



## COMPANY ANNOUNCEMENT

### GAP Group plc

**Reference:** GGP 043

**Announcement date:** 22 June 2020

The following is a Company Announcement issued by GAP Group plc (the “Company”) in compliance with the Listing Rules, issued by the Listing Authority:

#### QUOTE

The Board of Directors of the Company met on Friday 19 June 2020, and considered and approved the Company’s Audited Financial Statements for the year ended 31 December, 2019.

Copies of the Company’s Audited Financial Statements for the year ended 31 December 2019, as approved are attached with this company announcement and are also available for download from the company’s website:

<http://www.gap.com.mt/content/INVESTORRELATIONS.html>

The Company further announces that the Boards of Directors of GAP Mellieha (I) Limited and GAP Luqa Limited, being the Guarantors of the Bonds issued by the Company, also met on Friday 19 June 2020, and considered and approved the Audited Financial Statements for the year ended 31 December 2019 of both entities.

GAP Group p.l.c.

Company Registration Number C75875

GAP Holdings Head Office, Censu Scerri Street, Tigné Sliema SLM 3060, Malta

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Copies of the Audited Financial Statements of GAP Mellieha (I) Limited and GAP Luqa Limited for the year ended 31 December 2019, as approved are attached with this company announcement and are also available for download from the company's website:

<http://www.gap.com.mt/content/INVESTORRELATIONS.html>

#### UNQUOTE



Paul Attard  
Company Secretary

22 June 2020

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**GAP GROUP p.l.c.**

**FINANCIAL STATEMENTS**

**31st DECEMBER 2019**

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## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31st DECEMBER 2019

The directors present their annual report and the audited parent company financial statements together with the group's consolidated financial statements (the "financial statements") of Gap Group p.l.c. for the year ended 31st December 2019.

#### Principal Activities

The principal activity of Gap Group p.l.c. is to hold investments in subsidiary companies and to raise financial resources from the capital markets to finance its investments and the property development projects of its subsidiaries. The principal activity of the Group is to acquire, develop and dispose of immovable property and to construct, develop and enter into arrangements with contractors and other service providers in connection with its properties. The directors do not envisage any changes to the company's and group's principal activities in the foreseeable future.

#### Review of business

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

##### *The Mellieħa development*

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

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

This means that 65% of the residential units were committed, out of which 77% have been contracted as at 31st December 2019.

##### *The Luqa development*

The Luqa development consists of 21 blocks. By the end of the year, the first 9 blocks were fully complete. Construction works had started on the next 6 blocks, whereas excavation works were complete regarding the remaining 6 blocks.

It is envisaged that construction shall be fully completed by latest Q2 2021 whilst the project will be completed in its entirety by Q4 2021.

At the end of the year, out of the 143 units from the first 12 blocks that were placed on the market, 59 units have been sold (contracted) and a further 61 units were subject to a Preliminary Agreement.

This means that 84% of the residential units available on the market were committed, out of which 49% have been contracted as at the end of the year

##### *The Marsascula Development*

During 2019 one of the subsidiaries acquired a plot of land in Marsascula and by the end of the year all excavation works have been complete and construction works have just commenced.

The project consists of 63 residential units and is envisaged to be fully complete by Q2 2021

## Directors' report - continued

### *The Gharghur Development*

By the end of December 2018, the development was fully complete and during 2019 the last few remaining units were contracted.

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

The project was completed in 2017. More residential units were contracted during 2019, bringing the total number of contracted units to 60 (97%). The last remaining 2 uncontracted apartments are subject to preliminary agreements.

The development is a joint venture between GEOM Developments Limited (Blocks A, B and C) and GEOM Holdings Limited (Blocks D, E, F and G), both subsidiaries of the Company.

### *The Żebbuġ Development*

The project was completed in 2017 and all the apartments were contracted by the end of Q2 2017. During 2019, more garages were contracted. The remaining stock pertains to 4 garages out of which 2 were subject to a preliminary agreement.

### *Other development projects*

During 2019 one of the subsidiaries acquired two plots of land in Birkirkara and San Pawl tat-Targa in Naxxar. Works on both projects commenced in Q1 2020.

The two projects consist of 21 residential units and are envisaged to be fully complete by Q1 2021.

### *Bonds in issue*

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

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

On the 5th of April 2019, the Company announced the basis of acceptance for the issue of the said New Gap Bonds. The Company received from holders of the Original Bonds an aggregate total of €20,069,000 representing 50.17% of the total value of Original Bonds outstanding as at 4 March 2019 (the "Cut-Off Date"). As a result, the amount of Original Bonds was reduced from €40,000,000 to €19,931,000 and the aggregate issuance of debt securities by the Company following these transactions stood at €59,931,000. As at 31 December 2019, the aggregate amount of bonds in issue amounted to €57,544,900.

## Directors' report - continued

### Reserve Account

Pursuant to the bond prospectus of the 4.25% Secured Bonds 2023 and the 3.65% Secured Bonds 2022, a reserve account had been created by the Security Trustee to cover for the redemption of both bonds. All sales of units forming part of the hypothecated property in favour of the bond issue shall be made on condition that these units are freed from hypothecary rights and privileges against an agreed amount from the sale proceeds being deposited in the said Reserve Accounts.

By the 31st December 2019, the Reserve Account of the 4.25% Secured Bonds 2023 carried a balance of €17,712,000 (i.e. 90.2% of the total bond repayment) and the Reserve Account of the 3.65% Secured Bonds 2022 carried a balance of €845,920 (i.e. 2.23% of the total bond repayment).

### Principal risks and uncertainties

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

In view of the developments pertaining to the COVID-19 pandemic that occurred after the end of the reporting period, the directors have prepared budgets and projections to assess the impact that the pandemic may have on the profitability, liquidity and going concern of the Group. Based on the outcome of cash flow projections which factor for possible strain on the property market, the Directors consider the going concern assumption in the preparation of the financial statements as appropriate as at the date of authorisation and believe that no material uncertainty that may cast significant doubt about the company's and the group's ability to continue as a going concern exists as at that date. They also believe that no material uncertainty that may cast significant doubt about the company's ability to continue honouring liabilities as and when they fall due and to continue operating as a going concern for the next twelve months exists as after that date.

### Events subsequent to the reporting period

Following the developments of the COVID-19 pandemic, the Company is closely monitoring the situation resulting from these events and the effects which these may have on its stakeholders, operations and performance. The COVID-19 pandemic has caused disruption to businesses and economic activity which has also been reflected in volatility in the property market.

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

### Results and dividends

The results for the year ended 31st December 2019 are shown in the income statement on page 13. The Group registered a Profit of €1,285,596 (2018 - €3,172,979), while the Company registered a loss of €1,119,890 (2018 - profit €294,009).

The directors do not recommend the payment of a dividend.

## Directors' report - continued

### Directors

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

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

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

The Company's Secretary is Mr Paul Attard.

### Statement of Directors' responsibilities

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

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

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

### Statement by the Directors pursuant to Listing Rule 5.68

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

**Directors' report - continued**

**Going Concern statement pursuant to Listing Rule 5.62**

Based on the outcome of cash flow projections which factor for possible strain on the property market resulting from the COVID-19 pandemic, the Directors consider the going concern assumption in the preparation of the financial statements as appropriate as at the date of authorisation and believe that no material uncertainty that may cast significant doubt about the company's and the group's ability to continue as a going concern exists as at that date.

**Statement by the Directors pursuant to Listing Rule 5.70.1**

As at the year end the group had entered into capital commitments with various contractors for the development of various projects and entered into promise of sale agreements in connection with the sales of immovable properties of such projects.

**Auditor**

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

Approved by the Board of Directors and authorised for issue on 19 June 2020 and signed on its behalf by:



George Muscat  
Chairperson



Paul Attard  
Director

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

Date : 19 June 2020



## Corporate governance - Statement of compliance

### 1. Introduction

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

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

### 2. Compliance with the Code

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

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

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

### 3. The Board of Directors

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

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

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

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

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

**Corporate governance - Statement of compliance (Continued)**

**4. Committees**

**i. Audit Committee**

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

The committee's primary object is to assist the board in fulfilling its supervisor and monitoring responsibility by reviewing the company's financial statements and disclosures, monitoring the system of internal control established by management as well as the audit process. The audit committee formally convened four times during the financial period ending 31st December 2019.

**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 2019 to 31st December 2019 amounted to €155,379.

**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 19 June 2020 and signed on its behalf by:

  
George Muscat  
Chairperson

  
Paul Attard  
Director

## **Independent auditor's report**

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

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

### **Opinion**

I have audited the parent company financial statements and the consolidated financial statements (the "financial statements") of Gap Group plc (the "Company") and its subsidiaries (together, the "Group"), set on pages 14 to 45 which comprise the statement of financial position as at 31st December 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

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

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

### **Basis for Opinion**

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

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

### **My audit approach**

#### ***Scope and timing of the Group audit engagement***

As part of designing our audit, I determined materiality and assessed the risks of material misstatement in the financial statements. In particular, I considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. I also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

#### ***Levels of materiality and methodology used for the group audit engagement***

The overall group materiality amounted to €878,863 which represents 1% of the consolidated total assets. I chose total assets as the accepted point of reference to the users of the financial statements as it is most commonly used. I chose 1% as it is within the range of acceptable quantitative materiality thresholds in auditing standards.

## Independent auditor's report

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

### Key Audit Matter

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

### Valuation of inventory

The Group consists of companies holding immovable property for development and resale. Two bonds were issued to the public to enable the Company to acquire shares of property development companies and to provide further finance to the group companies to carry on further development. At 31 December 2019, the carrying amount of immovable property held by the Group as inventory represented 56% of total assets.

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

At Group level, the acquisition method of accounting is applied to account for business combinations. Identifiable assets and liabilities assumed by the business combination are therefore initially measured at their fair values at the acquisition date. Therefore, at consolidated group level, inventory cost represents the fair value of inventory held by the acquired subsidiary as at date of acquisition of subsidiary, together with additional development and borrowing costs incurred following date of acquisition. The carrying value of inventories as at 31 December 2019 is explained in note 15 which discloses the composition of the Inventories, including the fair value adjustment on the acquisition of subsidiaries. At year end, the directors assess whether inventory is carried at the lower of cost and net realisable value.

On 24 January 2019 the company acquired the entire share capital of a related company, Gap Luqa Limited (formerly Qawra Investments Limited). Gap Luqa Limited was and is the owner of a sizeable property at Luqa, which is being developed for residential units. The fair value of the acquisition of the shares comprised the total of the net asset value of Gap Luqa Limited at December 2018 and a revaluation surplus arising on the revaluation of the property at Luqa. The fair value of the property at Luqa was based on a detailed valuation carried out by a professional qualified architect which was published in a prospectus by the company dated 4 March 2019. The detailed valuation was based on the estimated present value using the discounted cash flow method. The valuation is inherently subjective principally due to the judgemental nature of the factors. The significance of the estimates and judgements involved, including a small percentage change in the discounted cash flow rate could have had a significant effect on the outcome of the revaluation.

I discussed the valuation with the management and the architect to understand the assessment performed for this purpose. I carried audit tests to check the detailed valuation workings and the supporting documents. I concluded, based on my audit work, that the outcome of the valuation was reasonably computed.

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

My other audit procedures included:

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

The assessment of the net realisable value of the immovable property does not include COVID-19 implications, which are deemed to be a post-balance sheet event (note 27).

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

## Independent auditor's report

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

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

The directors are responsible for the other information. The other information comprises the Directors' Report, the Statement of Compliance with the Principles of Good Corporate Governance and the Statement of the Directors' Responsibilities.

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

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

With respect to the Directors' report, I also considered whether the Director's report includes the disclosure requirements of Article 177 of the Companies Act (Cap. 386). Pursuant to listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, I am required to review the directors' statement in relation to going concern.

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

- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- The Directors' Report has been prepared in accordance with applicable legal requirements; and
- I have nothing to report in relation to the statement on going concern.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Directors' report and other information that we obtained prior to the date of the auditor's report. We have nothing to report in this regard.

### Responsibilities of the Directors and the Audit Committee

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

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

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

## Independent auditor's report

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern and future events or conditions may cause the company to cease to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers and suppliers, and the disruption to its business and overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

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

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

## Independent auditor's report

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

### Report on Other Legal and Regulatory Requirements

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

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

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

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

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

In my opinion, the Statement of Compliance set out on pages 5 to 8 has been properly prepared in accordance with the requirements of Listing Rules issued by the Malta Listing Authority.

#### Report on Other matters relating to the Companies Act

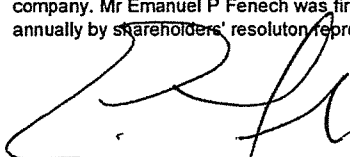
I am also responsible under the Companies Act (Cap. 386), to report to you if, in my opinion:

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

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

#### Appointment

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



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

#### EFS Audit Limited

1, Tal-Providenza Mansions  
Main Street  
Balzan  
Malta  
Date: 19 June 2020



## INCOME STATEMENT

FOR THE YEAR ENDED 31st DECEMBER 2019

	Notes	Group		Company	
		2019	2018	2019	2018
		€	€	€	€
Turnover	3	28,286,610	30,444,300	-	-
Cost of sales		(20,499,676)	(21,747,190)	-	-
<b>Gross Profit</b>		<b>7,786,934</b>	<b>8,697,110</b>	<b>-</b>	<b>-</b>
Administrative expenses		(1,650,092)	(1,701,121)	(104,504)	(46,994)
<b>Operating profit / (loss)</b>	4	<b>6,136,842</b>	<b>6,995,989</b>	<b>(104,504)</b>	<b>(46,994)</b>
Finance costs	6	(3,492,616)	(2,258,581)	(3,828,575)	(1,810,898)
Investment income	7	728,782	683,223	2,827,041	2,128,725
<b>Profit / (loss) before taxation</b>		<b>3,373,008</b>	<b>5,420,631</b>	<b>(1,106,038)</b>	<b>270,833</b>
Tax expense	8	(2,244,542)	(2,439,584)	(51,732)	(56,824)
<b>Profit / (loss) for the year</b>		<b>1,128,466</b>	<b>2,981,047</b>	<b>(1,157,770)</b>	<b>214,009</b>

## STATEMENT OF COMPREHENSIVE INCOME

### Other comprehensive income

Reserve arising on revaluation of  
investments and amortised cost of interest  
free long term loan receivable

	157,130	191,932	37,880	80,000
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Other comprehensive income for the year

	157,130	191,932	37,880	80,000
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**Total Comprehensive income**

	1,285,596	3,172,979	(1,119,890)	294,009
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**Earnings per share**

	0.45	1.19	0.46	0.09
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The notes on pages 19 to 45 are an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2019**

	Notes	Group		Company	
		2019	2018	2019	2018
		€	€	€	€
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	32,002	29,788	4,250	6,250
Investment in subsidiaries	11	-	-	34,333,574	21,242,032
Investments	12	6,011,880	4,087,500	6,011,880	2,580,000
Other financial assets	13	10,135,068	13,615,837	7,665,707	8,862,120
		<u>16,178,950</u>	<u>17,733,125</u>	<u>48,015,411</u>	<u>32,690,402</u>
<b>Current assets</b>					
Inventory - Development project	15	48,958,334	22,786,301	-	-
Trade and other receivables	16	2,521,677	346,102	25,544,645	21,708,992
Cash and bank balances	17	20,195,539	14,331,301	17,985,525	13,710,104
Income Tax refundable		31,839	39,804	-	-
		<u>71,707,389</u>	<u>37,503,508</u>	<u>43,530,170</u>	<u>35,419,096</u>
<b>Total Assets</b>		<u>87,886,339</u>	<u>55,236,633</u>	<u>91,545,581</u>	<u>68,109,498</u>

STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2019 (continued)

	Notes	Group		Company	
		2019	2018	2019	2018
		€	€	€	€
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	18	2,500,000	2,500,000	2,500,000	2,500,000
Subordinated shareholders' loan - Quasi equity	20	2,500,000	2,500,000	2,500,000	2,500,000
Revaluation reserve	21	557,190	400,060	117,880	80,000
Retained earnings / (Accumulated losses)		5,597,529	4,469,063	(712,812)	444,958
<b>Total equity</b>		<b>11,154,719</b>	<b>9,869,123</b>	<b>4,405,068</b>	<b>5,524,958</b>
<b>Non-current liabilities</b>					
Bank loans	22	6,135,750	-	-	-
Other financial liabilities	23	4,907	4,907	-	-
Debt securities in issue	22	56,990,901	39,473,234	56,990,901	39,473,234
<b>Total non-current liabilities</b>		<b>63,131,558</b>	<b>39,478,141</b>	<b>56,990,901</b>	<b>39,473,234</b>
<b>Current liabilities</b>					
Bank overdraft and loans	22	-	7,339	-	-
Trade and other payables	23	10,990,174	5,770,922	1,328,679	7,120,471
Other financial liabilities	23	2,609,887	111,108	28,812,786	15,990,649
Taxation due		1	-	8,147	186
<b>Total current liabilities</b>		<b>13,600,062</b>	<b>5,889,369</b>	<b>30,149,612</b>	<b>23,111,306</b>
<b>Total liabilities</b>		<b>76,731,620</b>	<b>45,367,510</b>	<b>87,140,513</b>	<b>62,584,540</b>
<b>Total equity and liabilities</b>		<b>87,886,339</b>	<b>55,236,633</b>	<b>91,545,581</b>	<b>68,109,498</b>

The notes on pages 19 to 45 are an integral part of these financial statements.

The financial statements on pages 14 to 45 were approved by the board of directors and were signed on its behalf by:

  
George Muscat  
Chairperson

  
Paul Attard  
Director

Date : 19 June 2020

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31st DECEMBER 2019

	Note	Share Capital €	Quasi Equity €	Revaluation Reserve €	Profit and Loss Account €	Total €
<b>Group</b>						
Balance at 1st January 2018		2,500,000	2,500,000	208,128	1,488,016	6,696,144
<b>Comprehensive income</b>						
Profit for the year		-	-	-	3,172,979	3,172,979
Revaluation reserve	21	-	-	191,932	(191,932)	-
<b>Balance at 31st December 2018</b>		<b>2,500,000</b>	<b>2,500,000</b>	<b>400,060</b>	<b>4,469,063</b>	<b>9,869,123</b>
Balance at 1st January 2019		2,500,000	2,500,000	400,060	4,469,063	9,869,123
<b>Comprehensive income</b>						
Profit for the year		-	-	-	1,285,596	1,285,596
Revaluation reserve	21	-	-	157,130	(157,130)	-
<b>Balance at 31st December 2019</b>		<b>2,500,000</b>	<b>2,500,000</b>	<b>557,190</b>	<b>5,597,529</b>	<b>11,154,719</b>
<b>Company</b>						
Balance at 1st January 2018		2,500,000	2,500,000	-	230,949	5,230,949
<b>Comprehensive income</b>						
Profit for the year		-	-	-	294,009	294,009
Revaluation reserve	21	-	-	80,000	(80,000)	-
<b>Balance at 31st December 2018</b>		<b>2,500,000</b>	<b>2,500,000</b>	<b>80,000</b>	<b>444,958</b>	<b>5,524,958</b>
Balance at 1st January 2019		2,500,000	2,500,000	80,000	444,958	5,524,958
<b>Comprehensive income</b>						
Loss for the year		-	-	-	(1,119,890)	(1,119,890)
Revaluation reserve	21	-	-	37,880	(37,880)	-
<b>Balance at 31st December 2019</b>		<b>2,500,000</b>	<b>2,500,000</b>	<b>117,880</b>	<b>(712,812)</b>	<b>4,405,068</b>

The notes on pages 19 to 45 are an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31st DECEMBER 2019**

	Group		Company	
	2019	2018	2019	2018
	€		€	
<b>Cash flows from operating activities</b>				
Net profit / (loss) before taxation	3,373,008	5,420,631	(1,106,038)	270,833
Adjustments for:				
Depreciation	8,621	9,043	2,000	2,000
Investment income	(728,782)	(683,223)	(2,827,041)	(2,128,725)
Interest expenses	3,492,616	2,258,581	3,828,575	1,810,898
Fair value gain on interest-free long term receivable	157,130	191,932	37,880	80,000
<b>Operating profit / (loss) before working capital changes</b>	<b>6,302,593</b>	<b>7,196,964</b>	<b>(64,624)</b>	<b>35,006</b>
Trade and other receivables	(767,996)	(46,692)	(5,796,429)	88,229
Inventory - Development Project	(26,172,033)	10,914,653	-	-
Trade and other payables	6,049,599	(5,877,564)	887,052	8,252
<b>Cash generated from operations</b>	<b>(14,587,837)</b>	<b>12,187,361</b>	<b>(4,974,001)</b>	<b>131,487</b>
Interest payable	(3,492,616)	(2,258,581)	(3,828,575)	(1,810,898)
Income tax paid	(2,236,576)	(2,439,615)	(43,771)	(56,843)
<b>Net cash from / (used in) operating activities</b>	<b>(20,317,029)</b>	<b>7,489,165</b>	<b>(8,846,347)</b>	<b>(1,736,254)</b>
<b>Cash flows from investing activities</b>				
Purchase of fixed assets	(10,835)	(28,500)	-	-
Investments (net)	(1,924,380)	6,284,300	(16,523,422)	6,284,300
Investment income	728,782	683,223	2,827,041	2,128,725
<b>Net cash from / (used in) investing activities</b>	<b>(1,206,433)</b>	<b>6,939,023</b>	<b>(13,696,381)</b>	<b>8,413,025</b>
<b>Cash flows from financing activities</b>				
Shareholders' loans	2,468,066	53,192	3,014,260	-
Related parties	(2,207,213)	1,405,428	5,089,809	9,561,239
Bank loans (net)	6,135,750	-	-	-
Bonds and debentures	17,517,667	110,898	17,517,667	110,898
Payment to preference shareholder	-	-	-	-
Other loans	3,480,769	(2,854,384)	1,196,413	(2,641,819)
<b>Net cash (used in) / from financing activities</b>	<b>27,395,039</b>	<b>(1,284,866)</b>	<b>26,818,149</b>	<b>7,030,318</b>
<b>Movement in cash and cash equivalents</b>	<b>5,871,577</b>	<b>13,143,322</b>	<b>4,275,421</b>	<b>13,707,089</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>14,323,962</b>	<b>1,180,640</b>	<b>13,710,104</b>	<b>3,015</b>
<b>Cash and cash equivalents at end of the year (note 17)</b>	<b>20,195,539</b>	<b>14,323,962</b>	<b>17,985,525</b>	<b>13,710,104</b>

The notes on pages 19 to 45 are an integral part of these financial statements.

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

### 1 Summary of significant accounting policies

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

#### 1.1 Basis of preparation

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

##### COVID-19 Pandemic

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

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

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

##### *Critical accounting estimates and judgements*

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**1 Summary of significant accounting policies**

**1.1 Basis of preparation - continued**

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

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

*IFRS 16 - Leases*

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

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

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

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

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

*Going concern*

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

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

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

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

**1 Summary of significant accounting policies**

**1.2 Segment reporting**

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

**1.3 Foreign currency translation**

**(a) Functional and presentation currency**

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

**(b) Transactions and Balances**

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

**1.4 Financial assets**

**1.4.1 Classification**

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



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

**1 Summary of significant accounting policies**

**1.4 Financial assets - (continued)**

**1.4.2 Recognition and measurement**

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

- i. the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principle and Interest ("SPPI").

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

**1 Summary of significant accounting policies**

**1.4 Financial assets - (continued)**

**1.4.3 Impairment**

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

**Expected credit loss model**

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

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period. ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

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

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

**Simplified approach model**

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

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

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

**1 Summary of significant accounting policies**

**1.5 Consolidation**

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

The company acquired the shares in its subsidiaries during the period ended 31st December 2016 and the period ended 31st December 2019. The subsidiaries were acquired at the net asset value of the subsidiaries existing and adjusted with the increase in the value of the immovable property arising from a revaluation of the immovable property at market value.

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

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

**1.6 Share Capital**

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

**1.7 Offsetting financial instruments**

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

**1.8 Provisions**

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

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

**1 Summary of significant accounting policies**

**1.9 Revenue and cost recognition**

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

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

Other operating income consisting of the following is recognised on an accruals basis:

Interest

Dividends receivable are accounted for on a cash basis

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

**1.10 Borrowing costs**

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

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

**1 Summary of significant accounting policies**

**1.11 Trade and other payables**

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

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

**1.12 Other financial liabilities**

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

*Repurchases of Bonds issued by the company* - If the company repurchases a part of a financial liability, the company allocates the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognised and the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in profit or loss.

**1.13 Property, plant and equipment**

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

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

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

	<b>Years</b>
Plant & Machinery	8
Computer & Off. Equip.	4
Motor Vehicles	5
Furniture & Fittings	10

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

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

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

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

**1 Summary of significant accounting policies**

**1.14 Inventory - Development project**

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

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

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

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

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

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

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

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

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

**1 Summary of significant accounting policies**

**1.15 Cash and cash equivalents**

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

**1.16 Current and deferred tax**

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

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

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

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

**1.17 Dividend distribution**

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

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

**2 Financial risk management**

**2.1 Financial risk factors**

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

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

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

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

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

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

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



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

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued**

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

There are several factors that commonly affect the real estate development industry, many of which are beyond the 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 2019**

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued**

(vii) General exposure to funding risks

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

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

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

(ix) Foreign Exchange risk

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

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

**2 Financial risk management - continued**

**2.2 Financial risk factors - continued**

(x) Fair value interest rate risk

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

As at the reporting date, the Company holds available for sale investments which are limited to Corporate bonds and bank deposits. The 4.25% Secured Bonds 2023 and the 3.65% Secured Bonds 2022 which represent about 90% of the group's third party borrowings are subject to fixed interest rates, whereas the other 10% of the group's third party borrowings are subject to interest rate fluctuations. 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 2023 and the 3.65% Secured Bonds 2022.

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 2019**

**2 Financial risk management - continued**

**2.3 Financial risk management - continued**

(xiii) Credit risk

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

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

Credit risk mainly arises from financial assets held in the Reserve Account, cash and cash equivalents and available for sale investments. Credit risk relating to financial assets is addressed through careful selection of the issuers of securities bought by the Company. All such transactions have been carried out solely by the Company's stockbroker (and Sponsor/Manager of the 4.25% 2023 Secured Bonds and the 3.65% 2022 Secured Bonds). During the year under review, the available for sale investments were limited to purchases in reliable Corporate Bonds (€6.01 Million) whilst the cash at Bank was held with local quality financial institutions (€16.76 Million). The Reserve Account is administered by the Security Trustee of the 4.25% 2023 Secured Bonds and the 3.65% 2022 Secured Bonds issues and funds are held in a bank account of high standing.

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

**3 Turnover**

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

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Sale of property held for Development and resale	28,286,610	30,444,300	-	-
	28,286,610	30,444,300	-	-

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**4 Operating profit / (loss)**

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

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Directors' fees	155,379	159,530	-	-
Employment costs - Note 5	523,182	510,719	-	-
Depreciation - Note 10	8,621	9,043	2,000	2,000
Audit fees - Annual statutory audit	39,865	31,550	7,021	5,950

**5 Employees**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Employment costs comprise:				
Wages and salaries - administration	147,970	145,556	-	-
Wages and salaries - allocated to cost of sales	345,262	336,253	-	-
Social security costs - administration	8,985	7,660	-	-
Social security costs - allocated to cost of sales	20,965	21,250	-	-
	523,182	510,719	-	-

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

	2019	2018		
	18	18	-	-
Directors' Remuneration	12,000	12,000	-	-
Directors' salary - allocated to cost of sales	143,379	147,530	-	-
	155,379	159,530	-	-

**6 Finance costs**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Bond interest and amortisation costs	631,766	102,122	2,727,797	1,810,898
Premium on buy-back of Bonds	1,100,778	-	1,100,778	-
Capitalised interest: Inventories - Property development				
At 1st January	2,354,779	2,670,526	-	-
Brought forward interest capitalised on acquisition of subsidiary	584,134	-	-	-
Interest capitalised during year	2,072,187	1,840,712	-	-
At 31st December	(3,251,028)	(2,354,779)	-	-
Charge of capitalised interest for the year	1,760,072	2,156,459	-	-
	3,492,616	2,258,581	3,828,575	1,810,898

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**7 Investment income**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	1
Interest from Maltese banks	569	381	161	15
Interest receivable from related parties	359,200	363,080	2,457,867	1,872,698
Securities interest - from local sources	369,013	319,762	369,013	256,012
	<u>728,782</u>	<u>683,223</u>	<u>2,827,041</u>	<u>2,128,725</u>

**8 Tax expense**

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

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Current income tax				
Income tax on the taxable profits for the year at 35%		5,187	-	5,187
Income tax on taxable income at 15%	51,792	61,254	51,732	51,637
Income tax subject to 8% final tax on sales of immovable property	2,192,750	2,373,143	-	-
Tax charge	<u>2,244,542</u>	<u>2,439,584</u>	<u>51,732</u>	<u>56,824</u>

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

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Net profit / (loss) for the year	<u>3,373,008</u>	<u>1,782,302</u>	<u>(1,106,038)</u>	<u>270,833</u>
Income tax thereon at 35%	1,180,553	1,897,221	(387,113)	94,792
Deferred tax not accounted for		3,106	-	-
Difference resulting from different tax rates on bank interest received	(69,058)	(50,792)	(68,976)	(37,968)
Expenses disallowed for tax purposes	621,398	257,792	507,821	-
Difference arising on income subject to 8% withholding tax on sales	(831,122)	(753,718)	-	-
Difference arising on adjustment to revaluation of inventories	1,342,771	1,085,975	-	-
	<u>2,244,542</u>	<u>2,439,584</u>	<u>51,732</u>	<u>56,824</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

9 Fair value adjustment

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Difference arising on amortised cost on interest free loan given to Gap Holdings Limited (note 13)				
Amount as at 31st December	2,469,361	2,350,111	-	-
Amount as at 1st January	(2,350,111)	(2,238,179)	-	-
	<u>119,250</u>	<u>111,932</u>	<u>-</u>	<u>-</u>

10 Property, plant and equipment

GROUP

	Plant & Machinery	Computer & Off. Equip.	Motor Vehicles	Furniture & Fittings	Total
	€	€	€	€	€
Cost					
At 1st January 2019	-	10,592	45,000	437	56,029
Additions during the year	1,836	-	9,000	-	10,836
At 31st December 2019	<u>1,836</u>	<u>10,592</u>	<u>54,000</u>	<u>437</u>	<u>66,865</u>
Depreciation					
At 1st January 2019		10,592	15,300	349	26,241
Charge for the year	77	-	8,500	45	8,622
At 31st December 2019	<u>77</u>	<u>10,592</u>	<u>23,800</u>	<u>394</u>	<u>34,863</u>
At 31st December 2019	<u>1,759</u>	<u>-</u>	<u>30,200</u>	<u>43</u>	<u>32,002</u>
At 31st December 2018	<u>-</u>	<u>-</u>	<u>29,700</u>	<u>88</u>	<u>29,788</u>

COMPANY

	Motor Vehicles	Total
	€	€
Cost		
At 1st January 2019	10,000	10,000
Additions during the year	-	-
At 31st December 2019	<u>10,000</u>	<u>10,000</u>
Depreciation		
At 1st January 2019	3,750	3,750
Charge for the year	2,000	2,000
At 31st December 2019	<u>5,750</u>	<u>5,750</u>
At 31st December 2019	<u>4,250</u>	<u>4,250</u>
At 31st December 2018	<u>6,250</u>	<u>6,250</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

11 Investment in subsidiary undertakings

	Group	Company	
	2019 & 2018	2019	2018
	€	€	€
Shares in subsidiary undertakings			
Geom Developments Limited (C50805) - 2,000 ordinary shares of €1 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	10,580,444	10,580,444
Geom Holdings Limited (C64409) - 1,997 ordinary shares of €1 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	2,651,130	2,651,130
Gap Gharghur Limited (C72015) - 320,000 (2018 -3,458) ordinary shares of €1 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	3,838,626	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	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	1,200
Gap Luqa Limited (C32225) - 600 ordinary shares of €2.33 each representing 100 % holding (Gap Holdings Head Office, Censu Scerri Street, Tigne.)	-	12,775,000	-
Total	-	34,333,574	21,242,032

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

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



NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

12 Investments

<i>Investments -FVOCI</i>			Group	Company
	Interest rate	Redemption date	2018	
			€	€
Corporate Bonds	4.25%	2023	1,507,500	-
Corporate Bonds	3.75%	2026	2,060,000	2,060,000
Corporate Bonds	4%	2027	520,000	520,000
			<u>4,087,500</u>	<u>2,580,000</u>
<i>Investments -FVOCI</i>			Group	Company
	Interest rate	Redemption date	2019	
			€	€
Corporate Bonds	3.75%	2026	2,090,000	2,090,000
Corporate Bonds	4.00%	2027	510,000	510,000
Corporate Bonds	3.65%	2029	911,880	911,880
Corporate Bonds	3.80%	2029	2,500,000	2,500,000
			<u>6,011,880</u>	<u>6,011,880</u>

13 Other financial assets

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Amount receivable from Gap Holdings Limited - Maturity date 2023	2,469,361	2,350,111	-	-
Amount receivable from Gap Holdings Limited - Maturity date 2023	7,641,594	6,829,801	7,641,594	6,829,801
Amount receivable from related party - Maturity date 2021	-	2,403,606	-	-
Funds held by trustee for the redemption of the 2022 and 2023 Bond	<u>24,113</u>	<u>2,032,319</u>	<u>24,113</u>	<u>2,032,319</u>
	<u>10,135,068</u>	<u>13,615,837</u>	<u>7,665,707</u>	<u>8,862,120</u>

During the year 2019, the amount due by Gap Holdings Limited of €2,469,361 (2018 - €2,350,111) is non-interest bearing and is expected to be repaid by December 2023. The nominal amount of the loan is €3,000,000.

The amount due by Gap Holdings Limited of €7,641,594 (2018- €6,829,801) is expected to be repaid by December 2023 and is unsecured. The amount receivable bears interest at 4.5% per annum.

The funds advanced to Gap Luqa Limited (formerly Qawra Investments Limited) of €2,403,606 (2018) bore interest at the rate of 4.5% per annum and was repayable by 2021. During the year 2109, Gap Luqa Limited was acquired by the group and the said loan was increased to €2,533,870.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**14 Reserve Account**

	2019	2018
	€	€
<b>The reserve fund is made up as follows:</b>		
Investments (See Note 12) and bank deposits listed under Cash and cash equivalents (See Note 17) held for the redemption of the 2022 and 2023 Bond	18,533,900	15,650,000
Funds held by trustee for the redemption of the 2022 and 2023 Bond listed under Other financial assets (See Note 13)	24,113	2,032,319
	<u>18,558,013</u>	<u>17,682,319</u>

**15 Inventory - Development project**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Property cost of land and development costs	34,333,745	16,618,018	-	-
Capitalised borrowing costs (refer to note 6)	3,251,028	2,354,779	-	-
Fair value adjustment on acquisition of subsidiaries	23,032,927	11,636,381	-	-
Fair value adjustment reversed on sale of property	(11,659,366)	(7,822,877)	-	-
	<u>48,958,334</u>	<u>22,786,301</u>	<u>-</u>	<u>-</u>

**16 Trade and other receivables**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Amounts receivable	1,055,479	314,478	2,065	-
Amounts due from group companies	-	-	19,392,443	21,698,687
Amount due from related parties	1,407,579	-	345,468	-
Accrued interest receivable	58,601	26,476	5,804,669	10,305
Other taxation	18	5,148	-	-
	<u>2,521,677</u>	<u>346,102</u>	<u>25,544,645</u>	<u>21,708,992</u>

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

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

**17 Cash and cash equivalents**

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

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Cash in hand	67,488	148,015	-	-
Cash at bank	3,364,400	476,381	1,221,874	3,199
Bank deposits	16,763,651	13,706,905	16,763,651	13,706,905
	20,195,539	14,331,301	17,985,525	13,710,104
Bank overdraft	-	(7,339)	-	-
	20,195,539	14,323,962	17,985,525	13,710,104

**18 Share capital**

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Authorised</b>				
2,500,000 Ordinary shares of €1 each	2,500,000	2,500,000	2,500,000	2,500,000
	2,500,000	2,500,000	2,500,000	2,500,000
<b>Issued and fully paid up</b>				
2,500,000 Ordinary shares of €1 each	2,500,000	2,500,000	2,500,000	2,500,000
	2,500,000	2,500,000	2,500,000	2,500,000

**19 Earnings per share**

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

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
Profit / (loss) for the year	1,128,466	2,981,047	(1,157,770)	214,009
Weighted average share in issue	2,500,000	2,500,000	2,500,000	2,500,000
Earnings per share	0.45	1.19	0.46	0.09

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**20 Subordinated shareholders' loan - Quasi equity**

	<b>Group and Company</b>	
	<b>2019</b>	<b>2018</b>
	<b>€</b>	<b>€</b>
Shareholders' loan	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>

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

**21 Revaluation reserve**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Gain on amortisation of long term interest free loan receivable (see note 9)	439,310	320,060	-	-
Gain on revaluation of Investments at year end rates	117,880	80,000	117,880	80,000
	<u>557,190</u>	<u>400,060</u>	<u>117,880</u>	<u>80,000</u>

**22 Borrowings**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Short term - falling due within one year</b>				
Bank overdrafts	-	7,339	-	-
Total short term borrowings	<u>-</u>	<u>7,339</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

22 Borrowings (Continued)

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Long term - falling due after one year</b>				
Bank loans	6,135,750	-	-	-

A subsidiary within the group has a loan of €1,908,000 which bears interest at 4% per annum and is repayable by the year 2022 from sale proceeds of immovable properties. Another subsidiary within the group has another loan of €4,227,750 which bears interest at 4.25% per annum and is repayable by the year 2023 from sale proceeds of immovable properties..

The facilities are secured by a general and special hypothecs on the immovable properties of the relative subsidiaries.

**Bonds**

4.25% Secured Bonds 2023	19,643,000	40,000,000	19,643,000	40,000,000
3.65% Secured Bonds 2022	37,901,900	-	37,901,900	-
	<u>57,544,900</u>	<u>40,000,000</u>	<u>57,544,900</u>	<u>40,000,000</u>
<b>Amortised cost</b>				
Issue of bond costs	1,265,431	715,133	1,265,431	715,133
Issue of bond costs amortised	(711,432)	(188,367)	(711,432)	(188,367)
	<u>553,999</u>	<u>526,766</u>	<u>553,999</u>	<u>526,766</u>
<b>Amortised cost</b>	<u>56,990,901</u>	<u>39,473,234</u>	<u>56,990,901</u>	<u>39,473,234</u>

The 4.25% Secured Bonds 2023 are redeemable at par on the 3 October 2023 and the 3.65% Secured Bonds 2022 are redeemable at par on the 5 April 2022. Both bonds are secured for the full nominal value of the Secured Bonds and interests thereon as follows:

- i. Second ranking general hypothec over all the assets of the Issuer and over all the present and future property of the Issuer.
- ii. First ranking general hypothec over all present and future assets of the company and of GAP Luqa Limited.
- iii. First ranking special hypothec over all present and future assets of the company and over the Luqa Development.
- iv. First ranking special hypothec over Block A to Block E of the Mellieha Development.

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

23 Creditors

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Trade and other payables</b>				
Trade creditors and accruals	8,096,084	1,662,789	1,328,679	441,627
Advance deposits received on promise of sale agreements	2,894,044	3,277,786	-	-
Amounts due to related parties	-	830,347	-	6,678,844
Other taxation	46	-	-	-
	<u>10,990,174</u>	<u>5,770,922</u>	<u>1,328,679</u>	<u>7,120,471</u>
<b>Other financial liabilities</b>				
Amounts due to shareholders	2,557,529	89,463	3,015,460	1,200
Amounts due to subsidiaries	-	-	25,797,326	15,989,449
Directors' current accounts	52,358	21,645	-	-
	<u>2,609,887</u>	<u>111,108</u>	<u>28,812,786</u>	<u>15,990,649</u>
<b>Non-current liabilities</b>				
Minority interests	4,907	4,907	-	-
	<u>4,907</u>	<u>4,907</u>	<u>-</u>	<u>-</u>
<b>Total trade and other creditors</b>	<u>13,604,968</u>	<u>5,886,937</u>	<u>30,141,465</u>	<u>23,111,120</u>

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**24 Transactions with related parties**

All companies forming part of Gap Group p.l.c. are considered by the directors to be part of the group of Companies. Companies having the same shareholders and directors are considered by the directors to be related parties.

During the course of the year the company entered into transactions with related undertakings all of which arise in the ordinary course of business. The related party transactions were :

	Group		Company	
	2019	2018	2019	2018
	€	€	€	€
<b>Loans and other receivables</b>				
Loans due from related companies	<u>10,110,955</u>	<u>11,583,518</u>	<u>7,641,594</u>	<u>6,829,801</u>
<b>Trade and other receivables</b>				
Amounts due from group companies	<u>-</u>	<u>-</u>	<u>19,312,443</u>	<u>21,698,687</u>
Amounts due from related companies	<u>1,407,579</u>	<u>-</u>	<u>345,468</u>	<u>-</u>
<b>Trade and other payables</b>				
Amounts due to related parties	<u>-</u>	<u>830,347</u>	<u>-</u>	<u>6,678,844</u>
Amounts due to subsidiaries	<u>-</u>	<u>-</u>	<u>25,797,326</u>	<u>15,989,449</u>

**25 Contingent liabilities**

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

**26 Capital commitments**

The group has entered into capital commitments with various contractors for the development of the Mellieha, Gharghur, Luqa and Qawra projects. Outstanding contractual commitments as at period end amount to €20 million. This amount does not include payments made to suppliers till the end of 2019.

As at December 2019, the company has entered into promise of sale agreements with advance deposits amounting to €2,894,044 (2018 - €3,177,786). These agreements are expected to generate sales amounting to €20,751,050 (2018 - €14,817,000).

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

**27 Events after the end of the reporting period**

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

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

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

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

**28 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.



**GAP MELLIEHA (I) LIMITED**

**FINANCIAL STATEMENTS**

**31st DECEMBER 2019**

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## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31st DECEMBER 2019**

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

#### **Principal Activities**

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

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

#### **Review of business**

##### *The Mellieha development*

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

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

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

#### **Results and dividends**

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

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

#### **Directors**

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

Paul Attard  
Adrian Muscat  
George Muscat

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

**Directors' report - continued**

**Auditor**

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

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



**Paul Attard**  
**Director**



**Adrian Muscat**  
**Director**

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

Date : 19 June 2020

## STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

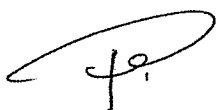
### Statement of the Directors' Responsibilities

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

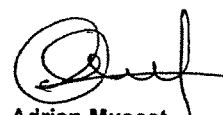
- ensure that the financial statements have been drawn up in accordance with the International Financial Reporting Standards as adopted by the EU;
- make judgments and estimates that are reasonable and prudent;
- ensure that applicable accounting standards have been followed;
- prepare the financial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

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

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



**Paul Attard**  
Director



**Adrian Muscat**  
Director

Date : 19 June 2020

## **Independent auditor's report**

To the Shareholders of Gap Mellieha (I) Limited.

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

### **Opinion**

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

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

### **Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

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

## **Independent auditor's report**

To the Shareholders of Gap Mellieha (I) Limited.

### **Responsibilities of the Directors**

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern and future events or conditions may cause the company to cease to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers and suppliers, and the disruption to its business and overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **Independent auditor's report**

To the Shareholders of Gap Mellieha (I) Limited.

#### **Report on Other Legal and Regulatory Requirements**

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

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

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

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

#### **Appointment**

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



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

#### **EFS Audit Limited**

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

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31st DECEMBER 2019**

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

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




**STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2019**

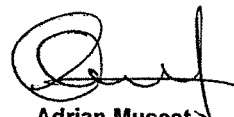
	Notes	2019 €	2018 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loans and other receivables	9	2,533,871	2,403,606
		<u>2,533,871</u>	<u>2,403,606</u>
<b>Current assets</b>			
Inventory - Development project	10	13,640,184	14,503,709
Trade and other receivables	11	20,418,613	12,941,190
Cash and bank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

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

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



**Paul Attard**  
Director



**Adrian Muscat**  
Director

Date : 19 June 2020

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31st DECEMBER 2019**

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

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

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31st DECEMBER 2019**

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

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

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

### 1 Summary of significant accounting policies

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

#### 1.1 Basis of preparation

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

#### *COVID-19 Pandemic*

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

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

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

#### *Critical accounting estimates and judgements*

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

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

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

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

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

### 1 Summary of significant accounting policies

#### 1.1 Basis of preparation - continued

##### *IFRS 16 - Leases*

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

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

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

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

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

##### *Going concern*

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

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

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

#### 1.2 Segment reporting

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

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

**1 Summary of significant accounting policies**

**1.3 Foreign currency translation**

**(a) Functional and presentation currency**

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

**(b) Transactions and Balances**

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

**1.4 Financial assets**

**1.4.1 Classification**

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

**1.4.2 Recognition and measurement**

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

- i. the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principle and Interest ("SPPI").

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

**1 Summary of significant accounting policies**

**1.4 Financial assets - (continued)**

**1.4.3 Impairment**

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

*Expected credit loss model*

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

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

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

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

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

**1 Summary of significant accounting policies**

**1.4 Financial assets - (continued)**

**1.4.3 Impairment - (continued)**

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

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

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

*Simplified approach model*

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

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

**1.5 Share Capital**

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

**1.6 Offsetting financial instruments**

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

**1.7 Provisions**

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



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

**1 Summary of significant accounting policies**

**1.8 Revenue and cost recognition**

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

Other operating income consisting of the following is recognised on an accruals basis:

Interest

Dividends receivable are accounted for on a cash basis

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

**1.9 Borrowing costs**

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

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

**1 Summary of significant accounting policies**

**1.10 Trade and other payables**

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

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

**1.11 Other financial liabilities**

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

**1.12 Inventory - Development project**

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

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

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

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

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

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

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

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

**1 Summary of significant accounting policies**

**1.13 Trade and other receivables**

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

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

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

**1.14 Cash and cash equivalents**

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

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

**1 Summary of significant accounting policies**

**1.15 Current and deferred tax**

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

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

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

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

**1.16 Dividend distribution**

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

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

**2 Financial risk management**

**2.1 Financial risk factors**

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

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

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

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

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

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

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

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

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued**

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

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

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

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

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

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

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

*(vii) General exposure to funding risks*

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

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

**2 Financial risk management - continued**

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

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

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

*(ix) Foreign Exchange risk*

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

*(x) Fair value interest rate risk*

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

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

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

**2 Financial risk management - continued**

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

*(xi) Liquidity risk*

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

*(xii) Capital risk management*

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

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

*(xiii) Credit risk*

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

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

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

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



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

**3 Turnover**

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

	2019	2018
	€	€
Sale of property held for Development and resale	12,952,540	16,193,600
	<u>12,952,540</u>	<u>16,193,600</u>

**4 Operating profit**

The operating profit for the year is stated after charging :

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

**5 Employees**

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

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

**6 Finance costs**

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**7 Investment income**

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

**8 Tax expense**

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

	2019	2018
	€	€
Current income tax		
Income tax on taxable income at 15%	26	14
Income tax subject to 8% final tax on sales of immovable property	1,002,970	1,256,346
	<u>1,002,996</u>	<u>1,256,360</u>

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

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

**9 Loans and other receivables**

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

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

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

**10 Inventory - Development project**

	2019	2018
	€	€
Property cost of land and development costs	13,640,184	14,503,709
	<u>13,640,184</u>	<u>14,503,709</u>

**11 Trade and other receivables**

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

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

**12 Cash and cash equivalents**

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

	2019	2018
	€	€
Cash in hand	150	136,940
Cash at bank	546,946	363,617
	<u>547,096</u>	<u>500,557</u>

**13 Share capital**

	2019	2018
	€	€
<b>Authorised</b>		
1200 Ordinary shares of €1 each	1,200	1,200
	<u>1,200</u>	<u>1,200</u>
<b>Issued and fully paid up</b>		
1200 Ordinary shares of €1 each	1,200	1,200
	<u>1,200</u>	<u>1,200</u>

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**14 Creditors**

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

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

**15 Transactions with related parties**

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

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

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

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

**16 Contingent liabilities**

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

1. Second ranking general hypothec over all the assets of GAP group plc and over all the present and future property of GAP Group plc.
2. First ranking special hypothec over Block A and Block E of Mellieha Development.

**17 Capital commitments**

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

**18 Post-Balance Sheet Items**

*Events after the end of the reporting period*

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

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

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

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

**19 Statutory information**

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

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



Gap Luqa Limited

FINANCIAL STATEMENTS

31st DECEMBER 2019

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## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31st DECEMBER 2019**

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

#### **Principal Activities**

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

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

#### **Review of business**

By the end of the financial year under review, all the units of Lija have been either contracted or committed by way of a signed promise of sale agreement.

##### *The Luqa development*

The Luqa development consists of 21 blocks. By the end of the year, the first 9 blocks were fully complete. Construction works had started on the next 6 blocks, whereas excavation works were complete regarding the remaining 6 blocks.

It is envisaged that construction shall be fully completed by latest Q2 2021 whilst the project will be completed in its entirety by Q4 2021.

At the end of the year, out of the 143 units from the first 12 blocks that were placed on the market, 59 units have been sold (contracted) and a further 61 units were subject to a Preliminary Agreement.

This means that 85% of the residential units available on the market were committed, out of which 42% have been contracted as at the end of the year.

#### **Results and dividends**

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

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

#### **Directors**

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

George Muscat  
Paul Attard  
Adrian Muscat

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



**Directors' report - continued**

**Auditor**

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

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

  
**George Muscat**  
**Director**

  
**Paul Attard**  
**Director**

Gap Holdings Head Office,  
Censu Scerri Street  
Tigne', Sliema, Slm 15.  
Malta

Date : 19 June 2020

## STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

### Statement of the Directors' Responsibilities

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

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

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

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

  
George Muscat  
Director

  
Paul Attard  
Director

Date : 19 June 2020

## **Independent auditor's report**

To the Shareholders of Gap Luqa Limited.

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

#### **Opinion**

I have audited the financial statements of Qawra Investments Limited, set out on pages 7 to 29 which comprise the statement of financial position as at 31st December 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies.

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

#### **Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

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

## Independent auditor's report

To the Shareholders of Gap Luqa Limited.

### Responsibilities of the Directors

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern and future events or conditions may cause the company to cease to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers and suppliers, and the disruption to its business and overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### Independent auditor's report

To the Shareholders of Gap Luqa Limited.

#### Report on Other Legal and Regulatory Requirements

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

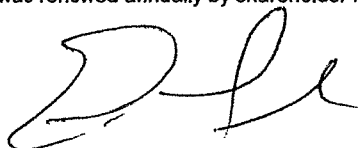
I am also responsible under the Companies Act (Cap. 386), I have responsibilities to report to you if, in my opinion:

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

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

#### Appointment

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



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

#### EFS Audit Limited

1, Tal-Providenza Mansions  
Main Street  
Balzan  
Malta  
Date : 19 June 2020

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31st DECEMBER 2019**

	Notes	2019 €	2018 €
Turnover	3	11,818,570	2,002,000
Cost of sales		<u>(6,533,146)</u>	<u>(1,185,363)</u>
<b>Gross profit</b>		5,285,424	816,637
Administrative expenses		<u>(551,414)</u>	<u>(33,812)</u>
<b>Operating profit</b>	4	4,734,010	782,825
Finance costs	6	(350,892)	-
Investment income	7	<u>-</u>	<u>1,314</u>
<b>Profit before taxation</b>		4,383,118	784,139
Tax expense	8	<u>(919,927)</u>	<u>(145,467)</u>
<b>Profit for the year</b>		<u>3,463,191</u>	<u>638,672</u>
<b>Total Comprehensive income</b>		<u>3,463,191</u>	<u>638,672</u>
<b>Earnings per share</b>		<u>2,477.25</u>	<u>456.85</u>

The notes on pages 11 to 29 are an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2019**

	Notes	2019 €	2018 €
<b>ASSETS</b>			
<b>Current assets</b>			
Inventory - Development project	9	12,215,059	11,259,671
Trade and other receivables	10	8,871,952	9,399,445
Cash and bank balances	11	632,363	51,545
		<u>21,719,374</u>	<u>20,710,661</u>
<b>Total Assets</b>		<u>21,719,374</u>	<u>20,710,661</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	12	1,398	1,398
Retained earnings		4,841,015	1,377,824
<b>Total equity</b>		<u>4,842,413</u>	<u>1,379,222</u>
<b>Non-current liabilities</b>			
Bank loans	14	-	5,118,000
Other financial liabilities	15	2,533,871	2,403,606
<b>Total non-current liabilities</b>		<u>2,533,871</u>	<u>7,521,606</u>
<b>Current liabilities</b>			
Trade and other payables	15	6,612,407	3,126,278
Other financial liabilities	15	7,730,682	8,683,555
Taxation due		1	-
<b>Total current liabilities</b>		<u>14,343,090</u>	<u>11,809,833</u>
<b>Total liabilities</b>		<u>16,876,961</u>	<u>19,331,439</u>
<b>Total equity and liabilities</b>		<u>21,719,374</u>	<u>20,710,661</u>

The notes on pages 11 to 29 are an integral part of these financial statements.

The financial statements on pages 7 to 29 were approved by the board of directors and were signed on its behalf by:

  
George Muscat  
Director

  
Paul Attard  
Director

Date : 19 June 2020

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31st DECEMBER 2019**

	Share Capital €	Profit and Loss Account €	Total €
Balance at 1st January 2018	1,398	739,152	740,550
<b>Comprehensive income</b>			
Profit for the year	-	638,672	638,672
<b>Balance at 31st December 2018</b>	<u>1,398</u>	<u>1,377,824</u>	<u>1,379,222</u>
Balance at 1st January 2019	1,398	1,377,824	1,379,222
<b>Comprehensive income</b>			
Profit for the year	-	3,463,191	3,463,191
<b>Balance at 31st December 2019</b>	<u>1,398</u>	<u>4,841,015</u>	<u>4,842,413</u>

The notes on pages 11 to 29 are an integral part of these financial statements.



**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31st DECEMBER 2019**

	2019 €	2018 €
<b>Cash flows from operating activities</b>		
Net profit before taxation	4,383,118	784,139
Adjustments for:		
Investment income	-	(1,314)
Interest expenses	350,892	-
<b>Operating profit before working capital changes</b>	4,734,010	782,825
Trade and other receivables	527,493	(7,747,569)
Inventory	(955,388)	(1,704,828)
Creditors	3,361,864	2,345,950
<b>Cash generated from operations</b>	7,667,979	(6,323,622)
Interest payable	(350,892)	-
Income tax paid	(919,926)	(145,467)
<i>Net cash from / (used in) operating activities</i>	6,397,161	(6,469,089)
<b>Cash flows from investing activities</b>		
Investment income	-	1,314
<i>Net cash from investing activities</i>	-	1,314
<b>Cash flows from financing activities</b>		
Related parties	(828,608)	7,307,921
Bank loans (net)	(5,118,000)	(1,182,344)
Other loans	130,265	(3,000)
<i>Net cash (used in) / from financing activities</i>	(5,816,343)	6,322,577
<b>Movement in cash and cash equivalents</b>	580,818	(145,198)
<b>Cash and cash equivalents at beginning of the year</b>	51,545	196,743
<b>Cash and cash equivalents at end of the year (note 11)</b>	632,363	51,545

The notes on pages 11 to 29 are an integral part of these financial statements.

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

### 1 Summary of significant accounting policies

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

#### 1.1 Basis of preparation

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

#### *COVID-19 Pandemic*

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

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

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

#### *Critical accounting estimates and judgements*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**1 Summary of significant accounting policies**

**1.1 Basis of preparation - continued**

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

*IFRS 16 - Leases*

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

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

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

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

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

*Going concern*

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

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

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

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

**1 Summary of significant accounting policies**

**1.2 Segment reporting**

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

**1.3 Financial assets**

**1.3.1 Classification**

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

**1.3.2 Recognition and measurement**

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

- i. the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principle and Interest ("SPPI").

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

**1 Summary of significant accounting policies**

**1.3 Financial assets - (continued)**

**1.3.3 Impairment**

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

*Expected credit loss model*

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

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

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

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

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

**1 Summary of significant accounting policies**

**1.3 Financial assets - (continued)**

**1.3.3 Impairment - (continued)**

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

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

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

*Simplified approach model*

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

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

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

**1.4 Share Capital**

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

**1.5 Offsetting financial instruments**

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

**1.6 Provisions**

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

**1.7 Revenue and cost recognition**

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

Other operating income consisting of the following is recognised on an accruals basis:  
Interest

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 2019**

**1 Summary of significant accounting policies**

**1.8 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.

**1.9 Trade and other payables**

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

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

**1.10 Other financial liabilities**

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

**1.11 Investments**

The company's investments held as fixed assets are stated at cost less provisions for long-term impairment in value.

**1.12 Investment property**

Investment property is stated at cost. Freehold property or property held on perpetual emphyteusis are not depreciated.

**1.13 Inventory - Development project**

Land and development costs are stated at the lower of acquisition and development costs and net asset value. Net asset value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.



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

**1 Summary of significant accounting policies**

**1.14 Inventory - Development project**

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

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

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

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

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

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

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

**1.15 Trade and other receivables**

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

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

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

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

**1 Summary of significant accounting policies**

**1.16 Cash and cash equivalents**

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

**1.17 Current and deferred tax**

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

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

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

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

**1.18 Dividend distribution**

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

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

**2 Financial risk management**

**2.1 Financial risk factors**

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

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

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

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

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

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

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

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

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued**

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

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

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

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

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

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

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

*(vii) General exposure to funding risks*

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

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

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued**

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

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

*(ix) Foreign Exchange risk*

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

*(x) Fair value interest rate risk*

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

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

*(xi) Liquidity risk*

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

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

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued**

*(xii) Capital risk management*

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern; to maximise the return to stakeholders through the optimisation of the debt and equity balance.

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

*(xiii) Credit risk*

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

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

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

**3 Turnover**

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

	2019	2018
	€	€
Sale of property held for Development and resale	11,818,570	2,002,000
	<u>11,818,570</u>	<u>2,002,000</u>

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

**4 Operating profit**

The operating profit for the year is stated after charging :

	2019	2018
	€	€
Employment costs - Note 5	276,569	-
Audit fees	4,266	4,266

**5 Employees**

	2019	2018
	€	€
Employment costs comprise:		
Wages and salaries	276,569	-
Social security costs	-	-
Recharged to intercompanies	(276,569)	-
	-	-

Wages and salaries & social security costs were recharged to intercompany Gap Group Contracting Lim

**6 Finance costs**

	2019	2018
	€	€
Capitalised interest at 1st January	584,134	339,435
Capitalised interest during period	889,506	244,699
Capitalised interest at 31st December	(1,122,748)	(584,134)
	350,892	-

**7 Investment income**

	2019	2018
	€	€
Interest from Maltese banks	-	1,314
	-	1,314

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**8 Tax expense**

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

	2019	2018
	€	€
Current income tax		
Income tax subject to 5% final tax on land	-	23,750
Income tax on taxable income at 15%	-	197
Income tax subject to 8% final tax on sales of immovable property	919,927	121,520
<b>Tax charge</b>	<b>919,927</b>	<b>145,467</b>

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

	2019	2018
	€	€
Net profit for the year	4,383,118	784,139
Income tax thereon at 35% (statutory local income tax rate)	1,534,091	274,449
Tax effect of:		
Difference resulting from different tax rates on bank interest received	-	(263)
Expenses disallowed for tax purposes	51,826	9,035
Difference arising on income subject to different rates of tax on sales	(665,990)	(137,754)
	<b>919,927</b>	<b>145,467</b>

**9 Inventory - Development project**

	2019	2018
	€	€
Property cost of land and development costs	12,215,059	11,259,671
	<b>12,215,059</b>	<b>11,259,671</b>



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

**10 Trade and other receivables**

	2019	2018
	€	€
Other debtors including Guarantees	380,663	220,100
Amounts due from group companies	7,179,839	9,179,345
Amounts due from related parties	1,311,450	-
	<u>8,871,952</u>	<u>9,399,445</u>

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

**11 Cash and cash equivalents**

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

	2019	2018
	€	€
Cash in hand	-	51,035
Cash at bank	632,363	510
	<u>632,363</u>	<u>51,545</u>

**12 Share capital**

	2019	2018
	€	€
<b>Authorised</b>		
2000 Ordinary shares of €2.329373 each	4,659	4,659
	<u>4,659</u>	<u>4,659</u>
<b>Issued and fully paid up</b>		
200 A Ordinary shares of €2.329373 each	466	466
200 B Ordinary shares of €2.329373 each	466	466
200 C Ordinary shares of €2.329373 each	466	466
	<u>1,398</u>	<u>1,398</u>

**13 Earnings per share**

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

	2019	2018
	€	€
Profit for the year	3,463,191	639,044
Weighted average share in issue	1,398	1,398
Earnings per share	<u>2477.25</u>	<u>457.11</u>

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2019

**14 Borrowings**

	2019	2018
	€	€
<b>Long term - falling due after one year</b>		
Bank loans	-	5,118,000
Total long term borrowings	-	5,118,000
 <b>Total borrowings</b>	 -	 5,118,000
 <b>Maturity of long term borrowings</b>		
Due between 2 and 5 years	-	5,118,000
	-	5,118,000

The company had a loan facility of €5,118,000 in 2018 which bore interest at 5.25% per annum.

The facilities were secured by a general and special hypothecs over the company's assets as defined in Sanction Letter. The Loan is repayable on sale of each property of the residential complex and garages forming part of the Project.

**15 Creditors**

	2019	2018
	€	€
<b>Trade and other payables</b>		
Advanced Deposits	1,378,356	949,168
Trade creditors and accruals	5,234,051	2,177,110
	6,612,407	3,126,278
 <b>Other financial liabilities</b>		
Shareholders' current accounts	933,769	933,769
Amounts due to group companies	6,790,913	7,749,786
Directors' current accounts	6,000	-
	7,730,682	8,683,555
 <b>Non-current liabilities</b>		
Amounts due to group companies	2,533,871	2,403,606
	2,533,871	2,403,606
 <b>Total trade and other creditors</b>	 16,876,960	 14,213,439

Non-current liabilities include funds of €2,533,871 advanced by Gap Mellieha Limited, a related company which bears interest at the rate of 4.5% per annum with effect from 1st January 2017 and is repayable by 2021.

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

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

**16 Transactions with related parties**

During the course of the year the company entered into transactions with related undertakings all of which arise in the ordinary course of business. The related party transactions were :

	2019	2018
	€	€
<b>Trade and other receivables</b>		
Amounts due from group companies	7,179,839	9,179,345
Amounts due from related parties	1,311,450	-
<b>Other financial liabilities</b>		
Amounts due to group companies	6,790,913	7,749,786
Amounts due to group companies	2,533,871	2,403,606
Shareholders' current accounts	933,769	933,769

**17 Post Balance Sheet events**

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

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

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

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

**18 Capital commitments**

As at 31st December 2019, the company entered into promise of sale agreements with advanced deposits amounting to Eur 1,378,356. These agreements are expected to generate sales amounting to Eur 11,206,175.

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

**19      Contingent liabilities**

The 4.25% Secured Bond 2023 and the 3.65 Secured Bond 2022 of Gap Group plc are redeemable at par on the 3 October 2023 on the 5th of April 2022 respectively. Both bonds are secured for the full nominal value of secured bonds and interests thereon as follows consequently:

- i. First ranking general hypothec over all present and future assets of Gap Group plc
- ii. First ranking special hypothec over all present and future assets of the company and over the Luqa development.

**20      Statutory information**

Gap Luqa Limited is a limited liability company and is incorporated in Malta, with its registered address at Gap Holdings Head Office, Censu Scerri Street, Tigne', Sliema, SLM 15, Malta.

There is no ultimate controlling party as none of the shareholders hold more than 50% of the voting shares in the company.