
Financial Analysis Summary

4 March 2019

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



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

4 March 2019

Dear Sirs

Financial Analysis Summary

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

The purpose of the financial analysis is that of summarising key financial data appertaining to Gap Group p.l.c. (the "**Issuer**"); Gap Mellieha (I) Limited and Gap Luqa Limited (formerly Qawra Investments Limited) (the "**Guarantors**"); and Gap Mellieha (I) Limited, Gap Gharghur Limited, Gap Properties Limited and Geom Developments Limited being the guarantors in relation to the issue of €40,000,000 4.25% secured Bonds 2023 having ISIN: MT0001231209 (the "**Original Guarantors**"). The data is derived from various sources or is based on our own computations as follows:

- (a) Historical financial data for the period 1 June 2016 to 31 December 2016 and the year to 31 December 2017 has been extracted from the audited consolidated financial statements of Gap Group p.l.c.
- (b) Historical financial data has been extracted from the audited financial statements of Gap Mellieha (I) Limited (FP2016 and FY2017), Gap Luqa Limited (FY2015 to FY2017), Gap Gharghur Limited (FP2016 and FY2017), Gap Properties Limited (FY2015 to FY2017) and Geom Developments Limited (FY2015 to FY2017).
- (c) Historical interim financial data has been extracted from the unaudited financial information for the 6 month period 1 January 2018 to 30 June 2018 of Gap Mellieha (I) Limited and Gap Luqa Limited.
- (d) The projected consolidated financial data relating to the Issuer for the years ending 31 December 2018 and 31 December 2019 have been provided by management.
- (e) Our commentary on the results of Gap Group and on its financial position is based on the explanations provided by management.
- (f) The ratios quoted in the Analysis have been computed by us applying the definitions set out in Part 4 of the Analysis.
- (g) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

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

Yours faithfully,



Evan Mohnani
Head – Corporate Finance

CHARTS

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DEFINITIONS

Issuer	Gap Group p.l.c., a public limited liability company duly registered and validly existing under the laws of Malta with company registration number C 75875 and having its registered office at Gap Group Head Office, Ċensu Scerri Street, Sliema SLM 3060, Malta;
Gap Group or Group	the Issuer, its parent, GDL, GHL, GGF, GGL, GGCL, GML, GPL, MHL and GLL;
GDL	Geom Developments Limited (C 50805);
GHL	Geom Holdings Limited (C 64409);
GGCL	Gap Group Contracting Limited (C 75879);
GGF	Gap Group Finance Limited (C 54352);
GGL	Gap Gharghur Limited (C 72015);
Gharghur Development	the 34 luxury apartments (6 of which are at penthouse level) and 41 garages/car spaces, spread over 4 blocks with a variety of one, two and three bedroom units, all in a completely finished state, forming part of the development on the site in Triq Caravaggio, Gharghur, Malta measuring approximately 2,585m ² ;
GLL	Gap Luqa Limited (formerly Qawra Investments Limited) (C 32225);
GML	Gap Mellieħa (I) Limited (C 72013);
GPL	Gap Properties Limited (C 47928);
Guarantor	each of GDL, GGL, GML and GPL, and the term “Guarantors” shall collectively refer to the said companies;
Hypothecated Property	the immovable property described hereunder, namely: <ul style="list-style-type: none"> (i) the site under construction (and all constructions to be developed thereon) forming part of the Mellieħa Development, measuring approximately 5,100m² which site overlies garages within the Mellieħa Development and when finished will consist of 72 residential units forming part of Block A to Block E, which site is owned by GML; (ii) the building site which includes its sub-terrain and airspace, in the area known as Ta’ Blejkiet in Luqa, with developable land measuring approximately 8,500m² and which is accessible from eight streets, namely Triq Ġorġ Zahra, Triq Tumas Galea, Triq I-Iskola, Triq Ġeraldu Spiteri, Triq W. Briffa, Triq Indri Micallef, Triq I-Aħwa Vassallo and Triq Ġuzeppi Callus, over which there shall be developed five zones of residential apartments (Zone A to Zone E) which will comprise 21 blocks with a total of 237 apartments and 219 garages, which site is owned by GLL;
Luqa Development	the construction, development and finishing of a total of 237 apartments and 219 garages spread over 5 zones with a mix of one, two and three bedroom units over the site having a developable area of approximately 8,500m ² known as Ta’ Blejkiet in Luqa;
Mellieħa Development	the construction, development and finishing of a total of 152 residential units and 174 lock-up garages, spread over 10 blocks with a variety of one, two and three bedroom units over the site known as Ta’ Masrija in Mellieħa measuring approximately 5,100m ² ;
MHL	Manikata Holdings Limited (C 53818);
Original Bond(s)	the €40,000,000 4.25% Secured Bonds 2023 issued by the Issuer pursuant to a prospectus dated 16 September 2016 and carrying ISIN MT0001231209;

Qawra Development	the 151 residential units and 181 garages/car spaces, spread over 7 blocks, identified as Blocks A to G (both included) with a variety of one, two and three bedroom units, all in a completely finished state, forming part of the development of the site in Triq il-Porzjunkola, Qawra, Malta measuring approximately 3,508m ² ;
Secured Bond(s) or Bond(s)	the €40,000,000 3.65% Secured Bonds 2022 issued by the Issuer pursuant to a prospectus dated 4 March 2019 through the combination of the First Tranche Bonds and the Second Tranche Bonds;
Żebbuġ Development	the 193 apartments, 2 retail outlets and 144 underlying garage spaces all in a completely finished state, including all common areas and internal streets, forming part of the development on the site in Żebbuġ measuring approximately 6,878m ² .

PART 1 – INFORMATION ABOUT THE GAP GROUP

1. KEY ACTIVITIES OF THE ISSUER

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

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

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

In addition, by virtue of another share purchase agreement dated 6 September 2016, entered into with Gap Group Investments (III) Limited (C 76675), the Issuer acquired the entire issued share capital of GDL and all the issued ordinary 'A' shares of GHL. GDL holds a one hundred per cent interest in GGF which in turn has the controlling interest in each of GPL and MHL. GPL is the group company that owns the Żebbuġ Development, which has now been completed. GDL owns an undivided portion of the site situated in Triq il-Portzjunkola corner with Triq it-Tamar in Qawra, over which Blocks A, B and C of the Qawra Development were developed and are, as at the date of this report, completed. The other undivided portion of land is owned by its affiliate Geom Holdings Limited.

In December 2016, the Group (through GML) made an investment of €2.3 million in GLL (which at the time was a related party), to enable the latter company to enter into a preliminary agreement and settle other ancillary costs relating to the acquisition of a site over which the Luqa Development is being constructed. The deed of purchase was executed on 26 April 2017 and the then outstanding balance of consideration was financed mainly through a bank loan facility. On 24 January 2019, by virtue of a share transfer agreement, the Issuer acquired the entire issued share capital of GLL.

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

In September 2016, the Issuer issued the Original Bonds to finance the Mellieħa Development, the Gharghur Development and the Qawra Development.

By virtue of a prospectus dated 4 March 2019, the Issuer is offering Secured Bonds divided into two fungible tranches (i) a maximum of €40,000,000 First Tranche Bonds, being offered to holders of the Original Bonds; and (ii) a maximum of €20,000,000 Second Tranche Bonds, being offered to holders of the Original Bonds and the public. The issue of the Secured Bonds is being made to: (i) in the case of the First Tranche Bonds, to facilitate the conversion of bondholders' investment in the Original Bonds into the First Tranche Bonds; and (ii) depending on the rate of conversion from Original Bonds into First Tranche Bonds, the raising of new capital to fund the development and completion of the Luqa Development through the issue of the Second Tranche Bonds and the settlement of all amounts outstanding under a bank loan facility.

2. DIRECTORS AND SENIOR MANAGEMENT

2.1 DIRECTORS OF THE ISSUER

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

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

2.2 DIRECTORS OF THE GUARANTORS AND ORIGINAL GUARANTORS

The following are the directors of each of :

GML, GLL, GPL and GGL:

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

GDL:

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

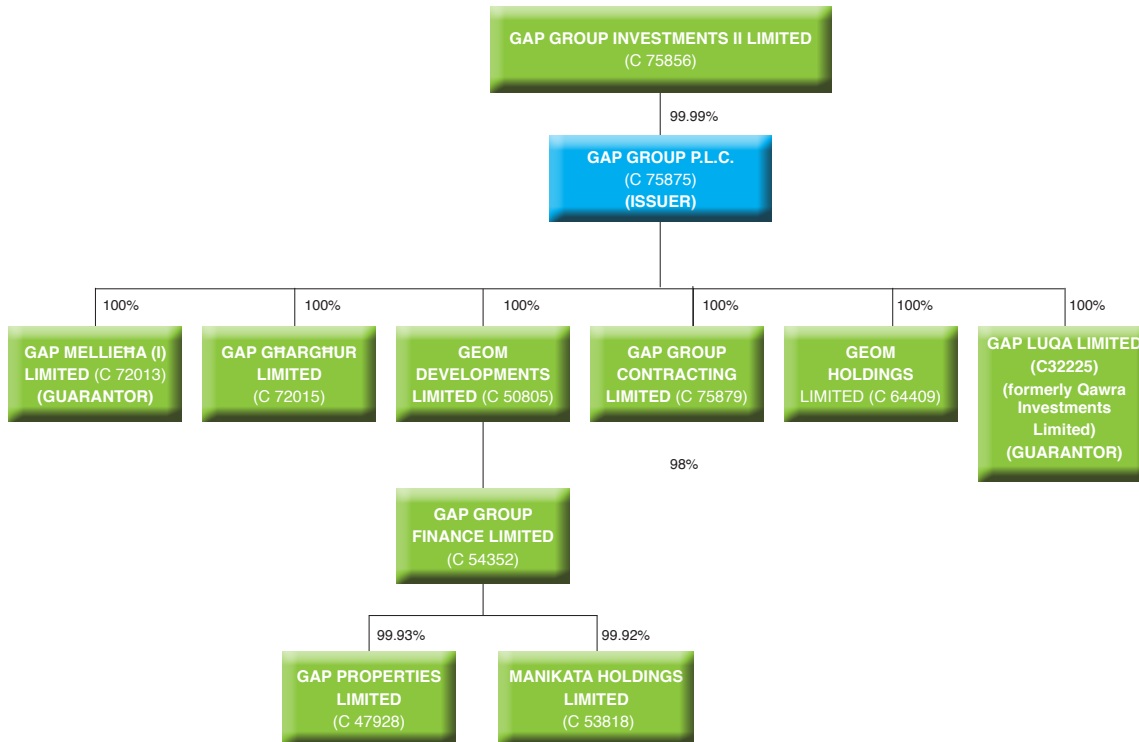
2.3 SENIOR MANAGEMENT

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

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

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

3. ORGANISATIONAL STRUCTURE



The organisational structure of the Gap Group is depicted above. The Group is equally owned by three individual shareholders, namely, Paul Attard, Adrian Muscat and George Muscat, through Gap Group Investments II Limited (C 75856). Each of GML, GPL, GGL, GDL, GHL and GLL are project companies each entrusted with the construction and development of a real-estate project.

3.1 THE GUARANTORS

3.1.1 *Gap Luqa Limited*

GLL is a single member private limited liability company, registered and operating in Malta in terms of the Act with company registration number C 32225, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GLL has an authorised share capital of €4,658.75 (four thousand six hundred fifty eight Euro and seventy five cents) divided into 2,000 ordinary shares of €2.329373 each, and an issued share capital of €1,397.62 (one thousand three hundred ninety seven Euros and sixty two cents) divided into 600 Ordinary Shares of €2.329373 each, fully paid up. GLL was set up on 10 October 2003 to operate any land and/or buildings it acquires.

3.1.2 *Gap Mellieħa (I) Limited*

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

3.2 THE ORIGINAL GUARANTORS

3.2.1 *Gap Mellieħa (I) Limited*

See section 3.1.2 above.

3.2.2 *Gap Gharghur Limited*

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

3.2.3 *Gap Properties Limited*

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

3.2.4 *Geom Developments Limited*

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

4. THE PROJECTS

4.1 THE LUQA DEVELOPMENT

In April 2017, GLL acquired the legal title over a site, including its sub-terrain and airspace, having *circa* 8,500m² of developable land in Luqa, accessible from eight streets, namely, Triq Ġorġ Zahra, Triq Tumas Galea, Triq I-Iskola, Triq Ġeraldu Spiteri, Triq W. Briffa, Triq Indri Micallef, Triq I-Aħwa Vassallo and Triq Ġuzeppi Callus, in an area known as Ta' Blejkiet in Luqa. The site is situated in the heart of the residential area of Luqa with close and direct access to the town's village core. The public school of the village and one of the largest supermarkets in the south of Malta are also in close vicinity and directly accessible from the proposed development. Furthermore, the property is located within a few metres from the arterial road which links the Malta International Airport to the rest of the island.

The Luqa Development is split into five zones and on completion shall comprise 21 blocks having 219 underlying lock-up garages/car spaces and 237 residential units, as detailed hereunder:

Zone	Footprint (m ²)	Blocks (qty)	Garages/Car Spaces (qty)	Residential Units (qty)
A	2,182	6	49	52
B	951	3	21	23
C	2,800	6	100	81
D	980	2	17	38
E	1,545	4	32	43
	8,458	21	219	237

The development of Zone A is presently underway with construction envisaged to be completed by Q1 2019 and fully finished by Q2 2019. Construction and finishing of the rest of the residential zones is expected to progress gradually, with completion earmarked for Q2 2021. Excavation and construction works up to 15 December 2018 amounted to €2.1 million and total estimated costs for completion of all zones is *circa* €17.5 million. The remaining development costs will be funded principally from Bond Issue net proceeds, deposits received pursuant to preliminary sale agreements and from proceeds receivable on signing of sale contracts. All five zones are covered by full development permits.

Pursuant to the acquisition of GLL by the Group, GLL has entered into a contract for the development of the Luqa Development with GGCL for a value of approximately €17.5 million. Payment under the said contract is being settled by the company according to agreed fixed monthly payments to be determined in agreement between GGCL and GLL. In general, such payment terms are subject to negotiation and agreement by GLL and GGCL. The afore-mentioned parties entered into a public deed in the records of Notary Dr Andre Farrugia and dated 14 February 2019 which makes provision for the contractual waiver by GGCL of its right at law to register a special privilege for any amount over the Luqa Development in the event of non-payment by GLL until such time that the hypothecs and privileges granted in favour of the Security Trustee have been settled and repaid in full. The public deed is intended to protect the security interests of the Security Trustee for the benefit of Bondholders and to preserve their ranking over the assets of the Issuer and GLL, in its capacity as guarantor. Notwithstanding the foregoing, although GGCL shall make best efforts to procure that its sub-contractors so engaged from time to time shall waive any privileged rights which may be available to them at law, there is no guarantee that such sub-contractors will accede to such request.

The project will include a mix of 1, 2 and 3 bedroomed residential units, measuring approximately 60m² to 160m², and are priced to target primarily first-time buyers and buy-to-let investors. The Directors sought this investment following the success of the Żebbuġ and Qawra Developments (both of which targeted similar market segments), and to further the business activities of the Group during this favourable period of strong demand for lower-priced property. Furthermore, the Directors believe that the prospects and demand for property in Luqa should remain buoyant, at least in the near term, due to the expected increase in employment opportunities in the area, including the upcoming expansion of Terminal II and Skyparks at Malta International Airport.

The units are being sold finished in a complete state, including all common areas. Each block will have separate entrances served with passenger lifts accessing both the apartments and the underlying garage levels. The finishes of each apartment will include electrical, plumbing, telephone and air conditioning installations points, gypsum plastering and two coats of white paint, floor tiles and bathrooms, and external apertures in double glazed aluminium.

To date, GLL has launched Zone A units on the market through various real estate agents in Malta, as well as through the Group's website and other forms of social media. As at 15 December 2018, 47 units out of a total of 52 units (90%) in Zone A are subject to promise of sale agreements. Zone B units have been launched on the market in February 2019.

4.2 THE MELLIEĦA DEVELOPMENT

In October 2015, GML entered into a preliminary agreement for the purchase and acquisition of a plot of land measuring *circa* 5,100m² with access from the three streets surrounding the property situated in the Ta' Masrija area in Mellieħa over which the Mellieħa Development shall be constructed and developed. The property was acquired pursuant to a deed of acquisition dated 21 October 2016 in the records of Notary Sam Abela.

The site is located in the village of Mellieħa in the northern region of Malta. It enjoys unobstructed country views of the imposing area known as Miżieb and distant sea views of the island's north western coastline. Moreover, the site is a short drive away from Malta's largest sandy beaches, Ġhadira Bay and Golden Bay and a short walk to the village centre of Mellieħa. Given the location of the site and the proposed level of finishes which will be implemented for each unit forming part of the Mellieħa Development, the Directors believe that the project offers a unique opportunity for owning residential property in this part of the island.

The Mellieħa Development is planned to comprise 152 luxury apartments which to be sold finished in a complete state, including all common areas and the formation of the road. The development is covered by a full development permit and is projected to encompass 10 blocks of apartments, each with separate entrances and served with passenger lifts accessing both the apartments and underlying garage levels. The apartments at the top level will also have access to roof level and will enjoy full ownership thereof. The development shall also include 174 lock-up underground garages spread over 3 underground levels.

As at 15 December 2018, the first four blocks (Blocks G, H, I & J) of the Mellieħa Development were fully developed, whilst the other six blocks (Blocks A to F) were at various stages of completion. The whole project is expected to be completed by Q4 2019. The amount of €9.5 million was on-lent by the Issuer to GML on 9 September 2016 for the purpose of constructing and developing the Mellieħa Development, which amount was utilised in full by GML. It is estimated that the outstanding total cost to complete the whole Mellieħa Development is *circa* €6.8 million and will be financed primarily from sales of residential units and garages.

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

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

As at 15 December 2018, GML had entered into sale contracts for 38 residential units, some comprising garages/car spaces, for an aggregate value of €14.0 million units, whilst 42 residential units (including garages/car spaces in some cases) amounting to €15.8 million are subject to promise of sale agreements.

4.3 OTHER MAJOR PROJECTS

4.3.1 *The Qawra Development*

The Qawra Development is a joint venture between GDL and GHL, both subsidiaries of the Issuer. The Project is constructed over a site consisting of two divided portions of land, one measuring approximately 2,280m² (inclusive of the road formation) belonging to GHL and another portion of land measuring approximately 1,228m² belonging to GDL, and both situated in Triq il-Portzunkola corner with Triq it-Tamar which is situated just off the Qawra seafront. Both portions of land were purchased by GDL and GHL by two separate contracts dated 26 March 2015 published by Notary Dr John Spiteri.

The project is fully developed and includes a total of 151 residential units and 180 garages/car spaces. As at 15 December 2018, all residential units have been sold, except for 8 residential units valued at €1.1 million which are subject to promise of sale agreements.

4.3.2 *The Ghargħur Development*

In February 2016, GGL acquired the legal title of a portion of land in Ghargħur, which includes its sub-terrain and airspace and measures *circa* 2,585m², accessible from Triq il-Kbira and Triq Caravaggio. The project is complete and comprises 34 residential units spread over 5 levels, 38 (1-car) lock-up garages and 3 (2-car) lock-up garages. As at 15 December 2018, the residential units are sold, other than 5 units valued at €2.1 million which are subject to promise of sale agreements.

4.4 THE RESERVE ACCOUNT

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

For this purpose, the Security Trustee and the Issuer have agreed that a fixed amount shall be set for each unit, and it is only upon receipt by the Security Trustee of such an amount that the Security Trustee shall be bound to release a particular unit from the effects of any security interests encumbering the Hypothecated Property. Accordingly, the security created for the interest of Bondholders shall only be reduced against a cash payment made by the Issuer in the Reserve Account to be held by the Trustee for the benefit of Bondholders. The Security Trustee shall hold the funds received in a segregated bank account with a credit institution in Malta and shall hold such funds for the benefit of Bondholders with a view to meeting the redemption of the Bonds on maturity.

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

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

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

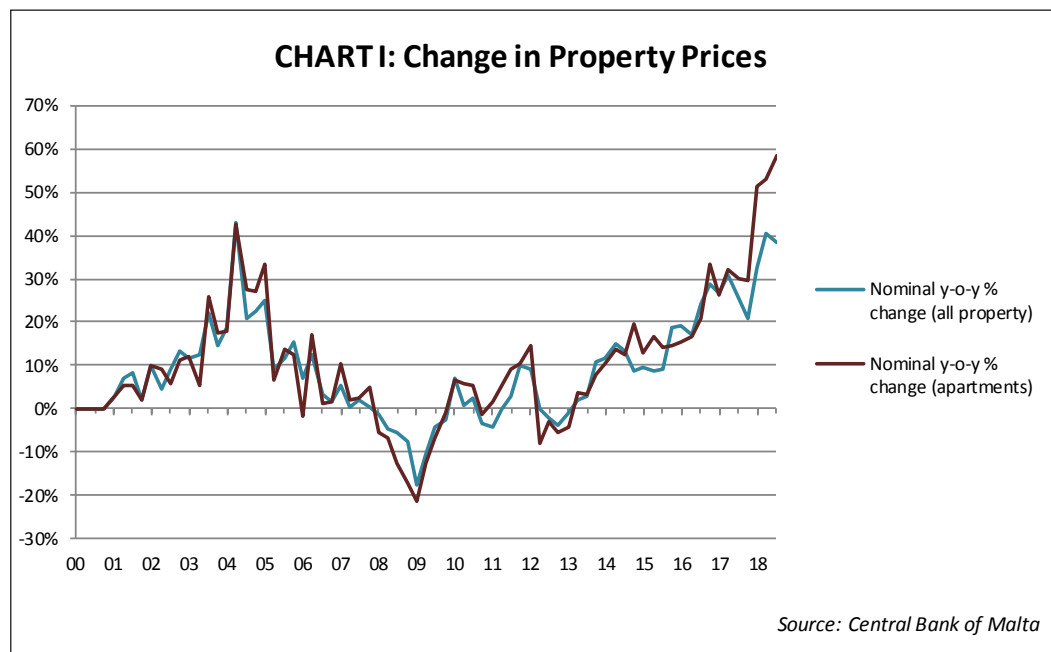
- (i) any amount out of the reserve account may be held on deposit with a bank licensed as a credit institution in Malta or any Member state of the European Union, provided that not more than 50% of any amount standing to the credit of the reserve account, from time to time, shall be deposited with the same institution if the amount of the deposit exceeds the sum of €25 million; and/or
- (ii) re-purchase of the Bonds for cancellation; and/or
- (iii) any amount out of the reserve account may be invested in debt securities issued by or guaranteed by the Government of Malta or other member state of the European Union or the EEA; and/or
- (iv) amounts not exceeding €10 million may be invested in debt securities admitted to listing and trading on a regulated market in the European Union, provided that not more than €2 million may be exposed to one or more debt securities issued by the same issuer; and provided that such investment will not expose the reserve account to any currency exchange risk; and/or
- (v) an amount not exceeding €2 million may be advanced to any member of the Group, under terms and conditions which are at arm's length, provided that the reserve accounts remains in credit by at least another €2 million following such advance.

All amounts received by the Trustee from the sales proceeds of units, forming part of the Hypothecated Property, shall be credited to the Reserve Account and shall, subject to the immediately preceding paragraph, be retained for the purpose of redeeming the Bonds on maturity. In the absence of unforeseen circumstances and subject to there being no material adverse changes in circumstances, the Directors are of the view that the percentages available for cash flows that will be credited to the Reserve Account will be sufficient to cover the redemption of the Bonds on maturity.

5. TREND INFORMATION AND BUSINESS STRATEGY

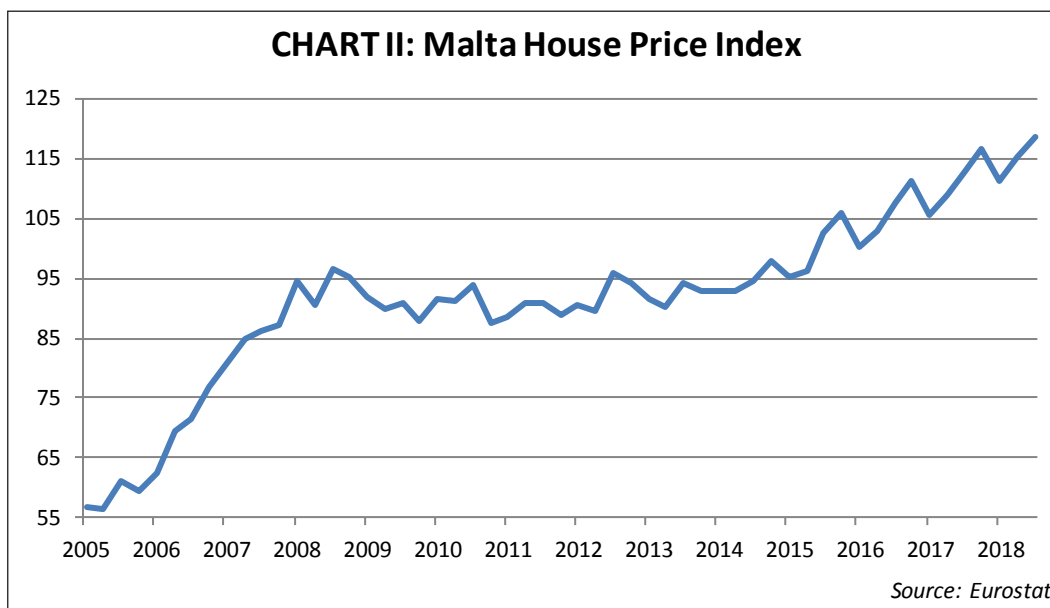
5.1 PROPERTY MARKET IN MALTA

Property prices of residential property in Malta increased substantially by 15.7% in the 12 months to the end of September 2018 compared to a year earlier (see Chart I below), mainly due to a 22.9% increase in prices of apartments. This positive trend was witnessed in the last 5 years - during which property prices registered an increase of 67.9% (Q2 2013 to Q3 2018) – primarily due to a strong economy and a robust labour market (such data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place).¹

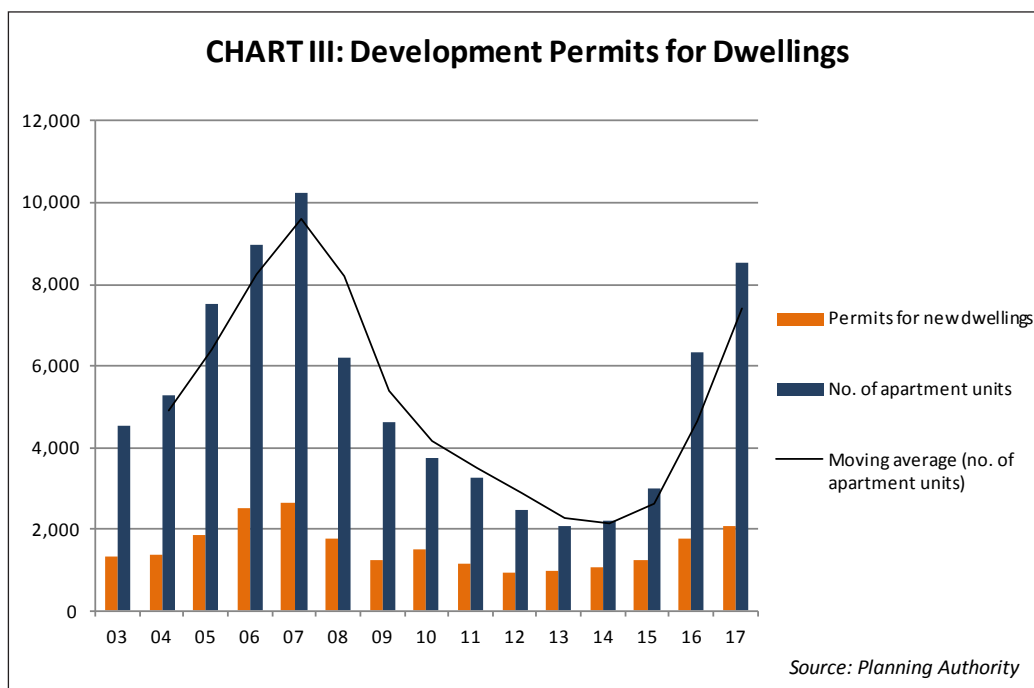


Eurostat's House Price Index for Malta – which is based on transactions covering terraced houses, apartments and maisonettes – also indicates that residential property prices increased. The latest data available refers to Q3 2018 and shows that said prices increased by 5.0% compared with the same quarter of 2017 (vide Charts II overleaf).

¹ Central Bank of Malta, Property Price Index



With regard to the number of permits, Planning Authority issued 2,079 permits for new dwellings during 2017 (statistics for 2018 have yet to be published), 16.4% more than in 2016. This followed an increase of 42.4% in 2016 over 2015, marking five consecutive years of growth in permit issuances for new dwellings since 2012. The increase in permits issued in 2017 was mostly driven by the largest residential category, namely apartments, which accounted for 86.7% (equivalent to 8,513 units) of total units approved for development (2016: apartments comprised 84.1% of total units approved for development, equivalent to 6,316 units).



The gross value added from the construction industry rose by 9.2% in 2017 (in nominal terms), from €327.4 million in 2016 to €357.6 million), following GVA from the construction industry remaining constant in 2016 compared to 2015. During 2015, a y-o-y increase of 8.8% or €26.6 million increase was registered.

5.2 ECONOMIC PERFORMANCE¹

Malta's strong GDP growth is set to continue as domestic demand replaces net exports as the main engine of economic activity. The internationally-oriented services sector continues to underpin the large current account surplus. Inflation is expected to pick up as wage pressures start gaining pace. The government balance of payments is projected to increase at a moderate pace but remain in surplus.

In the first half of 2018, real GDP growth slowed moderately compared to the prior year (in 2017, real GDP increased by 6.7% (y-o-y) driven by strong growth in net exports). Private consumption growth accelerated, while net exports declined as a result of rapid import growth in the second quarter. Business and consumer confidence indicators remain high and real GDP growth is expected to average 5.4% in 2018. Growth is expected to gradually ease over the forecast horizon to an annual average rate of 4.9% in 2019 and 4.4% in 2020. Domestic demand is set to be the main driver of growth, supported by strong investment growth. Various investment projects co-financed by EU structural funds have started and will boost public investment in the second half of 2018. In 2019, the onset of large scale projects in the health, tourism and real estate sectors is expected to boost private investment. Private consumption is set to remain dynamic on the back of increasing labour market participation and disposable income.

In 2018, the government surplus is projected to decrease to 1.3% of GDP, from 3.5% in the previous year. Tax revenue growth is expected to be lifted by high nominal GDP, supported by favourable macroeconomic and labour market conditions, high corporate profits and consumer demand. An expected fall in the proceeds from Malta's citizenship scheme compared to last year should contribute to a decrease in the fiscal surplus. Current expenditure is projected to be dynamic in almost all components, only partly mitigated by decreasing interest expenditure. Public investment net of EU funding is projected to increase only slightly, while the implementation of investment projects co-financed by the EU is expected to accelerate. Capital expenditure will increase also on the back of a capital transfer to Air Malta related to the purchase of landing rights (equivalent to around 0.5% of GDP).

In 2019, after incorporating the expected impact of the measures introduced with the 2019 budget, the fiscal surplus is expected to decline marginally to 1.2% of GDP. In line with still robust but moderating macroeconomic conditions, and despite the reduction in taxation (worth 0.2% of GDP), growth in tax revenues is expected to slow down somewhat towards the growth rate in nominal GDP. Also, the proceeds from the citizenship scheme are expected to be lower compared to the previous year. In spite of increases in social spending related to the budget measures, current expenditure growth is projected to weaken and interest expenditure is set to marginally decrease. Net public investment is forecast to increase marginally, as the implementation of investment projects co-financed by the EU is forecast to remain dynamic, while other capital expenditure is expected to decrease following the base effect from the previous year. In 2020, under a no-policy-change assumption, the fiscal surplus is expected to further decrease to 0.7% of GDP, on account of slightly lower proceeds related to the citizenship scheme and higher public investment. The structural balance has reached a surplus of around 3% of GDP in 2017. It is estimated to decrease but to remain in surplus at slightly below 1% of GDP in the period 2018-2020. The government debt-to-GDP ratio is forecast to decline further from 50.9% of GDP in 2017 to 42.1% in 2020.

5.3 STRATEGY

The strong response from investors for the Group's latest projects - Qawra Development, Gharghur Development, Mellieħa Development and the Luqa Development - has shown that there is active demand for real estate in Malta, which is supporting a steady increase in prices notwithstanding the rise in the number of developments undertaken in Malta in the last few years and others which are due to commence in the near term. As such, the Directors are of the view that the property market in Malta should remain buoyant provided the general economy continues to register a robust annual growth trajectory.

In the immediate term, Gap Group will be primarily focused on completing the Mellieħa Development and the Luqa Development, and will also be active in marketing these properties on offer.

¹ European Economic Forecast Autumn 2018 – European Commission

PART 2 – GAP GROUP PERFORMANCE REVIEW

6. FINANCIAL INFORMATION RELATING TO THE ORIGINAL GUARANTORS

6.1 GAP PROPERTIES LIMITED

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

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

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

Gap Properties Limited**Balance Sheet****As at 31 December**

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

6.2 GEOM DEVELOPMENTS LIMITED

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

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

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

Geom Developments Limited**Balance Sheet****As at 31 December**

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

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

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

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

By the end of FY2017, the Qawra Development was almost fully completed, and a number of units were subject to the final deeds of sale. 51 apartments and 29 garages were contracted during 2017 which amounts to 82% and 50% of the total available units, respectively. All waiver funds were deposited with the Security Trustee in line with the terms of the Prospectus. The remaining apartments are all subject to preliminary agreements, whilst 55% of the remaining garages are committed. During FY2017, GDL generated a profit after tax of €1.4 million on revenues of €6.3 million.

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

6.3 GAP MELLIEHA (I) LIMITED

Financial information has been included in section 7.1 below.

6.4 GAP GHARGHUR LIMITED

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

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

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

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

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

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

In February 2016, GGL acquired the legal title of a portion of land in Gharghur measuring *circa* 2,585m². As at 31 December 2017, inventory (development project) amounted to €4.9 million (2016: €2.8 million) and comprised the cost of land, excavation and construction up to garage level. Further details on the project are included in section 4.4 above.

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

7. FINANCIAL INFORMATION RELATING TO THE GUARANTORS

7.1 GAP MELLIEHA (I) LIMITED

The historical financial information about GML is included in the audited financial statements for the financial period 26 August 2015 (being the date of incorporation) to 31 December 2016 and the financial year ended 31 December 2017. The interim financial information about GML is extracted from the unaudited financial information for the 6 month period 1 January 2018 to 30 June 2018.

Gap Mellieha (I) Limited

Income Statement

	for the year ended 31 December		for the 6-mth period ended 30 June	
	2016*	2017	2017	2018
	Audited	Audited	Unaudited	Unaudited
	(€'000)	(€'000)	(€'000)	(€'000)
Revenue	-	-	-	3,612
Cost of sales	-	-	-	(2,618)
Administrative expenses	(4)	(4)	(1)	(223)
EBITDA	(4)	(4)	(1)	771
Net finance costs	-	2	-	-
Profit/(loss) before tax	(4)	(2)	(1)	771
Taxation	-	-	-	(278)
Total comprehensive income for the period/year	(4)	(2)	(1)	493

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

Gap Mellieha (I) Limited

Cash Flow Statement

	for the year ended 31 December		for the 6-mth period ended 30 June	
	2016*	2017	2017	2018
	Audited	Audited	Unaudited	Unaudited
	(€'000)	(€'000)	(€'000)	(€'000)
Net cash from operating activities	(11,192)	(1,862)	794	7,986
Net cash from investing activities	-	99	-	50
Net cash from financing activities	11,440	1,528	(959)	(7,521)
Net movement in cash and cash equivalents	248	(234)	(165)	515
Cash and cash equivalents at beginning of period/year	-	248	248	14
Cash and cash equivalents at end of period/year	248	14	83	529

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

Gap Mellieha (I) Limited			
Balance Sheet			
As at	31 Dec'16	31 Dec'17	30 Jun'18
	Audited	Audited	Unaudited
	(€'000)	(€'000)	(€'000)
ASSETS			
Non-current assets			
Loans and other receivables	2,303	2,303	2,353
	<u>2,303</u>	<u>2,303</u>	<u>2,353</u>
Current assets			
Inventory - development project	12,268	16,419	22,556
Trade and other receivables	19	23	18
Cash and cash equivalents	248	14	529
	<u>12,535</u>	<u>16,455</u>	<u>23,103</u>
Total assets	<u>14,838</u>	<u>18,758</u>	<u>25,456</u>
EQUITY			
Capital and reserves			
Called up share capital	1	1	1
Retained earnings	(4)	(6)	487
	<u>(3)</u>	<u>(5)</u>	<u>488</u>
LIABILITIES			
Current liabilities			
Other financial liabilities	13,742	15,270	7,799
Other current liabilities	1,099	3,493	17,169
	<u>14,841</u>	<u>18,763</u>	<u>24,968</u>
Total equity and liabilities	<u>14,838</u>	<u>18,758</u>	<u>25,456</u>

In FP2016, GML acquired the site known as Ta' Masrija in Mellieħa for the development of the Mellieħa Development. During FP2016, the site was fully excavated and construction commenced on the first two blocks (Blocks I & J). As at 31 December 2017, the cost of land and development costs amounted to €16.4 million (2016: €12.3 million). During FP2016, the amount of €2.3 million was advanced to GLL to acquire the site earmarked for the Luqa Development, which loan remained unchanged in the subsequent financial year. The said loan bears interest at 4.5% annually and is repayable by 2021.

Due to the completion of a number of units as of Q4 2017, the company entered into sales contracts amounting to €3.6 million during the initial two quarters of 2018. EBITDA for the period under review amounted to €0.8 million and the company reported a comprehensive income of €0.5 million.

The asset side of the balance sheet as at 30 June 2018 includes inventory (work-in-progress on development projects) amounting to €22.6 million, whilst liabilities mainly comprise capital creditors of €14.6 million (payable to third party contractors and GGCL) and advance deposits amounting to €3.3 million.

7.2 GAP LUQA LIMITED

The historical financial information about GLL is included in the audited financial statements for the financial years ended 31 December 2015 to 2017. The interim financial information about GLL is extracted from the unaudited financial information for the 6 month period 1 January 2018 to 30 June 2018.

Gap Luqa Limited (formerly Qawra Investments Limited) Income Statement	for the year ended			for the 6-mth	
	31 December			period ended 30 June	
	2015	2016	2017	2017	2018
	Audited	Audited	Audited	Unaudited	Unaudited
	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
Revenue	97	-	3,571	304	1,940
Cost of sales	(62)	-	(2,642)	(297)	(1,141)
Administrative expenses	(9)	(6)	(76)	(1)	(29)
EBITDA	26	(6)	853	6	770
Net finance costs	(7)	-	-	-	-
Profit/(loss) before tax	19	(6)	853	6	770
Taxation	(8)	-	(214)	(25)	(140)
Total comprehensive income for the period/year	11	(6)	639	(19)	630

Gap Luqa Limited (formerly Qawra Investments Limited) Cash Flow Statement	for the year ended			for the 6-mth	
	31 December			period ended 30 June	
	2015	2016	2017	2017	2018
	Audited	Audited	Audited	Unaudited	Unaudited
	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
Net cash from operating activities	(1,040)	(8,408)	(2,162)	(6,348)	1,165
Net cash from investing activities	-	-	-	-	1
Net cash from financing activities	1,046	8,422	2,339	6,628	(1,193)
Net movement in cash and cash equivalents	6	14	177	280	(27)
Cash and cash equivalents at beginning of period/year	-	6	20	22	197
Cash and cash equivalents at end of period/year	6	20	197	302	170

Gap Luqa Limited (formerly Qawra Investments Limited)				
Balance Sheet				
As at	31 Dec'15	31 Dec'16	31 Dec'17	30 Jun'18
	Audited	Audited	Audited	Unaudited
	(€'000)	(€'000)	(€'000)	(€'000)
ASSETS				
Non-current assets				
Loans and other receivables	-	-	-	9,179
	-	-	-	9,179
Current assets				
Inventory - development project	1,210	3,736	9,555	9,607
Trade and other receivables	53	3,920	1,651	151
Cash and cash equivalents	6	22	197	170
	1,269	7,678	11,403	9,928
Total assets	1,269	7,678	11,403	19,107
EQUITY				
Capital and reserves				
Called up share capital	1	1	1	1
Retained earnings	106	100	740	1,369
	107	101	741	1,370
LIABILITIES				
Non-current liabilities				
Bank loans and other financial liabilities	700	3,338	8,504	16,216
	700	3,338	8,504	16,216
Current liabilities				
Bank loans and other financial liabilities	421	3,903	1,172	-
Other current liabilities	41	336	986	1,521
	462	4,239	2,158	1,521
	1,162	7,577	10,662	17,737
Total equity and liabilities	1,269	7,678	11,403	19,107

As at 31 December 2016, GLL held a development property in Lija and the site related to the Luqa Development. No material income was generated in FY2015 and FY2016.

Revenue in FY2017 amounted to €3.6 million, which was generated from the sale of *circa* 70% of units from phase A of the Lija project. The remaining units of Phase A, together with all units in Phase B, were subject to promise of sale agreements. EBITDA in FY2017 amounted to €0.9 million and total comprehensive income amounted to €0.6 million, the difference of which represented tax charge for the year.

During the six-month period ended 30 June 2018, revenue amounted to €1.9 million and comprised further sales of units from the Lija project and the disposal of a plot within the Luqa Development. GLL registered total comprehensive income for the interim period of €0.6 million.

Total assets as at 30 June 2018 amounted to €19.1 million and principally included inventory (work-in-progress on development project) of €9.6 million and related party loans receivable of €9.2 million. Liabilities mainly comprised related party loans amounting to €11.1 million, bank loan of €5.1 million and other creditors amounting to €1.5 million.

8. FINANCIAL INFORMATION RELATING TO THE ISSUER

The following financial information is extracted from the audited consolidated financial statements of the Issuer for the period 1 June 2016 (date of incorporation) to 31 December 2016 and the year ended 31 December 2017. The projected consolidated financial information for the years ending 31 December 2018 and 2019 of the Gap Group has been provided by management of the Issuer. **The projected financial statements relate to events in the future and are based on assumptions which the Issuer believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.**

GAP Group p.l.c.	FP2016	FY2017	FY2018	FY2019
Consolidated Income Statement	Actual	Actual	Forecast	Projection
	(€'000)	(€'000)	(€'000)	(€'000)
Revenue	14,804	14,982	30,661	41,162
Cost of sales	(10,595)	(11,154)	(21,483)	(29,200)
Administrative expenses	(748)	(935)	(590)	(280)
EBITDA	3,461	2,893	8,588	11,682
Depreciation	(4)	-	-	-
Exchange offer premium	-	-	-	(1,500)
Net finance costs	(1,393)	(1,111)	(844)	(500)
Profit/(loss) before tax	2,064	1,782	7,744	9,682
Taxation	(1,161)	(1,197)	(2,489)	(3,293)
Profit/(loss) for the year	903	585	5,255	6,389
Other comprehensive income				
Movement in fair value of financial assets	101	107	53	-
Total comprehensive income for the year	1,004	692	5,308	6,389

GAP Group p.l.c.	31 Dec'16	31 Dec'17	31 Dec'18	31 Dec'19
Consolidated Balance Sheet	Actual	Actual	Forecast	Projection
	(€'000)	(€'000)	(€'000)	(€'000)
ASSETS				
Non-current assets				
Property, plant and equipment	3	10	8	8
Investments - available for sale	10,600	6,072	-	-
Loans and other receivables	6,688	10,249	8,426	8,426
Sinking fund	311	4,813	18,283	16,625
	<u>17,602</u>	<u>21,144</u>	<u>26,717</u>	<u>25,059</u>
Current assets				
Inventory - development project	34,213	33,701	47,786	36,519
Trade and other receivables	1,548	858	682	683
Cash and cash equivalents	3,722	1,203	7,547	21,986
	<u>39,483</u>	<u>35,762</u>	<u>56,015</u>	<u>59,188</u>
Total assets	<u>57,085</u>	<u>56,906</u>	<u>82,732</u>	<u>84,247</u>
EQUITY				
Capital and reserves				
Called up share capital	2,500	2,500	2,500	2,500
Other capital	2,601	2,708	2,761	2,761
Retained earnings	903	1,488	6,720	13,109
	<u>6,004</u>	<u>6,696</u>	<u>11,981</u>	<u>18,370</u>
LIABILITIES				
Non-current liabilities				
Amounts due on acquisition of GLL	-	-	12,776	-
Other financial liabilities	2,503	5	-	-
Debt securities	39,310	39,362	39,476	49,492
	<u>41,813</u>	<u>39,367</u>	<u>52,252</u>	<u>49,492</u>
Current liabilities				
Bank overdrafts	21	22	-	-
Borrowings and other financial liabilities	-	3	5,118	-
Other current liabilities	9,247	10,818	13,381	16,385
	<u>9,268</u>	<u>10,843</u>	<u>18,499</u>	<u>16,385</u>
	<u>51,081</u>	<u>50,210</u>	<u>70,751</u>	<u>65,877</u>
Total equity and liabilities	<u>57,085</u>	<u>56,906</u>	<u>82,732</u>	<u>84,247</u>

GAP Group p.l.c.	FP2016	FP2017	FY2018	FY2019
Consolidated Cash Flow Statement	Actual	Actual	Forecast	Projection
	(€'000)	(€'000)	(€'000)	(€'000)
Net cash from operating activities	(25,559)	3,250	16,668	24,978
Net cash from investing activities	(10,554)	569	(6,350)	(10,852)
Net cash from financing activities	39,814	(6,339)	(3,952)	313
Net movement in cash and cash equivalents	3,701	(2,520)	6,366	14,439
Cash and cash equivalents at beginning of year	-	3,701	1,181	7,547
Cash and cash equivalents at end of year	3,701	1,181	7,547	21,986

Key Accounting Ratios	FP2016	FY2017	FY2018	FY2019
	Actual	Actual	Forecast	Projection
Operating profit margin <i>(EBITDA/revenue)</i>	23%	19%	28%	28%
Interest cover (times) <i>(EBITDA/net finance cost)</i>	2.48	2.60	3.89	5.30
Net profit margin <i>(Profit(loss) after tax/revenue)</i>	6%	4%	17%	16%
Earnings per share (€) <i>(Profit(loss) after tax/number of shares)</i>	0.36	0.23	2.10	2.56
Return on equity <i>(Profit(loss) after tax/shareholders' equity)</i>	15%	9%	44%	35%
Return on capital employed <i>(EBITDA/total assets less current liabilities)</i>	7%	6%	13%	17%
Return on assets <i>(Profit(loss) after tax/total assets)</i>	2%	1%	6%	8%
Gearing ratio <i>(Total net debt/net debt and shareholders' equity)</i>	82%	80%	61%	37%

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

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

- The amount of €9,649,563 was used to finance the acquisition of the site in Mellieħa and related contract expenses;
- The aggregate amount of €13,110,185 was applied in part settlement and discharge of the acquisition consideration from Gap Group Investments (III) Limited of the entire share capital of GDL and all the ordinary 'A' shares of GHL; and
- The amount of €3,000,000 was used to refinance a bank loan which was made available by Mediterranean Corporate Bank Limited to GGF.

The remaining balance of net bond issue proceeds amounting to €13,525,119 is being applied towards the costs of construction and development of the Group's projects.

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

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

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

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

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

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

In FY2018, the Group is expected to have generated €30.7 million in revenue, as compared to €15.0 million a year earlier, mainly from sales contracts for units in the Mellieħa Development as to €16.3 million, and the remaining amount from the Qawra Development and the Gharghur Development. EBITDA is forecasted to increase substantially from €2.9 million in FY2017 to €8.6 million, while comprehensive income is likewise set to increase from €0.7 million in FY2017 to €5.3 million in FY2018.

Inventory as at 31 December 2018 is estimated at €47.8 million, principally on account of progress works on the Mellieħa Development. Liquid assets (including sinking fund and cash) are forecasted at €25.8 million (FY2017: €12.1 million). Other assets comprise loans due from related parties of €8.4 million (FY2017: €10.2 million). As to liabilities, the Group had outstanding €40 million in 4.25% secured bonds due in 2023, advance deposits amounting to €5.1 million and capital creditor balances of €13.4 million. Furthermore, an amount of €12.8 million is due to Gap Group Investments (II) Limited, representing the settlement consideration for the acquisition of GLL.

During the projected financial year (FY2019), Gap Group will principally be involved in the construction and development of the following projects:

- Mellieħa Development – the whole project is expected to be completed in Q4 FY2019; and
- Luqa Development – Zone A and Zone B are projected to be completed in Q2 2019 and Q4 2019 respectively.

In the afore-mentioned financial year, the Group is projected to generate aggregate revenue of €41.2 million, an increase of €10.5 million when compared to the prior year. Revenue is expected to be split as follows: €25.1 million from the Mellieħa Development; €13.0 million for the Luqa Development; and the remaining balance of €3.1 million from other projects. Due to the growth in revenue, EBITDA is projected to increase from €8.6 million in FY2018 to €11.7 million in FY2019. Overall, GAP Group is projecting to register comprehensive income for FY2019 of €6.4 million (FY2018: €5.3 million).

The Group's balance sheet as at 31 December 2019 is projected to comprise total assets amounting to €84.2 million, made up of inventory (works-in-progress on property developments) of €36.5 million, related party balance of €8.4 million and cash balances amounting to €38.6 million. Liabilities are projected to include debt securities of €49.5 million and capital creditors amounting to €16.4 million.

Reserve Account

In terms of the Prospectus, the Issuer is required to build a sinking fund, the value of which will, by the redemption date of the bond, be equivalent to 100% of the outstanding value of bonds. Below is a table outlining the balance expected to be held in the reserve account as at the end of the financial years 31 December 2016 to 31 December 2019.

Contributions to Reserve Account				
as at 31 December	2016	2017	2018	2019
	Actual	Actual	Forecast	Projection
	€'000	€'000	€'000	€'000
4.25% Secured Bonds 2023	311	4,813	18,283	10,000
3.65% Secured Bonds 2022				6,625
	311	4,813	18,283	16,625

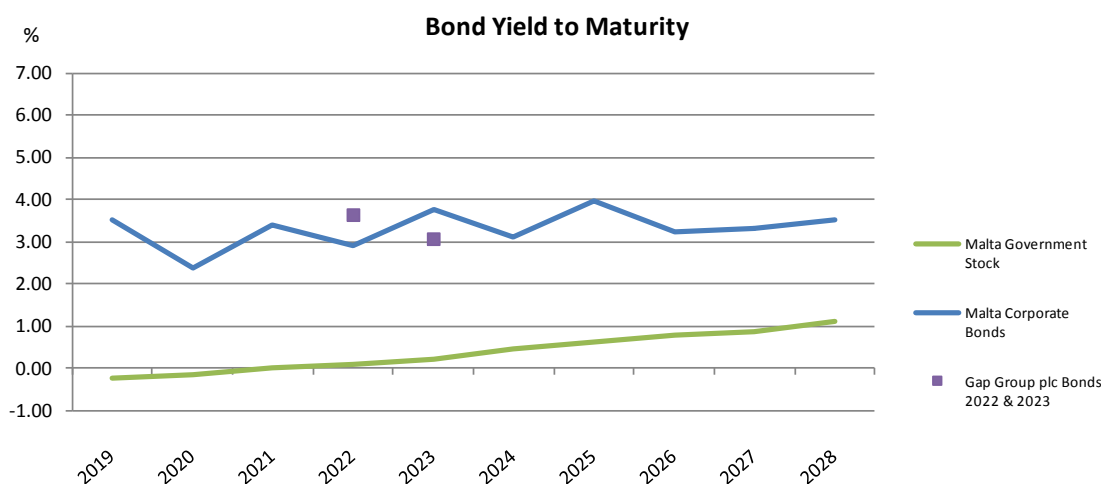
PART 3 – COMPARABLES

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

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.5% Pendergardens Dev. plc Secured € 2020 Series I	15,000,000	2.37	6.29	68,589	14,418	66.04
6.0% Pendergardens Dev. plc Secured € 2022 Series II	27,000,000	2.93	6.29	68,589	14,418	66.04
3.65% Gap Group plc Secured € 2022	40,000,000	3.65	2.61	56,906	6,696	80.30
4.25% Gap Group plc Secured € 2023	40,000,000	3.08	2.61	56,906	6,696	80.30
5.3% United Finance Plc Unsecured € Bonds 2023	8,500,000	3.77	1.19	21,625	4,844	69.04
6.0% AX Investments Plc Unsecured € 2024	40,000,000	3.49	6.97	325,243	214,590	18.66
5.3% Mariner Finance plc Unsecured € 2024	35,000,000	3.11	4.42	77,088	38,701	45.62
5.0% Hal Mann Vella Group plc Secured Bonds € 2024	30,000,000	3.81	3.05	107,801	39,813	54.01
4.25% Best Deal Properties Holding plc Secured 2024	16,000,000	3.48	4.02	25,986	3,432	82.64
5.1% 1923 Investments plc Unsecured € 2024	36,000,000	4.12	1.69	118,490	33,711	58.11
4.5% Hili Properties plc Unsecured € 2025	37,000,000	3.89	1.26	135,879	39,974	68.23
5.1% 6PM Holdings plc Unsecured € 2025	13,000,000	4.64	-	6,191	19,896	-
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.76	2.59	1,765,072	901,595	40.43
4.0% International Hotel Invest. plc Secured € 2026	55,000,000	3.56	3.03	1,602,317	884,632	36.36
4.0% MIDI plc Secured € 2026	50,000,000	3.23	0.98	235,302	86,621	39.27
3.75% Premier Capital plc € Unsecured Bonds 2026	65,000,000	3.31	7.90	161,128	47,607	57.32
4.35% Hudson Malta plc Unsecured 2026	12,000,000	3.94	39.11	17,088	5,835	30.63
4.35% SD Finance plc € Unsecured Bonds 2027	65,000,000	3.63	5.93	229,882	63,771	50.15
4.0% Eden Finance plc Unsecured 2027	40,000,000	3.30	4.46	169,936	90,162	36.52
4.0% Stivala Group Finance plc Secured 2027	45,000,000	3.42	6.21	199,560	121,041	31.54
3.85% Hili Finance Company plc Unsecured 2028	40,000,000	3.54	3.27	408,204	82,870	73.40

31 Jan '19

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, Charts | A division of MeDirect Bank plc



31 Jan 2019

To date, there are no corporate bonds which have a redemption date beyond 2028. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

PART 4 – EXPLANATORY DEFINITIONS

Income Statement

Revenue	Total revenue generated by the Issuer from its business activities during the financial year.
Cost of sales	Operating expenses include the cost of construction and other related expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Profit after tax	Profit after tax is the profit made by the Issuer during the financial year both from its operating as well as non-operating activities.

Profitability Ratios

Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.

Equity Ratios

Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
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Cash Flow Statement

Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Group.
Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Issuer.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Issuer.

Balance Sheet

Non-current assets	Non-current asset are the Issuer's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Issuer amortises the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was acquired. Such assets include property, plant & equipment, and loans & other receivables.
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Current assets	Current assets are all assets of the Issuer, which are realisable within one year from the balance sheet date. Such amounts include development stock, accounts receivable, cash and bank balances.
Current liabilities	All liabilities payable by the Issuer within a period of one year from the balance sheet date, and include accounts payable and short-term debt, including current portion of bank loans.
Non-current liabilities	The Issuer's long-term financial obligations that are not due within the present accounting year. The Issuer's non-current liabilities include long-term borrowings and debt securities.
Total equity	Total equity includes share capital, reserves & other equity components, and retained earnings.

Financial Strength Ratios

Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity.
