
	€	€
Trade and other payables		
Trade creditors	4,617,907	-
Advance deposits received on promise of sale agreements	2,770,665	-
Amounts due to related parties	249,795	3,191,047
Other creditors	41,926	41,926
Accruals	1,567,245	422,778
	9,247,538	3,655,751
Other financial liabilities		
Amount due to Subsidiaries	-	310,800
	-	310,800
Non-current liabilities		
Cumulative Preference shares held by a third party in Geom Holdings Limited	2,498,001	-
Minoity interests (see Note 14)	4,908	-
	2,502,909	-
Total trade and other creditors	11,750,447	3,966,551

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

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 diretors to be related parties.

During the course of the period 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
	€	€
Loans and other receivables		
Loans due from related companies	4,384,555	-
Trade and other receivables		
Amounts due from group companies	-	13,615,614
Amounts due from related companies	636,973	-
Trade and other payables		
Amounts due to related parties	249,795	3,191,047
Amounts due to subsidiaries	-	310,800
Investment Income		
Interest receivable from group companies	-	457,244

25 Capital commitments

The company has entered into capital commitments with various contractors fo the development of the Mellieha, Ghargur and Qawra projects. Outstanding contractual commitments as at period end amount to €908,873. Further amounts relating to the contracted project have been capitalised during 2016 within Inventory (Note 17).

As at December 2016, the company has entered into promise of sale agreements amounting to €2,077,815. These agreements are expected to generate sales amounting to €15,998,500.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2016

26 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 Slm 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 Slm 3060