

**GAP MELLIEHA (I) LIMITED**

**FINANCIAL STATEMENTS**

**31st DECEMBER 2017**

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## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31st DECEMBER 2017**

The directors present their report and the audited financial statements of Gap Mellieha (I) Limited for the year ended 31st December 2017.

#### **Principal Activities**

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

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

#### **Review of business**

By the end of the financial period under review, the first two blocks (Block I & J) were fully constructed whilst the second two blocks (Blocks G & H) were circa 60% complete, in terms of construction. The main trade works on the said four blocks also progressed according to plan. Approximately 70% of the electrical and water works, 80% of the tiling works and 80% of the plastering works of Blocks I & J were accomplished. On the other hand, circa 20% of electrical and water works and 15% of both tiling and plastering works had been completed on Blocks G & H.

A total estimated works in progress figure of €2.6 million was achieved during 2017 bringing the total works to date up to €3.6 million. Full completion of Blocks G & H is envisaged by Q2 and Q3 2018 respectively.

Preliminary agreements signed from the first two blocks (I & J) amounted to 27 apartments whilst another 7 apartments were signed from the second two blocks (G & H) bringing the total number of committed apartments to 34. Furthermore, 40 garages were subject to Preliminary Agreements by the end of December 2017.

The above figures translate into €12.7 million worth of sales or 53% of the available residential units on the market (Blocks G,H, I and J), 22% of the total residential units and 23% of the garages. Whilst Blocks G & H have been placed on the sales market in May 2017, the remaining six blocks (A & F) will be gradually placed on the sales market.

#### **Results and dividends**

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

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

#### **Directors**

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

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

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



**Paul Attard**  
**Director**



**George Muscat**  
**Director**

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

Date : 27 April 2018

**STATEMENT OF THE DIRECTORS' RESPONSIBILITIES**

**Statement of the Directors' Responsibilities**

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

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

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

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



**Paul Attard**  
**Director**



**George Muscat**  
**Director**

Date : 27 April 2018

## **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 2017.**

#### **Opinion**

I have audited the financial statements of Gap Mellieha (I) Limited (the Company), set out on pages 7 to 24 which comprise the statement of financial position as at 31st December 2017 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 2017, and of the Company's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

#### **Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

## **Independent auditor's report**

To the Shareholders of 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, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

**Independent auditor's report**

To the Shareholders of Gap Mellieha (I) Limited.

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

**Report on Other Legal and Regulatory Requirements**

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

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

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

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



Emanuel P. Fenech F.I.A., A.C.I.B., C.P.A.  
Certified Public Accountant

1, Tal-Providenza Mansions  
Main Street  
Balzan  
Malta  
Date: 27 April 2018

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31st DECEMBER 2017**

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
		€	€
Turnover	3	-	-
Cost of sales		-	-
		-	-
Administrative expenses		<u>(3,833)</u>	<u>(3,792)</u>
<b>Operating loss</b>	4	(3,833)	(3,792)
Finance costs	6	(97,908)	(7)
Investment income	7	<u>99,353</u>	14
<b>Loss before taxation</b>		(2,388)	(3,785)
Tax expense	8	<u>(3)</u>	<u>(2)</u>
<b>Loss for the year</b>		<u>(2,391)</u>	<u>(3,787)</u>

The notes on pages 11 to 24 are an integral part of these financial statements.



**STATEMENT OF FINANCIAL POSITION - 31st DECEMBER 2017**

	Notes	2017 €	2016 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loans and other receivables	9	2,302,973	2,302,973
		<u>2,302,973</u>	<u>2,302,973</u>
<b>Current assets</b>			
Inventory - Development project	10	16,418,514	12,267,807
Trade and other receivables	11	22,774	18,718
Cash and bank balances	12	14,153	248,496
		<u>16,455,441</u>	<u>12,535,021</u>
<b>Total Assets</b>		<u>18,758,414</u>	<u>14,837,994</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	13	1,200	1,200
Accumulated losses		(6,178)	(3,787)
Total equity		<u>(4,978)</u>	<u>(2,587)</u>
<b>Current liabilities</b>			
Trade and other payables	14	3,492,939	1,098,152
Other financial liabilities	14	15,270,453	13,742,429
Total current liabilities		<u>18,763,392</u>	<u>14,840,581</u>
Total liabilities		<u>18,763,392</u>	<u>14,840,581</u>
<b>Total equity and liabilities</b>		<u>18,758,414</u>	<u>14,837,994</u>

The notes on pages 11 to 24 are an integral part of these financial statements.

The financial statements on pages 7 to 24 were approved by the board of directors and were signed on its behalf by:



**Paul Attard**  
**Director**



**George Muscat**  
**Director**

Date : 27 April 2018

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31st DECEMBER 2017**

	Share Capital €	Profit and Loss Account €	Total €
Balance at 26th August 2015	-	-	-
<b>Comprehensive income</b> Loss for the period	-	(3,787)	(3,787)
<b>Transactions with owners</b> Issue of share capital	1,200	-	1,200
<b>Balance at 31st December 2016</b>	<u>1,200</u>	<u>(3,787)</u>	<u>(2,587)</u>
Balance at 1st January 2017	1,200	(3,787)	(2,587)
<b>Comprehensive income</b> Loss for the year	-	(2,391)	(2,391)
<b>Balance at 31st December 2017</b>	<u>1,200</u>	<u>(6,178)</u>	<u>(4,978)</u>

The notes on pages 11 to 24 are an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31st DECEMBER 2017**

	2017	2016
	€	€
<b>Cash flows from operating activities</b>		
Net loss before taxation	(2,388)	(3,785)
Adjustments for:		
Investment income	(99,353)	(14)
Interest expenses	97,908	7
	(3,833)	(3,792)
<b>Operating loss before working capital changes</b>		
Trade and other receivables	(4,056)	(18,718)
Inventory	(4,150,707)	(12,267,807)
Creditors	2,394,787	1,098,152
<b>Cash generated from operations</b>	(1,763,809)	(11,192,165)
Interest payable	(97,908)	(7)
Income tax paid	(3)	(2)
<i>Net cash used in operating activities</i>	(1,861,720)	(11,192,174)
<b>Cash flows from investing activities</b>		
Investment income	99,353	14
<i>Net cash from investing activities</i>	99,353	14
<b>Cash flows from financing activities</b>		
Increase in share capital	-	1,200
Shareholders' loans	(30,697)	30,697
Related parties	1,558,721	13,711,732
Other loans	-	(2,302,973)
<i>Net cash from financing activities</i>	1,528,024	11,440,656
<b>Movement in cash and cash equivalents</b>	(234,343)	248,496
<b>Cash and cash equivalents at beginning of the year</b>	248,496	-
<b>Cash and cash equivalents at end of the year (note 12)</b>	14,153	248,496

The notes on pages 11 to 24 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**1 Summary of significant accounting policies**

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

**1.1 Basis of preparation**

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

*Critical accounting estimates and judgements*

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

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

*Standards, interpretations and amendments to published standards effective in 2017*

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

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**1 Summary of significant accounting policies**

**1.1 Basis of preparation - continued**

*Standards, interpretations and amendments to published standards that are not yet adopted*

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

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

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

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**1.2 Foreign currency translation**

**(a) Functional and presentation currency**

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

**(b) Transactions and Balances**

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

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**1 Summary of significant accounting policies**

**1.3 Financial assets**

**1.3.1 Classification**

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

**(a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (notes 11 and 12).

**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

Dividends receivable are accounted for on a cash basis

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**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 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.

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**1 Summary of significant accounting policies**

**1.11 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

**1.12 Trade and other receivables**

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

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

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



**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**1 Summary of significant accounting policies**

**1.13 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.

**1.14 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.

**1.15 Dividend distribution**

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

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**2 Financial risk management**

**2.1 Financial risk factors**

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

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

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

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

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

(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 2017**

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

(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

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued**

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

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

(ix) Foreign Exchange risk

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

(x) Fair value interest rate risk

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

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

(xi) Liquidity risk

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

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**2 Financial risk management - continued**

**2.1 Financial risk factors - continued**

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

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

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

**3 Turnover**

There was no sales of property held for development and resale during the year.

**4 Loss**

The loss for the year is stated after charging :

	2017	2016
	€	€
Audit fees	3,000	1,500

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**5 Employees**

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

**6 Finance costs**

	2017	2016
	€	€
Loan interest to third parties	97,876	-
Capitalised interest at 1st January	334,588	-
Capitalised interest during period	1,084,435	334,595
Capitalised interest at 31st December	(1,418,991)	(334,588)
	97,908	7

**7 Investment income**

	2017	2016
	€	€
Interest from Maltese banks	27	14
Interest received / receivable from related parties	99,326	-
	99,353	14

**8 Tax expense**

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

	2017	2016
	€	€
Current income tax		
Income tax on taxable income at 15%	3	2
	3	2

**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**8 Tax expense (Continued)**

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

	2017	2016
	€	€
Net loss for the year/period	(2,388)	(3,785)
Income tax thereon at 35% (statutory local income tax rate)	(836)	(1,325)
Tax effect of:		
Difference resulting from different tax rates on bank interest received	(5)	(3)
Expenses disallowed for tax purposes	844	1,330
	3	2

**9 Loans and other receivables**

	2017	2016
	€	€
Investment in related party - Qawra Investments Ltd - Maturity date 2021	2,302,973	2,302,973
	2,302,973	2,302,973

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

**10 Inventory - Development project**

	2017	2016
	€	€
Property cost of land and development costs	16,418,514	12,267,807
	16,418,514	12,267,807

**11 Trade and other receivables**

	2017	2016
	€	€
Other debtors	22,774	17,774
Amounts receivable from related companies	-	944
	22,774	18,718

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

NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017

**12 Cash and cash equivalents**

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

	2017	2016
	€	€
Cash in hand	-	26,800
Cash at bank	14,153	221,696
	14,153	248,496

**13 Share capital**

	2017	2016
	€	€
<b>Authorised</b>		
1200 Ordinary shares of €1 each	1,200	1,200
	1,200	1,200
<b>Issued and fully paid up</b>		
1'200 Ordinary shares of €1 each	1,200	1,200
	1,200	1,200

**14 Creditors**

	2017	2016
	€	€
<b>Trade and other payables</b>		
Trade creditors	2,150,598	536,402
Deposits received in advance for contracts of sale	1,340,008	247,050
Accruals	2,333	314,700
	3,492,939	1,098,152
<b>Other financial liabilities</b>		
Shareholders' current accounts	-	30,697
Related parties current accounts	15,270,453	13,711,732
	15,270,453	13,742,429
<b>Total trade and other creditors</b>	18,763,392	14,840,581

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



**NOTES TO THE FINANCIAL STATEMENTS - 31st DECEMBER 2017**

**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 and has the following balances:

	2017	2016
	€	€
<b>Loans and receivables</b>		
Investments in related parties	2,302,973	2,302,973
<b>Other financial liabilities</b>		
Shareholders' current accounts	-	30,697
Amounts due to group companies	15,270,453	13,711,732

**16 Contingent liabilities**

In October 2016, Gap Group Finance p.l.c. raised €40,000,000 by issuing secured bonds to the public at the fixed rate of interest of 4.25% at face value and redeemable at par on the 3rd of October 2023 and are secured for the full nominal value of the Secured Bonds and interest thereon as follows:

- i. First ranking general hypothec over all the present and future property of Gap Mellieha (I) Limited.
- ii. First ranking general hypothec over the land of the Mellieha Development is to be developed together with all and any constructions and other erections to be developed thereon.

**17 Capital commitments**

As at 31 December 2017, the company has advanced deposits in relation to promise of sale agreements amounting to €1,062,698. These agreements were expected to generate sales amounting to €10,628,500

**18 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.