Financial Analysis Summary

31 May 2018

Issuer

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

Guarantors

Gap Mellieħa (I) Limited (C 72013)

Gap Għargħur Limited (C 72015)

Gap Properties Limited (C 47928)

Geom Developments Limited (C 50805)

CHARTS
WEALTH MANAGEMENT • CORPORATE BROKING

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

31 May 2018

Dear Sirs

Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary (the "**Analysis**") set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to Gap Group p.l.c. (the "**Issuer**"), and Gap Mellieħa (I) Limited, Gap Għargħur Limited, Gap Properties Limited and Geom Developments Limited (the "**Guarantors**"). The data is derived from various sources or is based on our own computations as follows:

(a) Historical financial data for the period 1 June 2016 to 31 December 2016 and the year to 31 December 2017 has been extracted from the audited consolidated financial statements of Gap Group p.l.c.

(b) Historical financial data has been extracted from the audited financial statements of Gap Mellieħa (I) Limited (FP2016 and FY2017), Gap Għargħur Limited (FP2016 and FY2017), Gap Properties Limited (FY2015 to FY2017) and Geom Developments Limited (FY2015 to FY2017).

(c) The forecast data for the year ending 31 December 2018 has been provided by management.

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

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

(f) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Issuer's securities and potential investors by summarising the more important financial data of the Gap Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Issuer and should not be interpreted as a recommendation to invest in any of the Issuer's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek independent professional financial advice before investing in the Issuer's securities.

Yours faithfully,

Evan Mohnani
Head – Corporate Finance

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DEFINITIONS

Issuer	Gap Group p.l.c., a public limited liability company duly registered and validly existing under the laws of Malta with company registration number C 75875 and having its registered office at Gap Group Head Office, Ċensu Scerri Street, Sliema SLM 3060, Malta;
Bond Issue	the issue of Secured Bonds;
Bondholder	a holder of Secured Bonds;
Gap Group or **Group**	the Issuer, its parent, GDL, GHL, GGF, GGL, GGCL, GML, GPL and MHL;
GDL	Geom Developments Limited (C 50805);
GHL	Geom Holdings Limited (C 64409);
GGF	Gap Group Finance Limited (C 54352);
GGL	Gap Għargħur Limited (C 72015);
GGCL	Gap Group Contracting Limited (C 75879);
Għargħur Development	the construction, development and finishing over the site in Triq Caravaggio, Għargħur, Malta measuring approximately 2,585m^2, of a total 34 luxury apartments (6 of which at Penthouse level) and 41 garages/car spaces, spread over 4 blocks with a variety of one, two and three bedroom units;
GML	Gap Mellieħa (I) Limited (C 72013);
GPL	Gap Properties Limited (C 47928);
Guarantor	each of GDL, GGL, GML and GPL, and the term "**Guarantors**" shall collectively refer to the said companies;
Hypothecated Property	the immovable property described hereunder, namely: (i) the plot of land known as ta' Masrija having a superficial area of approximately 5,220m^2, in Mellieħa, together with the improvements made and to be made thereon, over which there shall be developed the Mellieħa Development, property of GML; the site is more fully described in the deed of acquisition published by Notary Dr Sam Abela and dated 21 October 2016; (ii) the plot of land in Triq il-Porzjunkola, Qawra Malta having a superficial area of approximately 1,228m^2, together with any improvements to be made thereon and earmarked for the development of Blocks A, B, and C forming part of the Qawra Development, property of GDL; the site is more fully described in the deed of acquisition published by Notary John Spiteri and dated 26 March 2015; (iii) the 15 apartments in a completely finished state, including all common areas and internal streets; 1 commercial outlet and the 64 garages and garage spaces forming part of the development on the site in Żebbuġ

	having a superficial area of approximately 6,878m^2 constituting the Żebbuġ Development, property of GPL;
Luqa Development	the construction, development and finishing over a number of sites in an area known as 'Ta Blejkiet' in Luqa, Malta measuring approximately 15,023m^2. The Group will initially develop Blocks A & B comprising 16 maisonettes, 72 apartments and 18 penthouses spread over 5 floors, together with 73 lock-up garages;
Mellieħa Development	the construction, development and finishing, over the site known as ta' Masrija in Mellieħa measuring approximately 5,220m^2, of a total of 152 residential units and 174 garages/car spaces, spread over 10 blocks with a variety of one, two and three bedroom units;
MHL	Manikata Holdings Limited (C 53818);
New Developments	the construction and development of each of the Għargħur Development, the Qawra Development, the Mellieħa Development and the Luqa Development;
Projects	the construction and development of the New Developments and the sale of the remaining unsold units comprised in the Żebbuġ Development (each a "**Project**");
Qawra Development	the construction, development and finishing over the site in Triq il-Porzjunkola, Qawra, Malta measuring approximately 3,508m^2 of a total of 145 residential units and 180 garages/car spaces, spread over 7 blocks, identified as Blocks A to G (both included) with a variety of one, two and three bedroom units;
QIL	Qawra Investments Limited (C 32225);
Secured Bond(s) or **Bond(s)**	the €40,000,000 4.25% Secured Bonds of a nominal value of €100 and redeemable at the nominal value in 2023;
Trustee or **Security Trustee**	Equinox International Limited, a private limited liability company duly registered and validly existing under the laws of Malta, with company registration number C 29674 and having its registered office at 9, Level 2, Valletta Buildings, South Street, Valletta VLT 1103, Malta, duly authorised to act as a trustee or co-trustee in terms of Article 43(3) of the Trusts and Trustees Act (Cap. 331 of the Laws of Malta);
Żebbuġ Development	the 193 apartments, 2 retail outlets and 144 underlying garage spaces all in a completely finished state, including all common areas and internal streets, forming part of the development on the site in Żebbuġ measuring approximately 6,878m^2.

PART 1 – INFORMATION ABOUT THE GAP GROUP

1. KEY ACTIVITIES OF THE ISSUER

The Issuer was incorporated in June 2016 as a public limited liability company under the Companies Act with an authorised and issued share capital of €2.5 million, fully paid up.

The Issuer's principal object is that of a holding company and to promote, including through subsidiaries, the acquisition and development of real estate properties. As such, the Issuer is mainly dependent on the business prospects of its operating subsidiaries. At present, the Issuer, through the Guarantors and other subsidiaries, is involved in the construction and development of the New Developments. Each project undertaken by the Group is typically undertaken through a special purpose vehicle established for that project, and each special purpose vehicle is managed through its board of directors, which has common members with the directors of the Issuer. The Issuer is not dependent on other entities within the Group or outside the Group with respect to the management of the Projects.

On 6 September 2016, the Issuer acquired from Gap Group Investments p.l.c. (C 72012) the entire issued share capital of two companies, namely GML and GGL. GML acquired the site known as ta' Masrija, by virtue of a deed published by Notary Dr Sam Abela on 21 October 2016, over which the Mellieħa Development is being constructed. GGL acquired the site over which the Għargħur Development is being constructed by virtue of a deed published by Notary Dr Andre Farrugia on 4 February 2016.

In addition, by virtue of another share purchase agreement dated 6 September 2016, entered into with Gap Group Investments (III) Limited (C 76675), the Issuer acquired the entire issued share capital of GDL and all the issued ordinary 'A' shares of GHL. GDL holds a one hundred per cent interest in GGF which in turn has the controlling interest in each of GPL and MHL. GPL is the group company that owns the Żebbuġ Development, which has now been completed, but that still retains unsold stock as specified in section 4.1 of this report.

By virtue of these acquisitions, the Issuer has indirectly acquired all of the sites over which the Group is constructing the New Developments.

In March 2012, GGF had issued €15,500,000 7% Secured Notes of a nominal value of €1,000 each, redeemable at par between 2014 and 2016 to finance two residential projects. Both of the projects have been completed, one of which is the Żebbuġ Development and another project consisting of a number of luxury villas in Manikata. The Notes then issued were fully redeemed on their redemption date, 30 March 2016.

2. DIRECTORS AND SENIOR MANAGEMENT

2.1 DIRECTORS OF THE ISSUER

The Issuer is managed by a Board comprising six directors who are entrusted with its overall direction and management. The Board members of the Issuer as at the date of this report are included hereunder:

George Muscat	Chairman
Paul Attard	Executive Director
Adrian Muscat	Executive Director
Francis X. Gouder	Independent Non-Executive Director
Mark Castillo	Independent Non-Executive Director
Chris Cilia	Independent Non-Executive Director

2.2 DIRECTORS OF THE GUARANTORS

The following are the directors of each of:

GML, GPL and GGL:

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

GDL:

George Muscat	Executive Director
Francis X. Gouder	Non-Executive Director

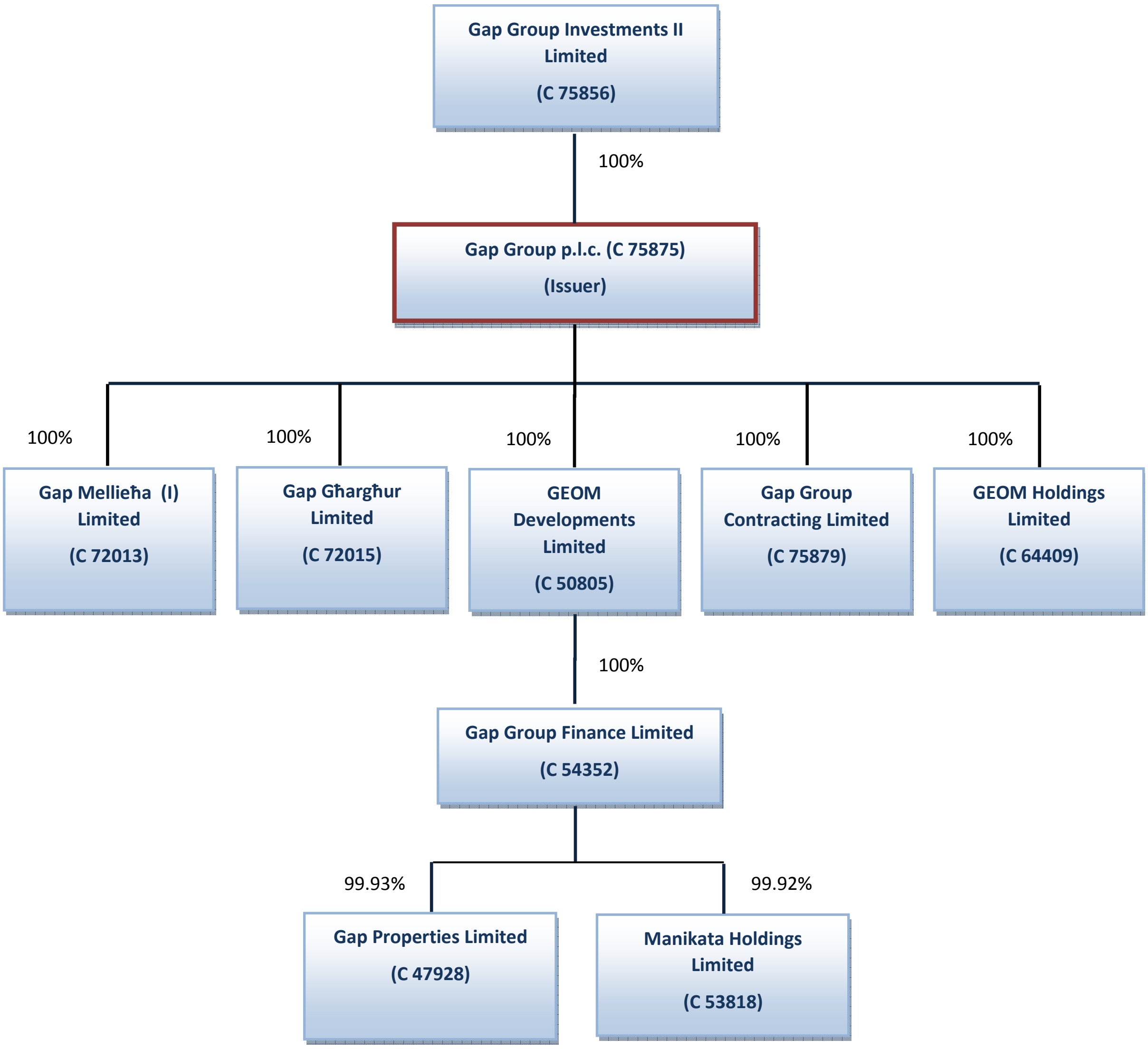
2.3 SENIOR MANAGEMENT

The Issuer itself has no employees and is managed directly by its board of directors. Each project company employs a number of management personnel and other employees devoted to managing each Project. The Group adopts a centralised management structure whereby it can deploy senior management personnel to perform duties in different parts of the Group depending on the requirements of each Group company; those services are then re-charged to the Group company where they are from time to time deployed.

Senior management of the Group is engaged by GGCL, the members of which are the following:

George Muscat	Chairman
Paul Attard	Director of Sales and Marketing
Chris Gauci	Sales and Marketing Manager
Elton Deguara	Sales and Marketing Manager
Adrian Muscat	Director of Sites
Raymond Grixti	Project Manager
Joseph J. Formosa	Finance Manager

3. ORGANISATIONAL STRUCTURE



The organisational structure of the Gap Group is depicted above. The Group is owned by three individual shareholders, with Paul Attard and Adrian Muscat each having a 25% equity interest in the Group and George Muscat having the remaining 50% equity interest through Gap Group Investments II Limited (C 75856). Each of GML, GGL, GDL, and GHL are project companies each entrusted with the construction and development of one of the New Developments, whilst GPL is the owner of the Żebbuġ Development.

Each of GML, GGL and GDL is dependent on the Issuer as to the amount of Bond Issue net proceeds that will be on-lent by the Issuer to each of the afore-mentioned companies in terms of the Securities Note. Each of the Guarantors is not dependent on other entities within the Group. A short description of each of the Guarantors is provided hereunder.

3.1 THE GUARANTORS

3.1.1 Gap Mellieħa (I) Limited

GML is a private limited liability company, registered and operating in Malta in terms of the Act with company registration number C 72013, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GML has an authorised share capital of €1,200 (one thousand two hundred Euro) and an issued share capital of €1,200 (one thousand two hundred Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GML was set up on 26 August 2015 as a property development company, initially to acquire the Mellieħa site and develop the Mellieħa Development.

3.1.2 Gap Għargħur Limited

GGL is a private limited liability company, registered and operating in Malta in terms of the Act with company registration number C 72015, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GGL has an authorised share capital of €3,458 (three thousand four hundred and fifty eight Euro) and an issued share capital of €3,458 (three thousand four hundred and fifty eight Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GGL was set up on 26 August 2015 to acquire the Għargħur site and develop the Għargħur Development.

3.1.3 Gap Properties Limited

GPL is a private limited liability company, registered in Malta in terms of the Act with company registration number C 47928, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GPL has an authorised share capital of €2,800 (two thousand eight hundred Euro) and an issued share capital of €2,800 (two thousand eight hundred Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GPL was established to act as a property development company on 14 October 2009, initially for the Żebbuġ project.

3.1.4 Geom Developments Limited

GDL is a private limited liability company, registered in Malta in terms of the Act with company registration number C 50805, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GDL has an authorised share capital of €2,000 (two thousand Euro) and an issued share capital of €2,000 (two thousand Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GDL was established on 7 October 2010, and owns an undivided portion of the site situated in Triq il-Porzjunkola corner with Triq it-Tamar in Qawra, over which Blocks A, B and C of the Qawra Development are being developed. The other undivided portion of land is owned by its affiliate Geom Holdings Limited.

4. THE PROJECTS

4.1 THE ŻEBBUĠ DEVELOPMENT - HISTORY AND OVERVIEW

GPL embarked on the Żebbuġ Development in June 2012 when it acquired the land measuring *circa* 6,878m^2, situated at 'Ta' Robba' in the district of 'Ħal-Mula' in Żebbuġ, which area is located just off the village centre. Development was completed in Q1 2017 at an aggregate cost of *circa* €10.5 million, and comprises 193 apartments, 2 retail outlets, and 225 garages/car spaces.

During FY2017, the last remaining 3 apartments were sold, together with 19 garages/car spaces. The remaining stock as at 31 December 2017 included 31 garages and 1 retail shop, of which, 9 garages and the retail shop are subject to promise of sale agreements.

4.2 THE QAWRA DEVELOPMENT - HISTORY AND OVERVIEW

The Qawra Development is a joint venture between GDL and GHL, both subsidiaries of the Issuer. The Project is constructed over a site consisting of two divided portions of land, one measuring approximately 2,280m^2 (inclusive of the road formation) belonging to GHL and another portion of land measuring approximately 1,228m^2 belonging to GDL, and both situated in Triq il-Porzjunkola corner with Triq it-Tamar which is situated just off the Qawra seafront. Both portions of land were purchased by GDL and GHL by two separate contracts dated 26 March 2015 published by Notary Dr John Spiteri.

4.2.1 Development

The Project is fully developed and includes a total of 145 residential units and 180 garages/car spaces. The units occupy a total built up saleable area of *circa* 24,879m^2 spread over seven blocks with a variety of one, two, and three bedroom units. Three of the said blocks are constructed over the property owned by GDL, whilst the remaining four blocks are constructed over the property owned by GHL. The blocks identified as A, B and C (property of GDL and forming part of the Hypothecated Property) consist of 62 residential units and 58 underlying garage spaces, whilst Blocks D, E, F and G (property of GHL) will consist of 83 residential units and 122 underlying garage spaces.

The aggregate cost for developing the Project amounted to *circa* €8.1 million (Blocks A, B and C: €2.9 million; Blocks D, E, F and G: €5.2 million) and was near completion in January 2018.

4.2.2 Sale of Units

The apartments which form part of the Qawra Development have been targeted principally towards first-time buyers, rental investors, and foreigners wishing to relocate to Malta.

In 2017, GDL (Blocks A, B and C) contracted 51 apartments and 29 garages. The remaining 11 apartments are subject to preliminary agreements, whilst 16 of the remaining 29 garages are committed. With respect to GHL (Blocks D, E, F and G), the company entered into sale contracts for 57 units and 54 garages during 2017, and as at year end, outstanding stock comprised 26 apartments and 68 garages, of which 22 apartments and 20 garages are committed.

4.3 THE MELLIEĦA DEVELOPMENT - HISTORY AND OVERVIEW

In October 2015, GML entered into a preliminary agreement for the purchase and acquisition of a plot of land measuring *circa* 5,220m^2 with access from the three streets surrounding the property situated in the Ta' Masrija area in Mellieħa over which the Mellieħa Development shall be constructed and developed. The property was acquired pursuant to a deed of acquisition dated 21 October 2016.

The site is located in the village of Mellieħa in the northern region of Malta. It enjoys unobstructed country views of the imposing area known as Miżieb and distant sea views of the island's north western coastline. Moreover, the site is a short drive away from Malta's largest sandy beaches, Għadira Bay and Golden Bay and a short walk to the village centre of Mellieħa.

Given the location of the site and the proposed level of finishes which the Mellieħa Development will embrace, the Directors believe that the Project offers a unique opportunity for owning residential property in this part of the island.

4.3.1 Development

The Mellieħa Development is planned to comprise 152 luxury apartments which will be sold finished in a complete state, including all common areas and the formation of the road. The development is covered by a full development permit and is projected to encompass 10 blocks of apartments, each with separate entrances and served with passenger lifts accessing both the apartments and underlying garage levels. The apartments at the top level will also have access to roof level and will enjoy full ownership thereof.

The progress of the apartments will be spread over 5 phases with each phase comprising 2 blocks of apartments. Out of the 10 blocks, 7 will contain 16 apartments each, 2 will contain 14 apartments each and 1 block will include 12 apartments. The apartments shall be spread over 8 levels in each block. The development shall also include 174 lock-up underground garages spread over 3 underground levels. Both apartments and garages combined shall occupy a total built up saleable area of *circa* 44,325m^2.

The development of the Project is planned to span over 32 months from commencement of works, and should be completed by Q2 2019. As at 31 December 2017, the first two blocks (Block I & J) of the site were fully constructed, whilst the second two blocks (Blocks G & H) were *circa* 60% complete in terms of construction. In terms of finishes, approximately 70% of the electrical and water works, 80% of tiling and 80% of plastering works of Blocks I & J were complete. On the other hand, *circa* 20% of electrical and water works and 15% of both tiling and plastering works had been completed on Blocks G & H. The estimated value of works in progress amounted to €3.6 million (FY2016: €1.0 million).

Completion to a finished state of Blocks G & H is envisaged by Q2 and Q3 2018, respectively.

4.3.2 Estimated Costs of the Project

The Mellieħa Development is estimated to cost *circa* €16.3 million as follows:

Mellieħa Development **Estimated Costs of the Project**	**€'000**
Excavation	289
Construction	5,529
Finishes	9,728
Contingency	777
Total	**16,323**

GML has entered into a contract for the development of the Mellieħa Development with GGCL for a value of approximately €16.3 million. Payment under the said contract is being settled by the company according to agreed fixed monthly payments of *circa* €272,000. In general, such payment terms are subject to negotiation and agreement by GML and GGCL. The afore-mentioned parties entered into a public deed in the records of Notary Dr Andre Farrugia and dated 5 August 2016 which makes provision for the contractual waiver by GGCL of its right at law to register a special privilege for any amount over the Mellieħa Development in the event of non-payment by the Guarantor until such time that the hypothecs and privileges granted in favour of the Security Trustee have been settled and repaid in full. The public deed is intended to protect the security interests of the Trustee for the benefit of Bondholders and to preserve their ranking over the assets of the Issuer and the Guarantor.

4.3.3 Pricing and Sales Approach

Taking into account the characteristics of the development and its location, the units are targeted principally to Maltese residents wishing to upgrade to a higher end property, those wishing to downsize from a bigger residence or those wishing to reside in a tranquil area, steps away from the countryside and closer to recreational areas, but still away from the urban sprawl characterising other parts of the island. Moreover, these apartments may also be appealing to foreigners seeking to relocate to Malta and investors wishing to maximise rental income potential.

The majority of the apartments will have areas varying between 180m^2 and 240m^2 with approximate prices ranging between €350,000 and €500,000. The larger, top most apartments (which are much fewer in number) range from 250m^2 and 400m^2 with prices exceeding €500,000.

The Directors are of the view that the Project is a competitive proposition when considering the properties available on the market in Mellieħa, the location of the Mellieħa Development, the size and layout of the apartments together the finishes being proposed.

In the latter part of 2016, the company launched the residential apartments of Blocks I & J on the market, whilst in May 2017, Blocks G and H were available for sale. The Project is being marketed through a number of agents in Malta as well as through the Group's internet website and various forms of social media. By the end of 2017, the Company managed to conclude preliminary sale agreements for 27 apartments in the first two blocks (I & J), 7 preliminary sale agreements for units in the second two blocks (G & H) and preliminary sale agreements for 40 garages, valued at €12.7 million. The committed apartments equate to 53% of the available residential units on the market (Blocks G, H, I, and J) and 22% of the total residential units of the Project. By March 2018, 12 additional apartments were subject to promise of sale agreements.

Blocks I and J are expected to be fully completed during FY2018, which will enable the Company to enter into sale contracts relating to units in the aforesaid blocks.

4.4 THE GĦARGĦUR DEVELOPMENT - HISTORY AND OVERVIEW

In February 2016, GGL acquired the legal title of a portion of land in Għargħur, which includes its sub-terrain and airspace and measures *circa* 2,585m^2, accessible from an entrance bearing the official number 39 (previously numbered 20) in Triq il-Kbira and from another entrance in Triq Caravaggio.

The site is located in the small village of Għargħur in the north eastern region of Malta. Over the years, the locality has gained its popularity with regards to the property market due to the small size, exclusivity and tranquility of the village, together with its accessible location. The site is situated in a residential area, close to the village centre and just a short walk to one of the island's most picturesque valleys, Wied id-Dies/Wied Santa Marija taż-Żellieqa, which connects Għargħur with Madliena.

4.4.1 Development

The Għargħur Development is covered by a full development permit and includes the development of 28 residential units and 6 penthouses, 38 (1-car) lock-up garages and 3 (2-car) lock-up garages. The total area of the development will add up to *circa* 10,680m^2 (built up area) with a further 330m^2 of internal street area. The apartments shall be spread over 5 levels, whilst garages shall be over 1 underground level.

The apartments will be sold finished in a complete state, including all common areas and the formation of the internal street. The development will be spread over 4 blocks of apartments, each with separate entrances and served with passenger lifts accessing both the apartments and underlying garage levels.

Works on the Project have commenced and as at 31 December 2017, the site was fully excavated and construction up to garage levels was progressing well. Total value of works in progress as at the afore-mentioned date amounted to €2.39 million (FY2016: €390,149). Construction of the residential floors is due to commence at the beginning of 2018 and full completion of this development is expected to be accomplished by the end 2018.

4.4.2 Estimated Costs of the Project

The estimated total cost of completion is *circa* €3.7 million which is divided as follows:

Għargħur Development **Estimated Costs of the Project**	**€'000**
Excavation	360
Construction	1,550
Finishes	1,568
Contingency	174
Total	**3,652**

GGL has already entered into a contract for the development of the Għargħur Development with GGCL for a value of approximately €3.7 million. Payment under the said contract is being settled by GGL according to agreed fixed monthly payments of *circa* €60,000. In general, such payment terms are subject to negotiation and agreement by GGL and GGCL.

GGL is a joint and several guarantor for the Bond under the Guarantee, but will not be supporting its guarantee with any rights of preference over the Għargħur Development.

4.4.3 Pricing and Sales Approach

The Directors believe that given the location of the site, the apartment layouts and the proposed level of finishes which the development will comprise, the Project is a competitive offering for prospective buyers to acquire a property in this locality. The strategy being adopted for the marketing of these apartments is similar to the one for the Mellieħa Development - a development that is aimed at appealing to Maltese residents wishing to upgrade to a more exquisite home, or others wishing to downsize from a bigger residence and wishing to reside in a tranquil, more central and coveted village location. Moreover, these apartments may also be suitable for people seeking to invest in property for rental purposes and foreigners wishing to relocate to Malta and enjoy tranquility of Maltese village life.

The majority of the apartments will have areas varying between 195m^2 and 250m^2 with approximate prices ranging between €250,000 and €400,000. The larger (which are much fewer in number) will range from 250m^2 and 400m^2 with prices exceeding €400,000.

The Project was launched on the market in November 2016 and by the end of FY2017, 31 apartments were subject to preliminary sale agreements, with 3 penthouses remaining in inventory. Furthermore, 37 out of 41 garages were subject to preliminary sale agreements. The Project is being marketed through a number of agents in Malta as well as through the Issuer's internet website and various forms of social media.

4.5 LUQA DEVELOPMENT – OVERVIEW OF NEW INVESTMENT

In December 2016, the Group (through GML) made an investment of €2.3 million in a related party – QIL - to enable the latter company to enter into a preliminary agreement and settle other ancillary costs relating to the acquisition of a site in Luqa, which is divided into seven parcels of land.

The proposed Luqa Development will comprise units of *circa* 110m^2 to 135m^2, and are expected to be priced within a range to target primarily first-time buyers. The Gap Group sought this investment following the success achieved with the Żebbuġ and Qawra Developments, whereby to date practically all units have been sold. This position has left the Gap Group with no available stock to satisfy demand from the lower-priced end of the property market. As such, the Directors believe that the above-stated investment is required to sustain the Group's business activities.

The deed of purchase was executed on 26 April 2017 and the outstanding balance of consideration was financed mainly through a bank loan facility. It is the intention of the Directors to integrate QIL as a fully owned subsidiary company of the Gap Group by not later than the end of FY2018.

The properties, which include the sub-terrain and airspace, are accessible from eight streets, namely Triq Ġorġ Zahra, Triq Tumas Galea, Triq l-Iskola, Triq Ġeraldu Spiteri, Triq W. Briffa, Triq Indri Micallef, Triq l-Aħwa Vassallo and Triq Ġuzeppi Callus, in an area known as 'Ta Blejkiet' in Luqa, and measure in aggregate *circa* 15,023m^2 (developable area is *circa* 10,454m^2).

The afore-mentioned properties are situated in the heart of the residential area of Luqa. Triq l-Aħwa Vassallo will provide a direct access to the town's village core, a distance of around 200 metres from the main square and parish church. The public school of the village and one of the largest supermarkets in the south of Malta are also close by and directly accessible from the proposed development. Furthermore, the properties are located within a few metres from the arterial road which links the Malta International Airport to the rest of the island.

4.5.1 Development

All parcels of land are situated within the approved building scheme and, subject to issuance of planning permits, will be developed in a number of phases. A full development permit for Zones A & B was issued in April 2017. The Group intends to gradually apply for planning permits for the remaining sites.

Zone A consists of 69 units, being 13 maisonettes, 43 apartments and 13 penthouses which are currently on the market. Zone B consists of 37 units, being 3 maisonettes, 29 apartments and 5 penthouses. Both Zones are spread over 5 floors, together with 73 lock-up garages, all to be sold finished in a complete state including all common areas. The units in Zone A and Zone B will have an average total floor area of *circa* 135m^2 and 110m^2 respectively. The total area of the development, excluding garage levels, will add up to *circa* 13,500m^2 (Zone A - 9,340m^2, Zone B - 4,140m^2).

The development of Zones A & B is planned to span over 28 months from commencement of works. Excavation works commenced mid-2017 and took 2 months from commencement date to complete, whilst the project will be fully constructed by Q4 2019. Zone A and Zone B construction works are expected to be finalised by Q1 2019 and Q2 2019 respectively, whilst both zones should be fully completed by Q4 2019.

4.5.2 Estimated Costs of the Project

The estimated total cost of completion of Blocks A & B is *circa* €6.3 million which is divided as follows:

Luqa Development (Blocks A & B)
Estimated Costs of the Project

	€'000
Excavation	115
Construction	2,642
Finishes	3,284
Contingency	302
Total	**6,343**

QIL is funding the afore-mentioned development costs of *circa* €6.3 million from deposits received pursuant to preliminary sale agreements, a bank loan facility and from proceeds to be derived from sales of units in Blocks A & B forming part of the Luqa Development.

4.5.3 Pricing and Sales Approach

When considering the characteristics of the development, the Directors believe that the above-mentioned units should be an interesting proposition, particularly to first-time buyers and families wishing to relocate to a central area, with various amenities and commercial areas in the vicinity. Moreover, the proposed development should also generate demand from buy-to-rent investors, seeking to tap into a potentially new niche short-stay rental market for properties in close proximity to the airport. The prospects of the area should improve further once the expansion of Terminal 2 and Skyparks is completed.

The company has launched Block A units on the market through various real estate agents in Malta, as well as through the Group's internet website and other forms of social media. The indicative price range for the majority of units is expected to be between €105,000 and €280,000 per unit. To date, 17 of the 69 units available are subject to preliminary sale agreements.

When considering the location, layout of the units, level of finishes and proposed prices, the Directors believe that the development should generate considerable demand and compete well with other properties in neighbouring towns and villages.

4.6 CASH INFLOWS ON PROPERTY SALES

The following table illustrates the projected cash inflows from deposits and contracts relating to sales of units, net of applicable commissions.

GAP Group p.l.c. Pre-tax Cash Flow on Property Sales	2016 (€'000)	2017 (€'000)	2018 (€'000)	2019-2023 (€'000)	Total (€'000)
Qawra & Għargħur (previous development)	64	150	150	546	**910**
Żebbuġ	10,176	596	250	200	**11,222**
Qawra	817	12,470	2,195	796	**16,278**
Għargħur	101	905	3,950	6,484	**11,440**
Mellieħa	247	950	14,645	42,962	**58,804**
Luqa (Zones A & B only)	-	160	705	15,322	**16,187**
Total cash inflows from deposits and contracts	**11,405**	**15,231**	**21,895**	**66,310**	**114,841**

As presented in the above table, cash inflows over the 8-year term ending 2023 is projected at €114.8 million (being €6.2 million or 5.7% higher than last year's estimate due to a general increase in selling prices) and is expected to be derived principally from sales proceeds of five real estate developments. It is forecasted that the Mellieħa Development will generate the largest portion of total projected cash inflows, estimated at *circa* 51%. Given that each Project has a different timeline in terms of development and sales tempo, the Gap Group is expected to generate continual cash inflows on a yearly basis, which will enable the Group to service its borrowings and part of development costs from said cash balances.

4.7 PROJECT FUNDING

The Issuer is funding each of the New Developments, except for Blocks D, E, F and G that form part of the Qawra Development and Blocks A & B of the Luqa Development, through a mix of Bond proceeds and cash flows generated from the sales of units from the Projects. The development of the afore-mentioned Blocks D, E, F and G (Qawra Development) and Blocks A & B (Luqa Development) have been funded from cash flows generated from the sales of units in the respective blocks, other sources of funds and a bank loan facility (solely for the Luqa Development).

The funding of the New Developments is therefore partly dependent on the proceeds from the gradual sale of units in each New Development. In the event that projected sales of units are not attained or are delayed, the Group may well not have sufficient funds to complete all the New Developments, to complete the New Developments within the time-frames envisaged in this document, or to pay GGCL for works performed.

As depicted in the table hereunder, the sum of €13.5 million from the total projected cost of the New Developments of *circa* €38.2 million will be financed out of the Bond proceeds, whilst the balance of approximately €21.7 million is to be funded from the proceeds of sales of each of the Projects.

The remaining amount of projected net sales proceeds from the Projects, estimated at €90.1 million (€114.8 million less €24.7 million), shall be utilised principally to settle tax of property sales, cover the annual interest payments on the Bond, repay a bank loan facility of €9.5 million, pay administrative & other expenses of the Group and fund a reserve account to be held by the Security Trustee for the purpose of redeeming the Bond of €40 million on maturity (the "**Reserve Account**").

GAP Group p.l.c.	
Project Funding	
	(€'000)
Use of net proceeds from Bond Issue	
Repayment of bank borrowings	3,000
Acquisition of Group companies	13,110
Net balance of consideration payable for the Mellieha land	9,650
Part funding of New Developments (excluding Qawra Development - Blocks D, E, F and G; Luqa Development - Blocks A & B)	13,526
	39,286
Estimated development cost payments (by Project)	
Żebbuġ	3,705
Qawra	8,157
Għargħur	3,652
Mellieħa	16,323
Luqa	6,343
	38,180
Source of funding	
Maximum funding through Bond Issue proceeds	13,526
Financing through bank loan facility	3,000
Minimum funding required through property sales	21,654
	38,180

4.7 THE RESERVE ACCOUNT

All sales of units forming part of the Hypothecated Property shall be made on condition that units are released of all hypothecary rights and privileges encumbering the units being sold. For this purpose, the Security Trustee shall be empowered to release individual units of the Hypothecated Property from the security interest encumbering such unit/s upon receipt by it from the Issuer or from a prospective purchaser of a fixed amount of the purchase price attributed to each unit forming part of the Hypothecated Property.

For this purpose, the Security Trustee and the Issuer have agreed that a fixed amount shall be set for each unit, and it is only upon receipt by the Security Trustee of such an amount that the Security Trustee shall be bound to release a particular unit from the effects of any security interests encumbering the Hypothecated Property. Accordingly, the security created for the interest of

Bondholders shall only be reduced against a cash payment made by the Issuer in the Reserve Account to be held by the Trustee for the benefit of Bondholders. The Security Trustee shall hold the funds received in a segregated bank account with a credit institution in Malta and shall hold such funds for the benefit of Bondholders with a view to meeting the redemption of the Bonds on maturity.

Any shortfall in the amount receivable by the Security Trustee pursuant to the foregoing shall be required to be made up, in whole or in part, out of the available sale proceeds from any subsequent sale or sales until such shortfall shall have been made up in its entirety.

In accordance with the Trust Deed, the Security Trustee is authorised to release to the Issuer any funds held in and to the credit of the Reserve Account which are in excess of the aggregate value of Bonds outstanding, provided that there remain sufficient units, covered by the security interests, to be sold to cover the interest still to become payable on the Bonds until the redemption date.

The Trustee shall hold such monies standing to the credit of the Reserve Account to ensure their preservation and the Security Trustee may from time to time, but shall not be obliged to, through the engagement of a licensed investment advisor, invest such monies in such a manner and in such instruments as are herein provided, namely:

(i) investment or re-investment in any EU Government debt securities or other debt securities issued or guaranteed by an OECD sovereign state and without any currency exchange risk, in either case for a term not exceeding the redemption date of the Bonds; or

(ii) Re-purchase of the Bonds for cancellation; or

(iii) not more than 20 per cent of any amounts held in the Reserve Account may be invested in debt securities listed on the Malta Stock Exchange or in other rated (not less than AA or its equivalent) debt securities denominated in Euro and traded on a regulated market in the European Union.

All amounts received by the Trustee from the sales proceeds of units in any one of the Projects shall be credited to the Reserve Account and shall, subject to the immediately preceding paragraph, be retained for the purpose of redeeming the Bonds on maturity. The Group intends to utilise all sales proceeds arising from the Għargħur Development to meet development and construction costs of the New Developments and as such, none of those proceeds are earmarked to be allocated to the Reserve Account. In the absence of unforeseen circumstances and subject to there being no material adverse changes in circumstances, the Directors are of the view that the percentages available for cash flows that will be credited to the Reserve Account will be sufficient to cover the redemption of the Bonds on maturity.

4.8 BALANCES ON THE RESERVE ACCOUNT

On the basis of the current projections of sales and the projected sales prices for units and garage spaces prepared by the Issuer and taking into account the requirements of cash for the completion of the New Developments, it is expected that, save for unforeseen circumstances, the Security Trustee shall receive funds in the Reserve Account from GPL, GDL and GML as follows:

The Reserve Account	
	€'000
Allocation to Security Trustee during life-time of the Bond (by Project):	
Żebbuġ Development	597
Qawra Development	5,441
Mellieħa Development	40,879
Total	**46,917**

During the initial term of the Bond, a significant part of the cash flows generated will be applied for the financing of development costs, taxes, and finance costs whilst the allocation to the Reserve Account will start at a low level from the Żebbuġ Development and increases significantly from the sales proceeds of the Mellieħa Development. Significant reliance is made on sales proceeds emanating from the Mellieħa Development that is expected to contribute approximately 87% of the contributions to the Reserve Account principally between 2018 and 2020.

As at 31 December 2017, the balance of the sinking fund amounted to €4,812,826 (FY2016: €311,452), which amount was derived from signed contracts of the Żebbuġ Development and Qawra Development.

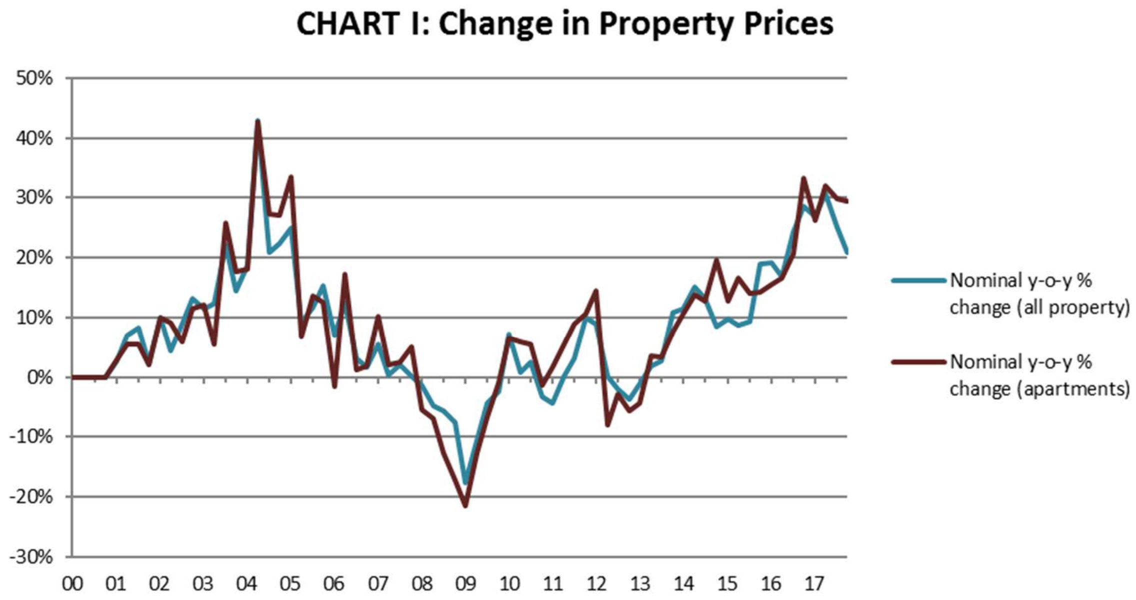
It is the intention of the Issuer and Trustee to apply part of the funds standing to the credit of the Reserve Account to re-purchase Bonds in the market, thus reducing the total value of Bonds outstanding prior to its maturity. The funds standing to the credit of the Reserve Account which are not utilised to re-purchase Bonds in the market shall be invested in line with the investment parameters set out in the Trust Deed and which are summarised above. Interest or other income from such investments will accrue to the credit of the Reserve Account.

Taking into account all of these factors including interest and other income receivable in the Reserve Account, without the re-purchase of Bonds in the market, the amount transferred to the Reserve Account over the life-time of the Bonds will be in the region of €47 million, which should cover the redemption of the principal of the Bonds in 2023. The Security Trustee shall be under no obligation to receive in the Reserve Account an amount in excess of the principal amount outstanding on the Secured Bonds from time to time.

5. OVERVIEW OF THE PROPERTY MARKET IN MALTA

Residential property prices continued to rise during the fourth quarter of 2017 (see Chart I below) and said prices are being supported by a number of factors. Residential property prices are being supported by a number of factors, including the Government's scheme for first-time buyers and a low interest rate environment which makes property a more attractive asset. Buoyant labour market conditions and strong growth in disposable income, together with the rise in foreign workers and, to a lesser extent, the Individual Investor Programme, also continue to lift property prices. At the same time, the strong growth in residential permits recorded in recent quarters should take off some of the upward pressure on house prices, as new construction activity counters excess demand for property.

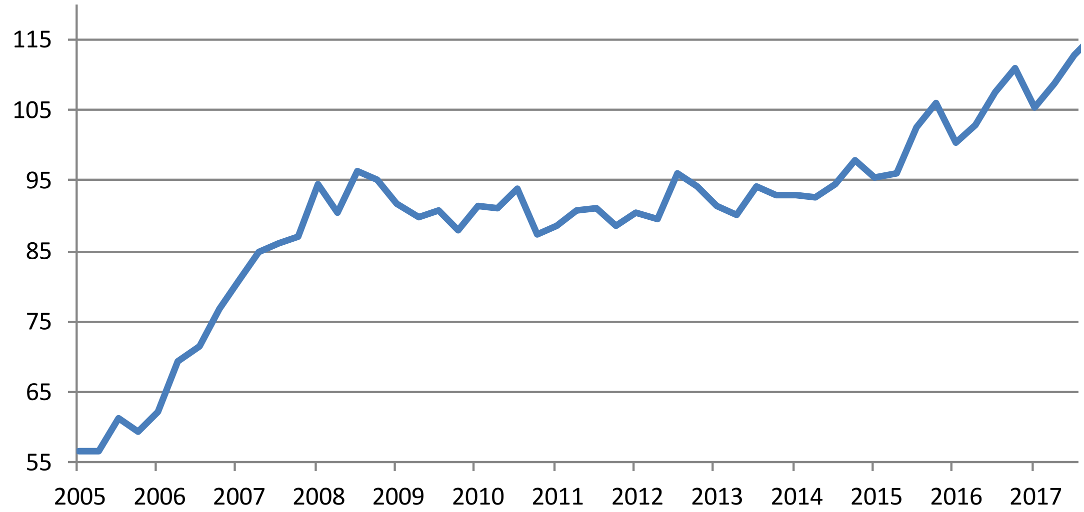
The Central Bank of Malta's advertised property price index shows that house prices rose at an annual rate of 8.8% in the last quarter of 2017. Prices of apartments – the major component – continued to grow strongly in Q4 2017 at 7.6% over the previous quarter (such data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place).



Source: Central Bank of Malta

Eurostat's House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q4 2017 and shows that said prices increased by 4.1% compared with the same quarter of 2016 (vide Charts II below).

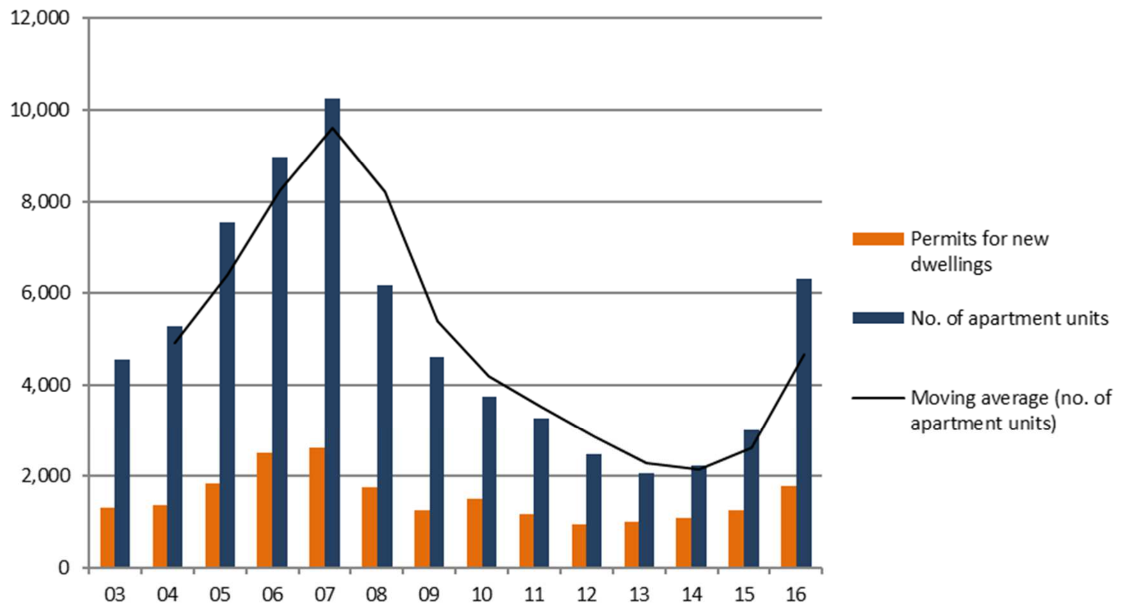
CHART II: Malta House Price Index



Source: Eurostat

With regard to the number of permits, Planning Authority issued 7,508 permits during 2016 (statistics for 2017 have yet to be published), just over 90% more than in 2015. This followed growth of 34.4% in 2014, marking three consecutive years of growth following a period of decline. The increase in permits issued in 2016 was mostly driven by the largest residential category, namely apartments, which accounted for 84.1% of total permits granted.

CHART III: Development Permits for Dwellings



Source: Planning Authority

The gross value added from the construction industry rose by 8.3% in 2017 (in nominal terms), from €328.9 million in 2016 to €356.4 million), following a marginal decrease of 0.4% in 2016. During 2015, a y-o-y increase of 8.8% or €26.7 million increase was registered.

6. TREND INFORMATION & BUSINESS STRATEGY

The real estate market in Malta remains a competitive one, in the context of existing and projected developments, particularly in the Sliema and St Julians area. The New Developments are intended to cater for a market which is not directly in competition, in terms of location, with the market for real estate in the Sliema and St Julians area. The strategy is to address the demand for a niche market of luxury apartments in other locations principally the north part of the island with views of both rural landscapes and seascapes.

The target buyers, in the case of the Mellieħa and Għargħur Developments are the medium to high end customers, both locals and foreigners, who are more interested in residential units away from the urban sprawl of the Sliema – St Julians area. As far as the Issuer is aware, there are currently no comparable projects in Mellieħa and Għargħur, and thus direct competition from new residential developments in the subject areas is limited. The Group may however face new competition from developers who may enter this property market segment in the coming years.

The successful launch on the market of units forming part of the Mellieħa and Għargħur Developments has shown that there is a strong and active demand for real estate in Malta, particularly in two segments, namely first-time buyers and high-end residential property. This view is also supported by statistical data provided in the prior section, which demonstrates that the property market in Malta has been gaining momentum in the last few years. Accordingly, the Directors have devised a pricing strategy that should allow them to better target these market segments with the diverse offerings through the Luqa Development for the first segment (as the units within the Żebbuġ and Qawra Developments are practically all sold), and the Mellieħa Development (since only a few units are left at the Għargħur Development) for the latter market segment. The Directors are satisfied with the sales performance of the Żebbuġ and Qawra Developments, and current demand for the Mellieħa Development and Għargħur Development have exceeded internal targets. As such, the Directors are confident that actual outcome for the New Developments will at least be in line with expectations.

Management has acquired considerable knowledge from similar projects, not only from the construction and development perspective, but also from a prospective buyer's point of view. Consequently, the Group's offerings are based on this experience, and the units will therefore be finished to a high quality standard and will also incorporate new features.

PART 2 – GAP GROUP PERFORMANCE REVIEW

7. FINANCIAL INFORMATION RELATING TO THE GUARANTORS

7.1 GAP PROPERTIES LIMITED

The following financial information is extracted from the audited financial statements of GPL for the years ended 31 December 2015 to 31 December 2017.

Gap Properties Limited Income Statement for the year ended 31 December	2015 Audited (€'000)	2016 Audited (€'000)	2017 Audited (€'000)
Revenue	9,264	11,772	789
Cost of sales	(5,261)	(6,427)	(297)
Administrative expenses	(523)	(584)	(61)
EBITDA	**3,480**	**4,761**	**432**
Depreciation	(7)	(4)	
Net finance costs	(1,036)	(1,059)	(282)
Profit before tax	**2,437**	**3,698**	**149**
Taxation	(752)	(917)	(62)
Profit for the year	**1,685**	**2,781**	**88**
Other comprehensive income			
Movement in fair value of financial assets	183	196	
Total comprehensive income for the year	**1,868**	**2,977**	**88**

Gap Properties Limited Cash Flow Statement for the year ended 31 December	2015 Audited (€'000)	2016 Audited (€'000)	2017 Audited (€'000)
Net cash from operating activities	13,008	(1,765)	4,372
Net cash from investing activities	(7)	(1)	0
Net cash from financing activities	(13,437)	1,943	(4,831)
Net movement in cash and cash equivalents	**(436)**	**177**	**(459)**
Cash and cash equivalents at beginning of year	722	286	463
Cash and cash equivalents at end of year	**286**	**463**	**4**

Gap Properties Limited			
Balance Sheet			
As at 31 December	**2015**	**2016**	**2017**
	Audited	**Audited**	**Audited**
	(€'000)	**(€'000)**	**(€'000)**
ASSETS			
Non-current assets			
Property, plant and equipment	6	3	2
Loans and other receivables	2,804	91	-
	2,810	94	2
Current assets			
Inventory - development project	7,418	1,216	643
Trade and other receivables	1,704	9,849	5,602
Taxation	-	25	27
Cash and cash equivalents	286	463	4
	9,408	11,553	6,276
Total assets	**12,218**	**11,647**	**6,278**
EQUITY			
Capital and reserves			
Called up share capital	1	3	3
Retained earnings	1,837	5,428	5,516
	1,838	**5,431**	**5,519**
LIABILITIES			
Current liabilities			
Borrowings and other financial liabilities	6,306	5,038	-
Other current liabilities	4,074	1,178	759
	10,380	6,216	759
	10,380	**6,216**	**759**
Total equity and liabilities	**12,218**	**11,647**	**6,278**

GPL was involved in the development of the Żebbuġ project referred to in section 4.1 above. Sales commenced in FY2014 and aggregate revenue in FY2014 to FY2017 amounted to €24.7 million. In terms of profitability, GPL generated a profit after tax in each of FY2014, FY2015, FY2016 and FY2017 of €0.5 million, €1.7 million, €2.8 million and €0.1 million respectively.

The project was completed in FY2017 and all the apartments were contracted by the end of Q2 FY2017. The remaining stock pertains to 31 garages and 1 retail shop, of which 9 garages and the retail shop are subject to preliminary sale agreements. There were no outstanding borrowings and other financial liabilities as at 31 December 2017 (31 December 2016: €5.0 million).

7.2 GEOM DEVELOPMENTS LIMITED

The following financial information is extracted from the audited financial statements of GDL for the years ended 31 December 2015 to 31 December 2017.

Geom Developments Limited Income Statement for the year ended 31 December	**2015 Audited (€'000)**	**2016 Audited (€'000)**	**2017 Audited (€'000)**
Revenue	802	72	6,322
Cost of sales	(594)	(54)	(3,730)
Administrative expenses	(17)	(13)	(301)
EBITDA	**191**	**5**	**2,292**
Net finance costs	(180)	-	(448)
Profit/(loss) before tax	**11**	**5**	**1,844**
Taxation	(62)	(6)	(490)
Profit/(loss) for the year	**(51)**	**(1)**	**1,354**
Other comprehensive income			
Movement in fair value of financial assets	835	(160)	107
Total comprehensive income for the year	**784**	**(161)**	**1,461**

Geom Developments Limited Cash Flow Statement for the year ended 31 December	**2015 Audited (€'000)**	**2016 Audited (€'000)**	**2017 Audited (€'000)**
Net cash from operating activities	(2,708)	(1,231)	5,644
Net cash from investing activities	-	(1)	(1,487)
Net cash from financing activities	2,680	1,581	(4,428)
Net movement in cash and cash equivalents	**(28)**	**349**	**(272)**
Cash and cash equivalents at beginning of year	(69)	(97)	252
Cash and cash equivalents at end of year	**(97)**	**252**	**(20)**

Geom Developments Limited Balance Sheet As at 31 December	2015 Audited (€'000)	2016 Audited (€'000)	2017 Audited (€'000)
ASSETS			
Non-current assets			
Loan receivables and investment in subsidiaries	2,768	3,110	2,288
Investments - available for sale	-	-	1,508
	2,768	3,110	3,796
Current assets			
Inventory - development project	2,576	4,068	1,429
Trade and other receivables	2,165	5,956	3,538
Cash and cash equivalents	120	273	2
	4,861	10,297	4,969
Total assets	**7,629**	**13,407**	**8,765**
EQUITY			
Capital and reserves			
Called up share capital	1	2	2
Share premium account	-	5,177	5,177
Retained earnings	(760)	(921)	540
	(759)	**4,258**	**5,719**
LIABILITIES			
Non-current liabilities			
Bank loans	3,738	-	-
	3,738	-	-
Current liabilities			
Bank overdrafts	217	21	22
Borrowings and other financial liabilities	2,735	7,088	1,706
Other current liabilities	1,698	2,041	1,318
	4,650	9,149	3,046
	8,388	**9,149**	**3,046**
Total equity and liabilities	**7,629**	**13,407**	**8,765**

In FY2013, GDL was engaged in the development of two projects situated in Qawra and Għargħur (which are unrelated to the Qawra and Għargħur Developments described in sections 4.2 and 4.4 of this report). The former project comprised 32 residential units and 34 garages, and the latter project included 84 residential units and 75 garages. Both projects were completed during FY2013. In FY2015, development on the Qawra Development (which is co-owned by GDL and GHL) was initiated. This Project is described in section 4.2 above.

Total revenue generated by GDL in FY2014 and FY2015 amounted to €5.1 million (in aggregate), and principally related to the disposal of residential units and garages in the above-mentioned Qawra and Għargħur projects. By the end of 2015, practically all units of these two projects were sold.

GDL generated a profit after tax in FY2014 of €0.6 million, but incurred a loss of €51,000 in FY2015 and €1,000 in FY2016.

By the end of FY2017, the Qawra Development was almost 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 amounts to 82% and 50% of the total available units, respectively. All waiver funds were deposited with the Security Trustee 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. During FY2017, GDL generated a profit after tax of €1.4 million on revenues of €6.3 million.

As at 31 December 2017, stock amounted to €1.4 million (31 December 2016: €4.1 million), primarily consisting of the land cost and construction works relating to Blocks A, B and C of the Qawra Development. Outstanding borrowings and other financial liabilities as at 31 December 2017 amounted to €1.7 million (31 December 2016: €7.1 million).

7.3 GAP MELLIEĦA (I) LIMITED

The following financial information is extracted from the audited financial statements of GML for the period 26 August 2015 (date of incorporation) to 31 December 2016 and for the year ended 31 December 2017.

Gap Mellieha (I) Limited
Income Statement

for the year 31 December	2016* Audited (€'000)	2017 Audited (€'000)
Revenue	-	-
Cost of sales	-	-
Administrative expenses	(4)	(4)
EBITDA	**(4)**	**(4)**
Net finance costs	-	1
Loss before tax	**(4)**	**(2)**
Taxation	-	-
Total comprehensive expense for the period	**(4)**	**(2)**

* Income Statement for the period 26 August 2015 to 31 December 2016

Gap Mellieha (I) Limited
Cash Flow Statement

for the year to 31 December	2016* Audited (€'000)	2017 Audited (€'000)
Net cash from operating activities	(11,192)	(1,862)
Net cash from investing activities	-	99
Net cash from financing activities	11,440	1,528
Net movement in cash and cash equivalents	**248**	**(234)**
Cash and cash equivalents at beginning of period	-	248
Cash and cash equivalents at end of period	**248**	**14**

* Cash Flow Statement for the period 26 August 2015 to 31 December 2016

Gap Mellieha (I) Limited Balance Sheet As at 31 December	2016 Audited (€'000)	2017 Audited (€'000)
ASSETS		
Non-current assets		
Loans and other receivables	2,303	2,303
	2,303	2,303
Current assets		
Inventory - development project	12,268	16,419
Trade and other receivables	19	23
Cash and cash equivalents	248	14
	12,535	16,455
Total assets	**14,838**	**18,758**
EQUITY		
Capital and reserves		
Called up share capital	1	1
Retained earnings	(4)	(6)
	(3)	**(5)**
LIABILITIES		
Current liabilities		
Other financial liabilities	13,742	15,270
Other current liabilities	1,099	3,493
	14,841	18,763
	14,841	**18,763**
Total equity and liabilities	**14,838**	**18,758**

In FP2016, GML acquired the site known as ta' Masrija in Mellieħa, as better described in section 4.3 above. During FP2016, the site was fully excavated and construction commenced on the first two blocks (Blocks I & J). As at 31 December 2017, the cost of land and development costs amounted to €16.4 million (2016: €12.3 million).

In FP2016, the amount of €2.3 million was advanced to a related party, QIL, to acquire a property located in Luqa for development. As at 31 December 2017, the loan has remained unchanged at €2.3 million. The said loan bears interest at 4.5% annually and is repayable by 2021. Further information on the afore-mentioned development project is provided in section 4.5 of this report.

7.4 GAP GĦARGĦUR LIMITED

The following financial information is extracted from the audited financial statements of GGL for the period 26 August 2015 (date of incorporation) to 31 December 2016 and for the year ended 31 December 2017.

Gap Gharghur Limited **Income Statement** **for the year 31 December**	**2016*** **Audited** **(€'000)**	**2017** **Audited** **(€'000)**
Revenue	-	-
Cost of sales	-	-
Administrative expenses	(2)	(3)
EBITDA	**(2)**	**(3)**
Net finance costs	-	-
Loss before tax	**(2)**	**(3)**
Taxation	-	-
Total comprehensive expense for the period	**(2)**	**(3)**

* Income Statement for the period 26 August 2015 to 31 December 2016

Gap Gharghur Limited **Cash Flow Statement** **for the year to 31 December**	**2016*** **Audited** **(€'000)**	**2017** **Audited** **(€'000)**
Net cash from operating activities	(2,177)	(135)
Net cash from investing activities	-	-
Net cash from financing activities	2,279	52
Net movement in cash and cash equivalents	**102**	**(83)**
Cash and cash equivalents at beginning of period	-	102
Cash and cash equivalents at end of period	**102**	**19**

* Cash Flow Statement for the period 26 August 2015 to 31 December 2016

Gap Gharghur Limited Balance Sheet As at 31 December	2016 Audited (€'000)	2017 Audited (€'000)
ASSETS		
Current assets		
Inventory - development project	2,825	4,894
Trade and other receivables	204	372
Cash and cash equivalents	102	19
Total assets	**3,131**	**5,284**
EQUITY		
Capital and reserves		
Called up share capital	3	3
Share premium account	2,298	2,298
Retained earnings	(2)	(5)
	2,299	**2,296**
LIABILITIES		
Current liabilities		
Other financial liabilities	26	30
Other current liabilities	806	2,958
	832	2,988
	832	**2,988**
Total equity and liabilities	**3,131**	**5,284**

In February 2016, GGL acquired the legal title of a portion of land in Għargħur measuring *circa* 2,585m^2. As at 31 December 2017, inventory (development project) amounted to €4.9 million (2016: €2.8 million) and comprised the cost of land, excavation and construction up to garage level. Further details on the project are included in section 4.4 above.

During FY2017, the construction up to garage levels was progressing well whilst excavation of the entire site was completed. Construction of the residential floors is due to commence in the beginning of 2018. The progress of works is in line with projected timelines and full completion of this development is expected to be accomplished by Q3 2018.

8. FINANCIAL INFORMATION RELATING TO THE ISSUER

The following financial information is extracted from the audited consolidated financial statements of the Issuer for the period 1 June 2016 (date of incorporation) to 31 December 2016 and the year ended 31 December 2017. The projected consolidated financial information for the year ending 31 December 2018 of the Gap Group has been provided by management of the Issuer. **The projected financial statements relate to events in the future and are based on assumptions which the Issuer believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.**

GAP Group p.l.c. Group Income Statement	FP2016 Actual (€'000)	FY2017 Actual (€'000)	FY2018 Forecast (€'000)
Revenue	14,804	14,982	24,582
Cost of sales	(10,595)	(11,154)	(18,191)
Administrative expenses	(748)	(935)	(1,105)
EBITDA	**3,461**	**2,893**	**5,286**
Depreciation	(4)	-	-
Net finance costs	(1,393)	(1,111)	(1,150)
Profit/(loss) before tax	**2,064**	**1,782**	**4,136**
Taxation	(1,161)	(1,197)	(1,965)
Profit/(loss) for the year	**903**	**585**	**2,171**
Other comprehensive income			
Movement in fair value of financial assets	101	107	-
Total comprehensive income/(expense) for the year	**1,004**	**692**	**2,171**

GAP Group p.l.c. Group Cash Flow Statement	FP2016 Actual (€'000)	FP2017 Actual (€'000)	FY2018 Forecast (€'000)
Net cash from operating activities	(25,559)	3,250	9,191
Net cash from investing activities	(10,554)	568	(9,187)
Net cash from financing activities	39,814	(6,339)	(40)
Net movement in cash and cash equivalents	**3,701**	**(2,521)**	**(36)**
Cash and cash equivalents at beginning of year	-	3,701	1,180
Cash and cash equivalents at end of year	**3,701**	**1,180**	**1,144**

GAP Group p.l.c. Group Balance Sheet	31 Dec'16 Actual (€'000)	31 Dec'17 Actual (€'000)	31 Dec'18 Projection (€'000)
ASSETS			
Non-current assets			
Property, plant and equipment	3	10	10
Investments - available for sale	10,600	6,072	1,700
Loans and other receivables	6,688	10,249	10,500
Sinking fund	311	4,813	18,000
	17,602	21,144	30,210
Current assets			
Inventory - development project	34,213	33,701	37,274
Trade and other receivables	1,548	859	1,459
Cash and cash equivalents	3,722	1,203	1,144
	39,483	35,763	39,877
Total assets	**57,085**	**56,906**	**70,087**
EQUITY			
Capital and reserves			
Called up share capital	2,500	2,500	2,500
Other capital	2,601	2,708	2,500
Retained earnings	903	1,488	3,659
	6,004	**6,696**	**8,659**
LIABILITIES			
Non-current liabilities			
Bank loans	-	-	8,000
Other financial liabilities	2,503	5	-
Debt securities	39,310	39,362	40,000
	41,813	39,367	48,000
Current liabilities			
Bank overdrafts	21	22	-
Borrowings and other financial liabilities	-	3	-
Other current liabilities	9,247	10,818	13,428
	9,268	10,843	13,428
	51,081	**50,210**	**61,428**
Total equity and liabilities	**57,085**	**56,906**	**70,087**

Key Accounting Ratios	FP2016	FY2017	FY2018
Operating profit margin *(EBITDA/revenue)*	23%	19%	22%
Interest cover (times) *(EBITDA/net finance cost)*	2.48	2.60	4.60
Net profit margin *(Profit(loss) after tax/revenue)*	6%	4%	9%
Earnings per share (€) *(Profit(loss) after tax/number of shares)*	0.36	0.23	0.87
Return on equity *(Profit(loss) after tax/shareholders' equity)*	15%	9%	25%
Return on capital employed *(EBITDA/total assets less current liabilities)*	7%	6%	9%
Return on assets *(Profit(loss) after tax/total assets)*	2%	1%	3%
Gearing ratio *(Total net debt/net debt and shareholders' equity)*	82%	80%	76%

Source: Charts Investment Management Service Limited

During the financial period 1 June 2016 to 31 December 2016, the Gap Group generated revenue amounting to €14.8 million, primarily from sales of the remaining units at Żebbuġ and Manikata. EBITDA for the period amounted to €3.5 million and after accounting for net finance costs of €1.4 million and taxation of €1.2 million, the Group reported a profit after tax of €0.9 million. In the period under review, the Gap Group registered total comprehensive income of €1.0 million after accounting for a gain of €0.1 million in fair value of financial assets.

In October 2016, the Issuer raised €40 million through the issuance of secured bonds to the public. The amount of €25,759,748 out of net bond issue proceeds were utilised in terms of the prospectus dated 16 September 2016 as follows:

- The amount of €9,649,563 was used to finance the acquisition of the site in Mellieħa and related contract expenses;

- The aggregate amount of €13,110,185 was applied in part settlement and discharge of the acquisition consideration from Gap Group Investments (III) Limited of the entire share capital of GDL and all the ordinary 'A' shares of GHL; and
- The amount of €3,000,000 was used to refinance a bank loan which was made available by Mediterranean Corporate Bank Limited to GGF.

The remaining balance of net bond issue proceeds amounting to €13,525,119 is being applied towards the costs of construction and development of the New Developments (other than in respect of Blocks D, E, F and G that form part of the Qawra Development).

The balance sheet as at 31 December 2016 reflects the re-organisation of the Gap Group undertaken during the year, whereby the Issuer acquired the issued share capital of GML, GGL, GDL, GHL. As a result of such acquisitions, the Issuer indirectly obtained ownership of the New Developments.

Total assets of the Gap Group as at 31 December 2016 amounted to €57.1 million and primarily included stock representing real estate property held for resale (€34.2 million), and cash and liquid assets amounting to €14.3 million. Furthermore, loans and other receivables totalling €6.7 million includes an amount of €2.3 million which was advanced to a related party (QIL) for the purpose to acquire a property in Luqa for development.

Other than equity (€6.0 million), the Gap Group is financed through debt securities (€39.3 million) and cumulative preference shares held by a third party in GHL amounting to €2.5 million. Other current liabilities comprise an amount of €2.8 million being deposits received from customers pursuant to promise of sale agreements.

During FY2017, the Gap Group generated revenue amounting to €15.0 million, an increase of €0.2 million (+1.2%) compared to FP2016, primarily from sales of the remaining units at Żebbuġ and the Qawra Developments. EBITDA for the period amounted to €2.9 million, a decrease of €0.6 million (-16.4%) compared to FP2016. After accounting for net finance costs of €1.1 million and taxation of €1.2 million, the Group reported a profit after tax of €0.6 million. In FY2017, the Gap Group registered total comprehensive income of €0.7 million after accounting for a gain of €0.1 million in fair value of financial assets.

Total assets of the Gap Group as at 31 December 2017 amounted to €56.9 million and primarily included stock representing real estate property held for resale (€33.7 million), and cash and liquid assets amounting to €7.3 million. Furthermore, loans and other receivables totalling €10.2 million includes an amount of €2.3 million which was advanced to a related party (QIL) for the purpose to acquire a property in Luqa for development.

Other than equity (€6.7 million), the Gap Group is financed through debt securities (€39.4 million) with the cumulative preference shares held GHL amounting to €2.5 million being paid during FY2017.

During the projected financial year (FY2018), the Gap Group will be principally involved in the construction and development of the following Projects:

- Għargħur Development – completion is targeted for Q3 FY2018;
- Mellieħa Development – the initial phase is expected to be completed in Q3 FY2018; and
- Luqa Development – Zones A & B are projected to be completed in Q4 2019.

During FY2018, the Group is expected to commence entering into sales contracts for units of the Qawra, Ghargur and Mellieha Projects. Revenue is forecasted at €24.6 million and is expected to be generated principally from the Mellieħa Development. The Group is expecting to generate an EBITDA of €5.3 million in FY2018, €2.4 million (+82.7%) higher than in FY2017 and a profit after tax of €2.2 million, an increase of €1.6 million (+270.9%) compared to FY2017.

Reserve Account

In terms of the Prospectus, the Issuer is required to build a sinking fund, the value of which will, by the redemption date of the bond, be equivalent to 100% of the outstanding value of bonds. Below is a table outlining the balance expected to be held in the reserve account as at the end of the financial years 31 December 2016 to 31 December 2018.

Contributions to Reserve Account as at 31 December	**2016 Actual €'000**	**2017 Actual €'000**	**2018 Projection €'000**
4.25% Secured Bonds 2023	311	4,813	18,000
	311	**4,813**	**18,000**

Variance Analysis

GAP Group p.l.c.			
for the year ended 31 December 2017			
	Actual	**Forecast**	**Variance**
	€'000	**€'000**	**€'000**
Revenue	14,982	2,617	12,365
Cost of sales	(11,154)	(2,388)	(8,766)
Administrative expenses	(935)	(233)	(702)
EBITDA	**2,893**	**(4)**	**2,897**
Depreciation	-	-	-
Net finance costs	(1,111)	(98)	(1,013)
Profit/(loss) before tax	**1,782**	**(102)**	**1,884**
Taxation	(1,197)	(209)	(988)
Profit/(loss) for the period	**585**	**(311)**	**896**
	-	-	
Other comprehensive income	-	-	
Movement in fair value of financial assets	107	-	107
Total comprehensive income/(expense) for the period	**692**	**(311)**	**1,003**

As presented in the above table, revenue generated by the Gap Group in FY2017 was higher than expected by €12.4 million. This was primarily due to the Qawra Development, whereby timing of development works was reduced to the extent that Gap Group was able to conclude a number of sale contracts in FY2017 rather than in FY2018 (as previously projected). As a consequence, actual EBITDA amounted to €2.9 million as compared to a projected operating loss of €4,000. In contrast with a forecasted comprehensive expense of €0.3 million, the Group reported total comprehensive income of €0.7 million.

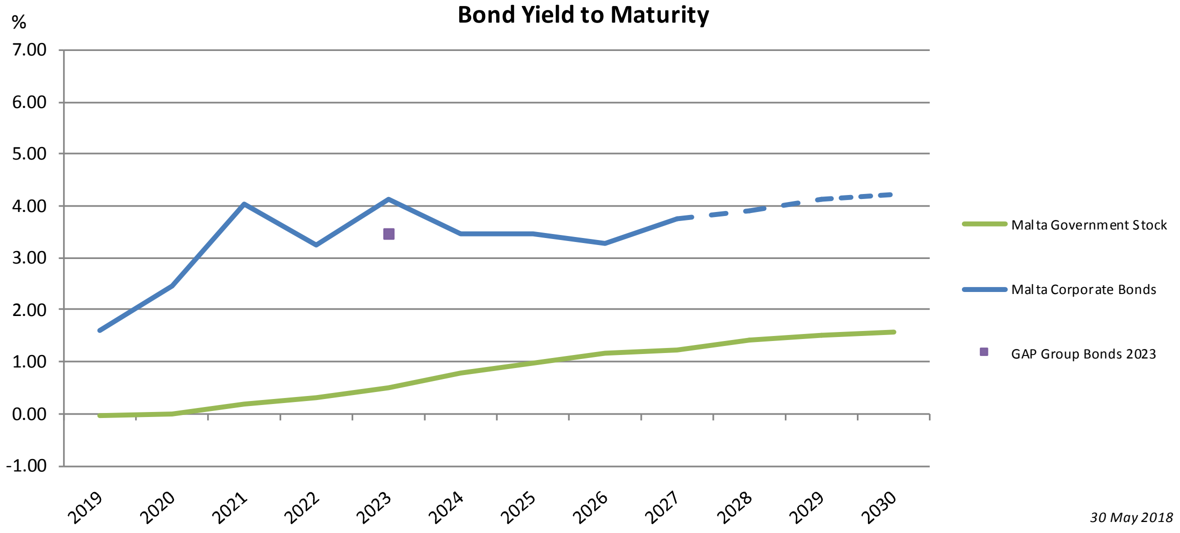
PART 3 - COMPARABLES

The table below compares the Issuer and its bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes issuers (excluding financial institutions) that have listed bonds. Although there are significant variances between the activities of the Issuer and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Group's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Gap Group.

Comparative Analysis	**Nominal Value (€)**	**Yield to Maturity (%)**	**Interest Cover (times)**	**Total Assets (€'000)**	**Net Asset Value (€'000)**	**Gearing Ratio (%)**
5.5% Pendergardens Dev. plc Secured € 2020 Series I	15,000,000	2.44	6.29	68,589	14,418	66.04
6% Pendergardens Dev. plc Secured € 2022 Series II	27,000,000	3.23	6.29	68,589	14,418	66.04
4.25% Gap Group plc Secured € 2023	**40,000,000**	**3.47**	**2.61**	**56,906**	**6,696**	**85.08**
5.3% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.14	2.05	18,153	3,796	73.85
6% AX Investments Plc Unsecured € 2024	40,000,000	3.47	4.44	286,318	173,323	26.09
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	3.45	4.42	77,088	38,701	45.62
5% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	3.74	3.05	107,801	39,813	54.01
5.1% 1923 Investments plc Unsecured € 2024	36,000,000	4.38	1.79	118,490	33,711	56.83
4.5% Hili Properties plc Unsecured € 2025	37,000,000	3.47	1.26	135,879	38,358	69.11
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.51	2.59	1,765,072	901,595	40.43
4.0% International Hotel Invest. plc Secured € 2026	55,000,000	3.43	3.03	1,602,317	884,632	36.36
4.0% MIDI plc Secured € 2026	50,000,000	3.28	- 0.98	235,302	86,621	39.27
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.12	7.90	161,128	47,607	57.32
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.63	39.11	17,088	5,835	30.63
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.74	5.46	217,599	65,698	47.74
4.0% Eden Finance plc Unsecured 2027	40,000,000	3.46	4.46	169,936	90,162	36.52
4% Stivala Group Finance plc Secured 2027	45,000,000	3.40	6.21	199,560	121,041	31.54

30 May '18

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts Investment Management Service Limited



To date, there are no corporate bonds which have a redemption date beyond 2027 and therefore a trend line has been plotted (denoted in the above chart by the dashed line). The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

PART 4 - EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Issuer from its business activities during the financial year.
Cost of sales	Operating expenses include the cost of construction and other related expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Profit after tax	Profit after tax is the profit made by the Issuer during the financial year both from its operating as well as non-operating activities.
Profitability Ratios	
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Group.
Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Issuer.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Issuer.
Balance Sheet	
Non-current assets	Non-current asset are the Issuer's long-term investments, which full value will not be realised within the accounting year. Non-current assets are

	capitalised rather than expensed, meaning that the Issuer amortises the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was acquired. Such assets include property, plant & equipment, and loans & other receivables.
Current assets	Current assets are all assets of the Issuer, which are realisable within one year from the balance sheet date. Such amounts include development stock, accounts receivable, cash and bank balances.
Current liabilities	All liabilities payable by the Issuer within a period of one year from the balance sheet date, and include accounts payable and short-term debt, including current portion of bank loans.
Non-current liabilities	The Issuer's long-term financial obligations that are not due within the present accounting year. The Issuer's non-current liabilities include long-term borrowings and debt securities.
Total equity	Total equity includes share capital, reserves & other equity components, and retained earnings.
Financial Strength Ratios	
Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity.