

23rd August, 2012

## COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by GAP Developments p.l.c. (the 'Company') pursuant to the Malta Financial Services Listing Rules:

### Quote

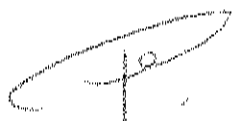
At a meeting held today, the 23<sup>rd</sup> of August, 2012 the Board of Directors of GAP Developments p.l.c. approved the attached financial statements and reports of the Company for the financial year ended 31<sup>st</sup> December 2011.

The financial statements have been approved in accordance of International Financial Reporting Standards and have been audited in accordance with International Standards in auditing.

The Board has not recommended the payment of a final dividend.

The Directors' Report and audited financial statements for the year ended 31<sup>st</sup> December 2011 will be published on the company's web site and are available for viewing at the Company's registered address in Censu Scerri Street, Sliema

### Unquote



Paul Attard  
Company Secretary

GAP DEVELOPMENTS P.L.C.

Annual Report and Consolidated Financial Statements  
31 December 2011

Company Registration Number: C 38040

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## Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2011.

### Principal Activities

GAP Developments p.l.c. was set up to acquire the Fort Cambridge area and to reconstruct and develop the site for a combination of uses within the parameters of the Fort Cambridge Development brief.

Works on the 341 freehold apartments in Tigne' was in an advanced stage of completion. The South block is completed in all respects and the signing of deeds of sales were entered into during 2011. Blocks East 1 & 2 are also complete in all respect and part of the contracts have been signed in 2011. Only sixteen apartments forming part of the West block & Blocks East 3, 4 & 5 are still to be constructed whilst the finishes are underway.

### Review of the business

During 2011 the global economy continued to show very limited signs of recovery with problems being witnessed in a number of areas.

Sales enquires continued during 2011 with the revised rules issued by the Government on residency permits issued to non-residents having an impact on the sales entered into.

The Company received inflows from deposits and second stage deposits in accordance with preliminary agreements amounting to €27.6 million. Furthermore, the total sales as at 31 December 2011 amounted to €13.3 million.

The directors continue to view 2012 with cautious optimism, as they believe that the up-market Fort Cambridge Development is ideally situated.

With regards to project expenditure, the Company continued with the same cost containment strategy adopted in previous years. It also continued with its regular assessments of risks and uncertainties. Project expenditure is generally in line with estimates. The Company will continue to focus on increased efficiency and maintain a tight cost control.

The results of the Company for the year ended 31 December 2011 show a loss before taxation of €3,969,845 (the Group) and €3,954,816 (the Company).

### Going concern

During the financial year ended 31 December 2011, the Group incurred losses after tax amounting to €3.98 million (2010: €7.67 million). These amounts are stated after an exceptional reduction in the carrying amount of inventories of development property, which resulted in a charge of €7.35 million in the results for the year ended 31 December 2010 (refer to Notes 9 and 29 of the financial statements). Nevertheless, the Group's assets exceeded its liabilities as at 31 December 2011 by €13.80 million (2010: €8.26 million) and its current assets (including inventories of property held for resale) exceeded its current liabilities by €47.05 million (2010: €57.30 million) as at that date.

## **Directors' report - continued**

### **Going concern - continued**

In order to address the challenges, the shareholders of GAP Developments p.l.c. effected during the year ended 31 December 2011 a reduction of €7.00 million in issued share capital in order to offset losses in terms of Article 83(5) of the Companies Act, 1995 (refer to Note 12 to the financial statements). This transaction was followed by a capitalisation of shareholder borrowings, amounting to €9.00 million, which were used to issue the equivalent amount of "B" ordinary shares (refer also to Note 12). Furthermore, additional loans amounting to €7.2 million were granted by the shareholders to GAP Developments p.l.c. during the year ended 31 December 2011, and the shareholders committed with the banks to provide additional funding of €12 million by March 2013, of which additional loans of €5.85 million were granted by the shareholders after 31 December 2011. Simultaneously with this commitment, the Company negotiated an extension of its bank borrowing facilities.

The Directors are of the view that GAP Developments p.l.c. is sufficiently capitalised following these transactions.

Subsequent to the exceptional item referred to above, and considering also the sales, and the promises of sale, of inventory that have taken place after 31 December 2011, the Directors do not expect to realise significant losses beyond those already recognised up 31 December 2011. Taking cognisance of these future prospects of the Company and the Group, the Directors are of the opinion that there is a reasonable expectation that that the Company and the Group have adequate recourses to be able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

### **Reserve Account**

The bond prospectus dated 21 March 2007 stated that a Reserve Account would be created so as to cover the redemption of the bonds. The Reserve Account, which was created when the Trust Deed was set up with Bawag Malta Ltd., is to be credited with an agreed percentage of the proceeds from the sale of every apartment in the Fort Cambridge project.

It is to be noted that the prospectus also showed that it was envisaged the Full Development Permit would be issued in September 2007 and therefore the cash flow projections shown in the prospectus were based on this assumption, with the proviso that there would "not be any material changes in circumstances".

The Company experienced an abnormal delay in the issuance of the Full Development Permit, which was a material change in circumstances. The delay coupled with other general delays, had a corresponding delay in the programme of works, resulting in delays to the Reserve Account. The forecast of €34.9 million as at 31 December 2011 (2010: €33.5 million) shown on the Prospectus could not be met. Since April 2011 Final Deeds of Sale were being entered into and the Reserve Account being credited with the agreed percentages from the sale of every apartment in terms of the Deed Trust with Bawag Malta Ltd. The amount credited to the Reserve Account as at 31 December 2011 was €3.6 million of which €2.2 million were utilised to repurchase bonds.

### **Directors' interest in the share capital of the Company (shares held) and shareholders holding 5% or more of the Equity Share Capital**

As at 31 December 2011, 1,799,999 "A" Ordinary shares and 5,400,000 "B" Ordinary shares were issued and held by GAP Holdings Ltd and Tigne' Skies Ltd. respectively. The other "A" Ordinary share is held by Mr George Muscat a shareholder of GAP Holdings Ltd.

## **Directors' report** - continued

### **Directors' interest in the share capital of the Company (shares held) and shareholders holding 5% or more of the Equity Share Capital** - continued

The shares of GAP Holdings Ltd. are divided equally between the following three shareholders, who are all directors of GAP Developments p.l.c.

George Muscat (Chairman)  
Paul Attard (Executive Director)  
Adrian Muscat (Executive Director)

The shares of Tigne's Skies are divided equally between the following shareholders, who are both directors of GAP Development p.l.c.

Charles Azzopardi (Executive Director)  
Anthony Azzopardi (Executive Director)

### **Results and dividends**

The results for the year are shown on page 14 - Statements of comprehensive income.

The Directors do not recommend the payment of a dividend.

### **Events after the reporting period**

Subsequent to 31 December 2011, the Company successfully negotiated the extension of its existing bank borrowing facilities, as a result of which the amounts due to the banks fall due in staggered payments over the course of 2012 and 2013. As part of these negotiations, the shareholders committed to provide additional funding of €12 million to the Company by March 2013, of which additional loans of €5,850,000 were granted by the shareholders after 31 December 2011.

In addition, the main sub-contractor registered a special privilege on the Fort Cambridge development project property for an amount of €8,136,091, representing the balance due to this sub-contractor upon completion of works on 11 June 2012. This special privilege is subordinated to the bank loans and to the Company's bonds.

### **Statement pursuant to Listing Rule 5.68 issued by the Listing Authority**

We confirm that to the best of our knowledge, the Financial Statements were prepared in accordance with the International Financial Reporting Standards as adopted by the EU and give a true and fair view of the Financial position of the Company as at 31 December 2011 and of its financial performance and its cash flows for the year. The Annual Report includes a fair view of the developments of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

## **Directors' report - continued**

### **Directors**

The following Directors served on the board during the year:

George Muscat – Chairman  
Charles Azzopardi – Executive Director  
Anthony Azzopardi – Executive Director  
Paul Attard – Executive Director  
Adrian Muscat – Executive Director  
Mark Castillo – Non-executive Director (terminated 16 August 2011)  
Dr. Pio M Valletta – Non-executive Director  
John Abela – Non-executive Director (terminated 16 August 2011)  
Hugh Attard Montalto – Non-executive Director

In accordance with the Company's memorandum and articles of association, all directors shall offer themselves for re-appointment and will be put before the members at the next Annual General Meeting.

### **Statement of Directors' responsibilities for the financial statements**

The Directors are required by the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Group and the Parent Company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining 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, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the Group and the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


**Directors' report** - continued

**Auditors**

Ernst & Young Malta Limited have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

The Directors' Report was approved by the Board of Directors and is signed on its behalf by:

  
George Muscat  
Chairman

  
Anthony Azzopardi  
Director

Company Secretary and Registered Office  
Mr. Paul Attard  
GAP Holdings Head Office  
Censu Scerri Street  
Tigne'  
Sliema SLM 3060

23 August 2012



## **Corporate Governance Statement**

### **Introduction**

Pursuant to the Malta Financial Services Authority Listing Rules, GAP Developments p.l.c. (the Company) whose securities are listed on a regulated market should endeavour to adopt the Code of Principles of Good Corporate Governance ("the Code") as contained in Appendix 5.1 to Chapter 5 of the Listing Rules. In terms of the Listing Rules the Company is hereby reporting on the extent of its adoption of the Code.

The Company acknowledges that the Code does not generally prescribe mandatory rules, but recommends principles of good practice. However, the Directors believe that such practices are in the best interests of the Company and all stakeholders, and that compliance with principles of good corporate governance is not only expected by investors, but also reflects the Directors' and Company's commitment to high standards of governance.

### **Compliance**

The Board has considered the principles embodied in "the Code" and has noted "the Code's" recommended practices.

The Company has a decision making and supervisory structure in that whilst maintaining an element of flexibility, it ensures that adequate checks and balances exist within the Company.

### **Board of Directors**

The Company's board is composed of 5 Executive Directors and 2 Non-Executive Directors. This conforms with the wording of the provisions laid down in paragraph 3 of "the Code", which mentions that there is to be a mix of Executive and Non-Executive Directors.

The Directors receive monthly management accounts on the Company's financial performance. The accounts are reviewed and discussed during board meetings. Board meetings concentrate mainly on strategy, operational and financial performance, and compliance.

The Company Secretary records minutes of all board meetings.

Directors have access to the advice and services of the Company's legal advisor.

For the purpose of the Code the Non-Executive Directors are independent.

### **Board Committees**

The Audit Committee assumes the functions of Risk Management. In its risk management functions, the Audit Committee studies, and where applicable recommends for adoption by the Board, the recommendations of authoritative reports on risk governance. A description of the committee's risk management function is shown under the heading 'Risk Management'.

The Audit Committee, which was composed of two independent Non-Executive Directors together with the Sales and Marketing Manager, meets regularly in terms of "the Code". The Chairman is Mr. Hugh Attard Montalto, a senior executive with over forty years experience in the Financial Services Industry, and the other members are Dr. Pio Valletta a prominent lawyer, and Mr. Paul Attard, Sales and Marketing Manager.

## **Corporate Governance Statement** - continued

### **Board Committees** - continued

The Terms of Reference of the Audit Committee have been modelled mainly on the Principles of the Listing Rules. The Rules are regularly updated in accordance with regulatory requirements. The committee primarily monitors the financial reporting process, internal control, risk management, the audit of the annual financial statements and the Board's relationship with the external auditors.

The Board does not feel it necessary to set up a Remuneration Committee, but the remuneration of directors and senior officers are reviewed and approved by the Board on a yearly basis, at the Annual General Meeting. The Company Secretary records minutes of Audit Committee meetings.

### **Risk Management**

The objective of the risk management function of the Company is to minimise the cost of risk and to maximise on assets and liabilities.

The Company endeavours to achieve this objective through a procedure that involves a co-ordinated approach across the operations of the Company, designed to identify and measure potential risks, and then through proactive risk management, take appropriate action to mitigate these risks.

All the Company's operations involve the analysis, evaluation, acceptance and management of risks. The most crucial risk categories that the Company is exposed are financing risks, delays in the master program, cost overruns, health and safety risks, sales, and liquidity risks. The efficient management and control of the identified risk areas is vital in order to realise the aim of maximising shareholder value, which is also a positive factor to other stakeholders.

In order to manage the above mentioned risk areas, key executive staff and/or professionals involved in the Fort Cambridge project, whose areas of responsibility are considered as areas likely to have elements of risk, are requested to submit periodic reports to the Audit Committee, highlighting any weaknesses or possible threats.

Their terms of remit include identification of any likely future risk, and recommendations as to the remedial action to be taken by the Company to counter or reduce such possible risks. Reports are compiled by the architect in charge of the project, the financial controller, the engineer in charge of electrical and mechanical services, the project manager, the health and safety officer, and the director sales and marketing. The Audit Committee makes the appropriate recommendations to the Board.

### **Internal Control System**

The Company's internal control system is designed to ensure, as much as possible, transparency, independence and segregation of duties. The process is also designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

Whilst the Board of Directors is responsible for an effective internal control system, it relies on its effectiveness on the financial controller and the audit committee, whose duties and responsibilities are defined in a separate section of the Policy and Procedures Manual of the Company, which has been approved by the audit committee. Through these channels, the Board of Directors has reasonable assurance that risk factors are managed properly and material misstatements are not likely to occur.

## **Corporate Governance Statement** - continued

### **Dealings by Directors and Senior Officers**

Conscious of its responsibility for monitoring dealings by directors and senior officers in the Company's bonds, the Board approved a Code of Conduct for the transactions by Directors and Senior Officers in compliance with Listing Rules 5.106 to 5.116. The Code provides guidance to the Company's Directors and Officers and serves as a minimum standard of good practice when dealing in the Company's bonds.

All Directors and Senior Officers are aware of the guidelines on conflicts of interest. The Board has adopted rules where directors having conflicts of interest on any matter being discussed at board level disclose the conflict in a timely manner to the Board and the director so conflicted will not be allowed to vote on such matters. The Directors aim to adhere to accepted principles of corporate social responsibility in day to day practices, within the scope of the Company's business.

### **Communication with the market and bondholders**

The Directors consider that the Board properly serves the legitimate interests of all stakeholders, in particular the shareholders and bondholders, through representation of the shareholders and bondholders on the Board. The Board continues to ensure that the Company communicates with all stakeholders.

In addition, the Company's website [www.fortcambridge.com](http://www.fortcambridge.com) includes a portal titled INVESTOR INFORMATION, with information on areas such as Corporate Governance, Publications, Financial Statements, Company structure and an Investor Help Line.

### **Going Concern**

During the financial year ended 31 December 2011, the Group incurred losses after tax amounting to €3,980,915 (2010: €7,673,685). These amounts are stated after an exceptional reduction in the carrying amount of inventories of development property, which resulted in a charge of €7,353,381 in the results for the year ended 31 December 2010 (refer to Notes 9 and 29). Nevertheless, the Group's assets exceeded its liabilities as at 31 December 2011 by €13,795,551 (2010: €8,261,413) and its current assets (including inventories of property held for resale) exceeded its current liabilities by €47,051,729 (2010: €57,298,004) as at that date.

In order to address these challenges, the shareholders of GAP Developments p.l.c. effected during the year ended 31 December 2011 a reduction of €7,000,000 in issued share capital in order to offset losses in terms of Article 83(5) of the Companies Act, 1995 (refer to Note 12). This transaction was followed by a capitalisation of shareholder borrowings, amounting to €9,000,000, which were used to issue the equivalent amount of "B" ordinary shares (refer also to Note 12). Furthermore, additional loans amounting to €7,242,796 were granted by the shareholders to GAP Developments p.l.c. during the year ended 31 December 2011, and the shareholders committed with the banks to provide additional funding of €12,000,000 by March 2013, of which additional loans of €5,850,000 were granted by the shareholders after 31 December 2011. Simultaneously with this commitment, the Company negotiated an extension of its bank borrowing facilities.

The Directors are of the view that GAP Developments p.l.c. is sufficiently capitalised following these transactions.


**Corporate Governance Statement** - continued

**Going Concern** - continued

Subsequent to the exceptional item referred to above, and considering also the sales, and the promises of sale, of inventory that have taken place after 31 December 2011, the Directors do not expect to realise significant losses beyond those already recognised up 31 December 2011. Taking cognisance of these future prospects of the Company and the Group, the Directors are of the opinion that there is a reasonable expectation that that the Company and the Group have adequate recourses to be able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

By order of the Board

  
George Muscat  
Chairman

  
Anthony Azzopardi  
Director

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GAP DEVELOPMENTS PLC

We have audited the financial statements of GAP Developments PLC ("the Company") and of the Group of which the Company is the parent, set out on pages 12 to 57, which comprise the consolidated and parent company statements of financial position as at 31 December 2011 and the consolidated and parent company statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' Responsibility for the Financial Statements

As described in the Directors' Report set out on pages 1 to 5, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Companies Act, Cap. 386 of the Laws of Malta, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Group and the Company as at 31 December 2011, and of the Group's and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GAP DEVELOPMENTS PLC - continued**

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

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

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

We read the Corporate Governance Statement and consider the implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Corporate Governance Statement cover all risks and controls, or form an opinion on the effectiveness of the company's governance procedures or its risk and control procedures.

In our opinion, the Corporate Governance Statement set out on pages 6 to 9 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

We also have responsibilities:

- Under the Companies Act, Cap. 386 of the Laws of Malta to report to you if in our opinion:
  - The information given in the Directors' report is not consistent with the financial statements.
  - Adequate accounting records have not been kept.
  - The financial statements are not in agreement with the accounting records.
  - We have not received all the information and explanations we require for our audit.
  - Certain disclosures of Directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- Under the Listing Rules to review the statement made by the Directors, set out on pages 1 to 2, that the business is a going concern together with supporting assumptions or qualifications as necessary.

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



*This copy of the audit report has been signed by  
Anthony Doublet for and on behalf of*

Ernst & Young Malta Limited  
Certified Public Accountants

23 August 2012

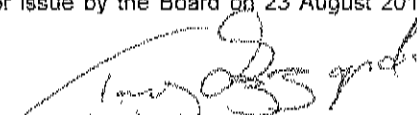
## Statements of financial position - Group

	Notes	As at 31 December		As at
		2011	2010	1 January
		€	€	€
			(restated)	(restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	7,602,265	7,705,446	8,734,181
Deferred tax assets	7	-	8,310	-
Financial assets: Reserve Account	8	1,383,780	-	-
<b>Total non-current assets</b>		<b>8,986,045</b>	<b>7,713,756</b>	<b>8,734,181</b>
<b>Current assets</b>				
Inventories – Development project	9	131,129,571	127,177,296	112,027,353
Trade and other receivables	10	1,051,589	804,057	413,257
Current tax assets		933,048	16,093	-
Cash and cash equivalents	11	469,004	732,521	2,158,132
<b>Total current assets</b>		<b>133,683,212</b>	<b>128,729,967</b>	<b>114,598,742</b>
<b>Total assets</b>		<b>142,569,257</b>	<b>136,443,723</b>	<b>123,332,923</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves attributable to owners of the Company</b>				
Share capital	12	18,000,000	16,000,000	16,000,000
Capital contribution reserve	13	1,066,158	551,105	551,105
Accumulated losses		(5,271,073)	(8,290,158)	(616,473)
		<b>13,795,085</b>	<b>8,260,947</b>	<b>15,934,632</b>
Non-controlling interest		466	466	233
<b>Total equity</b>		<b>13,795,551</b>	<b>8,261,413</b>	<b>15,934,865</b>
<b>Non-current liabilities</b>				
Borrowings	14	40,842,223	55,350,347	78,263,956
Deferred tax liabilities	7	-	-	1,739
Provisions for other liabilities and charges	15	1,400,000	1,400,000	2,330,000
Trade and other payables	16	-	-	11,018,044
<b>Total non-current liabilities</b>		<b>42,242,223</b>	<b>56,750,347</b>	<b>91,611,738</b>
<b>Current liabilities</b>				
Trade and other payables	16	49,254,037	40,532,244	11,500,289
Borrowings	14	37,276,914	30,899,719	4,285,716
Current tax liabilities		532	-	316
<b>Total current liabilities</b>		<b>86,531,483</b>	<b>71,431,963</b>	<b>15,786,320</b>
<b>Total liabilities</b>		<b>128,773,706</b>	<b>128,182,310</b>	<b>107,398,058</b>
<b>Total equity and liabilities</b>		<b>142,569,257</b>	<b>136,443,723</b>	<b>123,332,923</b>

The notes on pages 19 to 57 are an integral part of these consolidated financial statements.

The financial statements on pages 12 to 57 were authorised for issue by the Board on 23 August 2012 and were signed on its behalf by:

  
George Muscat  
Chairman

  
Anthony Azzopardi  
Director

### Statements of financial position - Company

	Notes	As at 31 December		As at
		2011	2010	1 January
		€	€	€
			(restated)	(restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	7,519,315	7,603,115	8,812,238
Investments in subsidiaries	6	3,339,561	3,339,561	3,339,561
Financial assets: Reserve Account	8	1,383,780	-	-
<b>Total non-current assets</b>		<b>12,242,656</b>	10,942,676	11,951,799
<b>Current assets</b>				
Inventories – Development project	9	131,129,571	127,177,296	112,027,353
Trade and other receivables	10	971,729	791,060	396,372
Current tax assets		933,048	16,093	-
Cash and cash equivalents	11	465,427	730,889	2,151,403
<b>Total current assets</b>		<b>133,499,775</b>	128,715,338	114,575,128
<b>Total assets</b>		<b>145,742,431</b>	139,658,014	126,526,927
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	12	18,000,000	16,000,000	16,000,000
Capital contribution reserve	13	1,066,158	551,105	551,105
Accumulated losses		(5,138,705)	(8,181,661)	(528,901)
<b>Total equity</b>		<b>13,927,453</b>	8,369,444	16,022,204
<b>Non-current liabilities</b>				
Borrowings	14	40,842,223	55,350,347	78,263,955
Provisions for other liabilities and charges	15	1,400,000	1,400,000	2,330,000
Trade and other payables	16	-	-	11,016,044
<b>Total non-current liabilities</b>		<b>42,242,223</b>	56,750,347	91,609,999
<b>Current liabilities</b>				
Trade and other payables	16	52,295,841	43,638,504	14,608,693
Borrowings	14	37,276,914	30,899,719	4,285,715
Current tax liabilities		-	-	316
<b>Total current liabilities</b>		<b>89,572,755</b>	74,538,223	18,894,724
<b>Total liabilities</b>		<b>131,814,978</b>	131,288,570	110,504,723
<b>Total equity and liabilities</b>		<b>145,742,431</b>	139,658,014	126,526,927

The notes on pages 19 to 57 are an integral part of these consolidated financial statements.

The financial statements on pages 12 to 57 were authorised for issue by the Board on 23 August 2012 and were signed on its behalf by:

  
George Muscat  
Chairman

  
Anthony Azzopardi  
Director



**Statements of comprehensive income**

	Notes	Group		Company	
		Year ended 31 December			
		2011	2010	2011	2010
		€	€	€	€
			(restated)		(restated)
Revenue	17	13,342,275	387,822	13,339,511	387,822
Cost of sales	18	(16,984,945)	(282,150)	(16,984,945)	(282,150)
Cost of sales: inventory write-down	9, 18	-	(7,353,381)	-	(7,353,381)
<b>Gross loss</b>		<b>(3,642,670)</b>	<b>(7,247,709)</b>	<b>(3,645,434)</b>	<b>(7,247,709)</b>
Administrative expenses	18	(369,390)	(444,842)	(351,597)	(413,868)
Other operating income/(expenses)	20	14,490	(559)	14,490	(559)
<b>Operating loss</b>		<b>(3,997,570)</b>	<b>(7,693,110)</b>	<b>(3,982,541)</b>	<b>(7,662,136)</b>
Finance income	21	14,837	11,031	14,837	11,031
Other income	22	12,888	-	12,888	-
<b>Loss before tax</b>		<b>(3,969,845)</b>	<b>(7,682,079)</b>	<b>(3,954,816)</b>	<b>(7,651,105)</b>
Tax (expense)/income	23	(11,070)	8,394	(2,228)	(1,655)
<b>Loss for the year - total comprehensive income</b>		<b>(3,980,915)</b>	<b>(7,673,685)</b>	<b>(3,957,044)</b>	<b>(7,652,760)</b>
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		(3,980,915)	(7,673,685)	(3,957,044)	(7,652,760)
Non-controlling interest		-	-	-	-

The notes on pages 19 to 57 are an integral part of these consolidated financial statements.

### Statements of changes in equity

Group	Notes	Attributable to owners of the Company					Total equity €
		Ordinary share capital €	Capital contribution reserve	Accumulated losses €	Non- controlling interest €	Total €	
Balance at 1 January 2010		16,000,000	-	(456,779)	233	15,543,221	15,543,454
- as previously reported		-	551,105	(159,694)	-	391,411	391,411
- effect of correction of prior year errors	29						
- as restated		16,000,000	551,105	(616,473)	233	15,934,632	15,934,865
<b>Comprehensive income</b>							
Loss for the year		-	-	(7,673,685)	-	(7,673,685)	(7,673,685)
<b>Transactions with owners</b>							
Issue of share capital		-	-	-	233	-	233
<b>Balance at 31 December 2010</b>		16,000,000	551,105	(8,290,158)	466	8,260,947	8,261,413

**Statements of changes in equity - continued**

Group	Notes	Attributable to owners of the Company					Total equity €
		Ordinary share capital €	Capital contribution reserve	Accumulated losses €	Non- controlling interest €	Total €	
Balance at 1 January 2011		16,000,000	-	(7,322,807)	466	8,677,193	8,677,659
- as previously reported		-	551,105	(967,351)	-	(416,246)	(416,246)
- effect of correction of prior year errors	29						
- as restated		16,000,000	551,105	(8,290,158)	466	8,260,947	8,261,413
<b>Comprehensive income</b>							
Loss for the year		-	-	(3,980,915)	-	(3,980,915)	(3,980,915)
<b>Transactions with the owners</b>							
Reduction of share capital	12	(7,000,000)	-	7,000,000	-	-	-
Increase in share capital	12	9,000,000	-	-	-	9,000,000	9,000,000
Modification of interest-free loans	13	-	515,053	-	-	515,053	515,053
Total transactions with owners		2,000,000	515,053	7,000,000	-	9,515,053	9,515,053
<b>Balance at 31 December 2011</b>		18,000,000	1,066,158	(5,271,073)	466	13,795,085	13,795,551

The notes on pages 19 to 57 are an integral part of these consolidated financial statements.

**Statements of changes in equity - continued**

Company	Note	Share capital €	Capital contribution reserve €	Accumulated losses €	Total €
Balance at 1 January 2010					
- as previously reported		16,000,000	-	(369,207)	15,630,793
- effect of correction of prior year errors	29	-	551,105	(159,694)	391,411
- as restated		16,000,000	551,105	(528,901)	16,022,204
<b>Comprehensive income</b>					
Loss for the year		-	-	(7,652,760)	(7,652,760)
<b>Balance at 31 December 2010</b>		<b>16,000,000</b>	<b>551,105</b>	<b>(8,181,661)</b>	<b>8,369,444</b>
Balance at 1 January 2011					
- as previously reported		16,000,000	-	(7,214,310)	8,785,690
- effect of correction of prior year errors	29	-	551,105	(967,351)	(416,246)
- as restated		16,000,000	551,105	(8,181,661)	8,369,444
<b>Comprehensive income</b>					
Loss for the year		-	-	(3,957,044)	(3,957,044)
<b>Transactions with the owners</b>					
Reduction of share capital	12	(7,000,000)	-	7,000,000	-
Increase in share capital	12	9,000,000	-	-	9,000,000
Modification of interest-free loans	13	-	515,053	-	515,053
<b>Total transactions with owners</b>		<b>2,000,000</b>	<b>515,053</b>	<b>7,000,000</b>	<b>9,515,053</b>
<b>Balance at 31 December 2011</b>		<b>18,000,000</b>	<b>1,066,158</b>	<b>(5,138,705)</b>	<b>13,927,453</b>

The notes on pages 19 to 57 are an integral part of these consolidated financial statements.

**Statements of cash flows**

		Year ended 31 December			
Note	Group		Company		
	2011	2010	2011	2010	
		€	€	€	€
<b>Cash flows from operating activities</b>					
	25	6,011,164	101,602	6,009,219	106,932
		14,837	11,031	14,837	11,031
		(919,183)	(18,064)	(919,183)	(18,064)
<hr/>					
		5,106,818	94,569	5,104,873	99,899
<hr/>					
<b>Cash flows from investing activities</b>					
		-	(2,075)	-	(2,075)
		19,173	-	19,173	-
		(1,383,780)	-	(1,383,780)	-
<hr/>					
		(1,364,607)	(2,075)	(1,364,607)	(2,075)
<hr/>					
<b>Cash flows from financing activities</b>					
		-	233	-	-
		7,242,796	3,660,077	7,242,796	3,660,077
		(2,214,521)	-	(2,214,521)	-
		(4,212,472)	-	(4,212,472)	-
		(4,821,531)	(5,178,415)	(4,821,531)	(5,178,415)
<hr/>					
		(4,005,728)	(1,518,105)	(4,005,728)	(1,518,338)
<hr/>					
		(263,517)	(1,425,611)	(265,462)	(1,420,514)
<hr/>					
		732,521	2,158,132	730,889	2,151,403
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	11	469,004	732,521	465,427	730,889

The notes on pages 19 to 57 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1. Summary of significant accounting policies

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

#### 1.1 Basis of preparation

The consolidated financial statements include the financial statements of GAP Developments p.l.c. and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Companies Act, 1995. They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the group's accounting policies (see Note 3 – Critical accounting estimates and judgements).

#### *Assessment of going concern*

During the financial year ended 31 December 2011, the Group incurred losses after tax amounting to €3,980,915 (2010: €7,673,685). These amounts are stated after an exceptional reduction in the carrying amount of inventories of development property, which resulted in a charge of €7,353,381 in the results for the year ended 31 December 2010 (refer to Notes 9 and 29). Nevertheless, the Group's assets exceeded its liabilities as at 31 December 2011 by €13,795,551 (2010: €8,261,413) and its current assets (including inventories of property held for resale) exceeded its current liabilities by €47,051,729 (2010: €57,298,004) as at that date.

In order to address these challenges, the shareholders of GAP Developments p.l.c. effected during the year ended 31 December 2011 a reduction of €7,000,000 in issued share capital in order to offset losses in terms of Article 83(5) of the Companies Act, 1995 (refer to Note 12). This transaction was followed by a capitalisation of shareholder borrowings, amounting to €9,000,000, which were used to issue the equivalent amount of "B" ordinary shares (refer also to Note 12). Furthermore, additional loans amounting to €7,242,796 were granted by the shareholders to GAP Developments p.l.c. during the year ended 31 December 2011, and the shareholders committed with the banks to provide additional funding of €12,000,000 by March 2013, of which additional loans of €5,850,000 were granted by the shareholders after 31 December 2011. Simultaneously with this commitment, the Company negotiated an extension of its bank borrowing facilities.

The Directors are of the view that GAP Developments p.l.c. is sufficiently capitalised following these transactions.

Subsequent to the exceptional item referred to above, and considering also the sales, and the promises of sale, of inventory that have taken place after 31 December 2011, the Directors do not expect to realise significant losses beyond those already recognised up 31 December 2011. Taking cognisance of these future prospects of the Company and the Group, the Directors are of the opinion that there is a reasonable expectation that that the Company and the Group have adequate recourses to be able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

**1. Summary of significant accounting policies - continued**

**1.1 Basis of preparation - continued**

*Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year*

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group.

- IAS 24 Related Party Disclosures (Revised)
- IAS 32 Financial Instruments: Presentation – Amendments relating to classification of rights issues
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Improvements to IFRSs (Issued by the IASB in May 2010).

*Standards, interpretations and amendments to published standards as adopted by the European Union that are not yet effective*

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which the Group has not early adopted. None of the below mentioned standards will have an effect on the Group's financial position and performance. These are as follows:

IFRS 7 Amendments - Disclosures - Transfer of financial assets effective for annual period beginning on or after 1 July 2011

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects.

IAS 1 Amendments - Presentation of Items of Other Comprehensive Income effective for annual period beginning on or after 1 July 2012

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

IAS 19 Amendment - Employee Benefits effective for annual period beginning on or after 1 January 2013

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted.

**1. Summary of significant accounting policies - continued**

**1.1 Basis of preparation - continued**

*Standards, interpretations and amendments that are not yet adopted by the European Union*

The following standards, interpretations and amendments, that have been issued by the IASB but not yet endorsed by the EU, may have an impact on the Group's financial statements in the period of initial application. The Group is still assessing the impact, however this depends on the circumstances of the Group at the date of adoption, therefore it is not practical to quantify the effect at this stage.

**IFRS 7 Amendments - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.

**IFRS 9 Financial Instruments**

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. Early application is permitted.

**IFRS 10 Consolidated Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

**IFRS 13 Fair Value Measurement**

This new standard is effective for annual periods beginning on or after 1 January 2013. It applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

**IAS 27 Separate Financial Statements**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted.



## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

*Standards, interpretations and amendments that are not yet adopted by the European Union - continued*

#### IAS 32 Amendments - Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments.

#### Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application.

### 1.2 Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**1. Summary of significant accounting policies - continued**

**1.2 Consolidation - continued**

**(a) Subsidiaries - continued**

In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Cost includes directly attributable costs of the investment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

**(b) Transactions with non-controlling interests**

The Group treats transactions with non-controlling interests, where the acquisition or disposal of partial interests in a subsidiary has no impact on the group's ability to control the subsidiary's financial and operating policies, as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**1.3 Foreign currency translation**

**(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro ("€"), which is the Company's functional and the Group's presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 income statement.

**1. Summary of significant accounting policies - continued**

**1.4 Property, plant and equipment**

All property, plant and equipment is initially recorded at historical cost, and is subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group or the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Plant & machinery	5 - 20
Office equipment	4
Commercial vehicles	5
Furniture & fittings	10

Leasehold premises are depreciated over the period of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1.5).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

**1.5 Impairment of non-financial assets**

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**1.6 Financial assets**

**1.6.1 Classification**

The Group and the Company classify their financial assets in the loans and receivables category. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

## 1. Summary of significant accounting policies - continued

### 1.6 Financial assets - continued

#### 1.6.1 Classification - continued

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 Group or 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 Group's and the Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (note 1.8 and 1.9), together with the Reserve account, which represents an amount on deposit with a financial institution.

#### 1.6.2 Recognition and measurement

The Group and the Company recognise a financial asset in their statement of financial position when they become a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group or the Company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

#### 1.6.3 Impairment

The Group and the Company assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group and the Company first assess whether objective evidence of impairment exists. The criteria that the Group and the Company use to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

## 1. Summary of significant accounting policies - continued

### 1.7 Inventories

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

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

- (i) The costs 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 attributable to 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.

### 1.8 Trade and other receivables

Trade receivables comprise amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal 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 (note 1.6). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. 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 profit or loss.

### 1.9 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents includes cash in hand, and deposits held at call with banks.

### 1.10 Share capital

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

## 1. Summary of significant accounting policies - continued

### 1.11 Financial liabilities

The Group and the Company recognise a financial liability in their statement of financial position when they become a party to the contractual provisions of the instrument. The Group's and the Company's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group and the Company derecognise a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

### 1.12 Trade and other payables (Note 16)

Trade payables comprise 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.

### 1.13 Borrowings (Note 14)

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group or the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### 1.14 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.

### 1.15 Current and deferred tax

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

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax 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 substantially 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.

**1. Summary of significant accounting policies - continued**

**1.15 Current and deferred tax - continued**

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 balances on a net basis.

**1.16 Provisions**

Provisions for legal claims are recognised when the Group or the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. The Group's and the Company's provision relates to an obligation restore Fort Cambridge within ten years from date of acquisition.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**1.17 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's and the Company's activities. Revenue is recognised upon delivery of products or performance of services, and is stated net of sales tax, returns, rebates and discounts.

The Group and the Company recognise revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group or the Company and when specific criteria have been met for each of the Group's and the Company's activities as described below.

*(a) Sales of property*

Sales of property are recognised when the significant risks and rewards of ownership of the property being sold are 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 Group's or the Company's obligations relating to the property are completed such that 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 pertain to the Group and the Company, are treated as payments received on account and presented within trade and other payables.

*(b) Sales of services*

Revenue from services is generally recognised in the period the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

**1. Summary of significant accounting policies - continued**

**1.17 Revenue recognition - continued**

*(c) Interest income*

Interest income is recognised for all interest-bearing instruments using the effective interest method.

**1.18 Operating leases**

*The Group or the Company is the lessee*

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

**1.19 Borrowing costs**

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment, investment property or property held for development and resale are capitalised as part of its cost. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially ready for their intended use or sale and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of interest-bearing borrowings.

**2. Financial risk management**

**2.1 Financial risk factors**

The activities of the Group, of which the Company forms part, potentially expose it to a variety of financial risks: market risk (including cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Group did not make use of derivative financial instruments to hedge risk exposures during the current and preceding financial years. The board provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.



## 2. Financial risk management

### 2.1 Financial risk factors - continued

#### (a) Market risk

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its financing position and cash flows. As at the reporting date, the Group has no significant interest-bearing assets. The Group's interest rate risk primarily arises from borrowings. Borrowings issued at fixed rates, consisting of bonds issued to the public, are carried at amortised cost (see Note 14). Bank loans (see Note 14) issued at variable rates expose the Company to cash flow interest rate risk. The board monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

#### (b) Credit risk

The Group is not significantly exposed to credit risk arising in the course of their principal activity relating to sale of residential units in view of the manner in which promise of sale agreements are handled through receipt of payments on account at established milestones up to delivery (refer to Note 16). The Group monitors the performance of the purchasers throughout the term of the related agreement in relation to meeting contractual obligations and ensures that contract amounts are fully settled prior to delivery.

Credit risk arises from financial assets held in relation to the Reserve Account (Note 8), cash and cash equivalents (Note 11) as well as credit exposures to customers (Note 10), which constitute the Group's loans and receivables category for IAS 39 categorisation purposes. The Group's exposures to credit risk, which excludes prepayments, as at the end of the reporting periods are analysed as follows:

	Group		Company	
	2011	2010	2011	2010
	€	€	€	€
<b>Loans and receivables category</b>				
Financial assets: Reserve Account (Note 8)	1,383,780	-	1,383,780	-
Trade and other receivables (Note 10)	32,337	13,614	2,012	617
Cash and cash equivalents (Note 11)	469,004	732,521	465,427	730,889
<b>Total loans and receivables</b>	<b>1,885,121</b>	<b>746,135</b>	<b>1,851,219</b>	<b>731,506</b>

The Group's exposures to credit risk are analysed in the statement of financial position and in the respective notes to the Financial Statements. The maximum exposure to credit risk at the end of the reporting period in respect of these financial assets is equivalent to their carrying amount. The Group does not hold any collateral as security in this respect.

The Group's and the Company's financial assets held in relation to the Reserve Account, and their cash, are placed with local financial institutions with high quality standing.

As at the end of the financial reporting period, the Group and the Company had no material past due or impaired financial assets.

## 2. Financial risk management

### 2.1 Financial risk factors - continued

#### *(c) Liquidity risk*

The Group is exposed to liquidity risk in relation to meeting its future obligations with respect to financial liabilities, which include borrowings (Note 14) and trade and other payables (Note 16). Management monitors liquidity risk by reviewing expected cash flows to ensure that the Group and the Company have adequate resources to meet their obligations.

Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations. The Group's liquidity risk is managed actively by management. Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows from development and operation of the different phases of the development project. This includes reviewing the matching or otherwise of expected cash inflows and outflows arising from expected maturities of financial instruments in relation to the distinct project phases. The Group is reviewing its financing arrangements to ensure that it is in a position to meet its short-term operational and cash flow commitments.

The Group is reviewing its funding strategy in the context of the timing of the different development stages of the project to sustain its long-term prospects.

The Group's trade and other payables (Note 16) are principally repayable within one year from the end of the reporting period. Payments received on account under promise of sale agreements do not give rise to cash outflows but would be utilised upon delivery of the related apartments in the expected time bands as disclosed in the related note. The table below analyses the Group's other principal financial liabilities into relevant maturity groupings based on the remaining period at year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one year €	Between 1 and 2 years €	Between 2 and 5 years €	Total €
<b>Group and Company</b>				
<b>At 31 December 2011</b>				
7% bonds 2011 – 2013	2,289,957	35,003,634	-	37,293,591
Shareholders' loans	242,795	-	8,087,618	8,330,413
Bank loans and overdrafts	37,034,119	-	-	37,034,119
<hr/>				
<b>At 31 December 2010</b>				
7% bonds 2011 – 2013	2,445,876	2,445,876	37,386,962	42,278,714
Shareholders' loans	-	9,781,945	-	9,781,945
Bank loans and overdrafts	30,899,719	10,974,550	-	41,874,269
<hr/>				

**2. Financial risk management - continued**

**2.2 Capital risk management**

The Group's objectives when managing capital are:

- to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;
- to maintain an optimal capital structure to reduce the cost of capital; and
- to comply with requirements of the Prospectus issued in relation to the 7% secured bonds.

Since incorporation the Company has improved its share capital structure over the years to €18,000,000, with a further €10,000,000 in authorised but unissued share capital.

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net external debt divided by total capital. Net external debt is calculated as total borrowings (as shown in the statement of financial position) less shareholders' loans, cash and cash equivalents and other term placements with banks, including the Reserve Account. Total capital is calculated as equity, as shown in the statement of financial position, plus shareholders' loans and net external debt.

	Group		Company	
	2011 €	2010 € (restated)	2011 €	2010 € (restated)
Total borrowings (Note 14)	<b>78,119,137</b>	86,250,066	<b>78,119,137</b>	86,250,066
Less shareholders' loans (Note 14)	<b>(6,821,100)</b>	(8,615,462)	<b>(6,821,100)</b>	(8,615,462)
Less cash and cash equivalents (Note 11)	<b>(469,004)</b>	(732,521)	<b>(465,427)</b>	(730,889)
Less Reserve Account (Note 8)	<b>(1,383,780)</b>	-	<b>(1,383,780)</b>	-
Net external debt	<b>69,445,253</b>	76,902,083	<b>69,448,830</b>	76,903,715
Shareholders' loans (Note 14)	<b>6,821,100</b>	8,615,462	<b>6,821,100</b>	8,615,462
Total equity	<b>13,795,551</b>	8,261,413	<b>13,927,453</b>	8,369,444
Total capital	<b>90,061,904</b>	93,778,958	<b>90,197,383</b>	93,888,621
Gearing ratio	<b>77%</b>	82%	<b>77%</b>	82%

The Group manages the relationship between equity injections from shareholders and borrowings, being the constituent elements of capital, as reflected above with a view to managing the cost of capital. The Group maintains its level of capital by reference to its financial obligations and commitments arising from operational requirements. The Directors consider that the capital held as at the end of the financial reporting period is adequate to enable the Company to continue with the Company's projects.

## 2. Financial risk management - continued

### 2.3 Fair value estimation

At 31 December 2011 and 2010 the carrying amounts of other financial instruments, comprising the financial assets in relation to the Reserve Account, cash at bank, receivables, payables, accrued expenses and short-term borrowings approximated their fair values in view of the nature of the instruments or their short-term maturity. The fair value of non-current financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of the Group's bank and other borrowings (Note 14) as at the end of the reporting period is not materially different from the carrying amounts. Information on the fair value of the bonds issued to the public is disclosed in Note 14 to the financial statements.

## 3. Critical accounting estimates and judgements

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, other than as described in Note 1.1 in respect of the application of the going concern basis of account, and as described below in respect of the carrying amount of inventories, 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 IAS1 (revised).

During the year ended 31 December 2010, the carrying amount of property held for development and resale was reduced to its net realisable value as estimated by the Directors. This write-down of inventory amounted to €7,353,381 (refer to Notes 9 and 29). Net realisable value of the property was determined by the Directors after taking cognisance of the advice of external property valuers and experts, and was based on market-observable prices for real estate in comparable projects in Malta.

## 4. Segment reporting

As disclosed further in Note 9, the Group's main object is the development of the Fort Cambridge Area. In accordance with the requirements of IFRS 8, 'Operating segments', the Group's management reviewed the disclosures required in this respect and, taking cognisance of the information utilised within the Group for the purposes of assessing performance, determined that the Group effectively has one operating segment which is the development of the Fort Cambridge project.

## 5. Property, plant and equipment

Group	Leasehold property €	Plant & machinery €	Office equipment €	Motor vehicles €	Furniture & fittings €	Total €
<b>At 1 January 2010</b>						
Cost	8,703,631	66,369	12,457	14,798	222,292	9,019,547
Accumulated depreciation	(193,491)	(24,096)	(6,640)	(6,198)	(54,941)	(285,366)
Net book amount	8,510,140	42,273	5,817	8,600	167,351	8,734,181

**5. Property, plant and equipment - continued**

Group	Leasehold property €	Plant & machinery €	Office equipment €	Motor vehicles €	Furniture & fittings €	Total €
<b>Year ended 31 December 2010</b>						
Opening net book amount	8,510,140	42,273	5,817	8,600	167,351	8,734,181
Adjustments to the carrying amount of assets recognised simultaneously with restoration obligations (Note 15)	(930,000)	-	-	-	-	(930,000)
Additions	-	-	1,156	-	919	2,075
Disposals	-	-	-	(1,398)	-	(1,398)
Depreciation charge	(64,380)	(8,032)	(3,400)	(2,120)	(22,318)	(100,250)
Depreciation released on disposals	-	-	-	838	-	838
Closing net book amount	7,515,760	34,241	3,573	5,920	145,952	7,705,446
<b>At 31 December 2010</b>						
Cost	7,773,631	66,369	13,613	13,400	223,211	8,090,224
Accumulated depreciation	(257,871)	(32,128)	(10,040)	(7,480)	(77,259)	(384,778)
Net book amount	7,515,760	34,241	3,573	5,920	145,952	7,705,446
<b>Year ended 31 December 2011</b>						
Opening net book amount	7,515,760	34,241	3,573	5,920	145,952	7,705,446
Disposals	-	-	-	(13,400)	-	(13,400)
Depreciation charge	(63,736)	(8,033)	(3,171)	(1,237)	(22,321)	(98,498)
Depreciation released on disposals	-	-	-	8,717	-	8,717
Closing net book amount	7,452,024	26,208	402	-	123,631	7,602,265
<b>At 31 December 2011</b>						
Cost	7,773,631	66,369	13,613	-	223,211	8,076,824
Accumulated depreciation	(321,607)	(40,161)	(13,211)	-	(99,580)	(474,559)
Net book amount	7,452,024	26,208	402	-	123,631	7,602,265

5. Property, plant and equipment - continued

Company	Leasehold property	Office equipment	Motor vehicles €	Furniture & fittings €	Total €
<b>At 1 January 2010</b>					
Cost	8,703,631	11,526	14,798	108,809	8,838,764
Accumulated depreciation	(193,491)	(5,941)	(6,198)	(20,896)	(226,526)
Net book amount	8,510,140	5,585	8,600	87,913	8,612,238
<b>Year ended 31 December 2010</b>					
Opening net book amount	8,510,140	5,585	8,600	87,913	8,612,238
Adjustments to the carrying amount of assets recognised simultaneously with restoration obligations (Note 15)	(930,000)	-	-	-	(930,000)
Additions	-	1,156	-	919	2,075
Disposals	-	-	(1,398)	-	(1,398)
Depreciation charge	(64,380)	(3,168)	(2,120)	(10,970)	(80,638)
Depreciation released on disposals	-	-	838	-	838
Closing net book amount	7,515,760	3,573	5,920	77,862	7,603,115
<b>At 31 December 2010</b>					
Cost	7,773,631	12,682	13,400	109,728	7,909,441
Accumulated depreciation	(257,871)	(9,109)	(7,480)	(31,866)	(306,326)
Net book amount	7,515,760	3,573	5,920	77,862	7,603,115
<b>Year ended 31 December 2011</b>					
Opening net book amount	7,515,760	3,573	5,920	77,862	7,603,115
Disposals	-	-	(13,400)	-	(13,400)
Depreciation charge	(63,736)	(3,171)	(1,237)	(10,973)	(79,117)
Depreciation released on disposals	-	-	8,717	-	8,717
Closing net book amount	7,452,024	402	-	66,889	7,519,315
<b>At 31 December 2011</b>					
Cost	7,773,631	12,682	-	109,728	7,896,041
Accumulated depreciation	(321,607)	(12,280)	-	(42,839)	(376,726)
Net book amount	7,452,024	402	-	66,889	7,519,315

**6. Investment in subsidiary undertakings**

<b>Company</b>	€
<b>Years ended 31 December 2011 and 2010</b>	
Opening and closing cost and carrying amounts	3,339,561

The subsidiaries at 31 December 2011, which are unchanged from 2010, are shown below:

	Registered office	Class of shares held	Percentage of shares held %
Tigne Development Co Ltd	GAP Holdings Censu Scerri Street Tigne, Sliema Malta	Ordinary shares Preference shares	99.99
Fort Cambridge Property Mgt. Ltd	GAP Holdings Censu Scerri Street Tigne, Sliema Malta	Ordinary shares	100

The principal activity of Tigne Development Co Ltd included the operation of a youth hostel, however it is currently not trading, while the principal activity of Fort Cambridge Property Mgt. Ltd carries on the business of property management, to collect monies and administer the funds in carrying out the administration of properties.

**7. Deferred taxation**

Deferred taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2010: 35%).

Following a reassessment of the deferred tax assets as at the end of the reporting period, deferred tax assets in excess of deferred tax liabilities as at that date were derecognised as it is not considered probable that future taxable profit will be available against which the temporary differences can be utilised.

**7. Deferred taxation - continued**

The movement on the deferred tax account is as follows:

	Group		Company	
	2011 €	2010 € (restated)	2011 €	2010 € (restated)
At beginning of year	8,310	(1,739)	-	-
Deferred taxes on temporary differences arising on depreciation of property, plant and equipment (Note 23)	2,635	290	2,228	(200)
Deferred taxes arising on unabsorbed capital allowances and tax losses carried forward (Note 23)	1,630,667	94,884	1,624,709	85,325
Deferred taxes arising on provisions (Note 23)	(257,989)	2,573,683	(257,989)	2,573,683
Movement in unrecognised deferred tax asset (Note 23)	(1,383,623)	(2,658,808)	(1,368,948)	(2,658,808)
At end of year	-	8,310	-	-

All the amounts disclosed in the table above, which have been referenced to Note 23, are recognised in profit or loss.

The balance at 31 December represents:

	Group		
	As at 31 December 2011 €	As at 31 December 2010 € (restated)	As at 1 January 2010 € (restated)
Temporary differences arising on depreciation of property, plant and equipment	(7,811)	(10,446)	(10,736)
Temporary differences arising on provisions	2,315,694	2,573,683	-
Unabsorbed capital allowances and tax losses carried forward	1,894,242	263,575	168,691
Total deferred tax asset	4,202,125	2,826,812	157,955
Deferred tax asset not recognised	(4,202,125)	(2,818,502)	(159,694)
Deferred tax asset/(liability) recognised in the statement of financial position	-	8,310	(1,739)



7. Deferred taxation - continued

	Company		
	As at 31 December 2011 €	As at 31 December 2010 € (restated)	As at 1 January 2010 € (restated)
Temporary differences arising on depreciation of property, plant and equipment	2,028	(200)	-
Temporary differences arising on provisions	2,315,694	2,573,683	-
Unabsorbed capital allowances and tax losses carried forward	1,869,728	245,019	159,694
Total deferred tax asset	4,187,450	2,818,502	159,694
Deferred tax asset not recognised	(4,187,450)	(2,818,502)	(159,694)
Deferred tax asset/(liability) recognised in the statement of financial position	-	-	-

8. Financial assets: Reserve Account

	Group		Company	
	2011 €	2010 €	2011 €	2010 €
Bond redemption fund	1,383,780	-	1,383,780	-

Financial assets: Reserve Account comprise the bond redemption fund which is held in a separate account and which is earmarked for the eventual repayment of the bonds (Note 14).

The bond prospectus dated 21 March 2007 stated that a Reserve Account would be created so as to cover the redemption of the bonds. The Reserve Account, which was created when the Trust Deed was set up with Bawag Malta Ltd., is to be credited with an agreed percentage of the proceeds from the sale of every apartment in the Fort Cambridge project.

It is to be noted that the prospectus also showed that it was envisaged the Full Development Permit would be issued in September 2007 and therefore the cash flow projections shown in the prospectus were based on this assumption, with the proviso that there would "not be any material changes in circumstances".

The Company experienced an abnormal delay in the issuance of the Full Development Permit, which was a material change in circumstances. The delay coupled with other general delays, had a corresponding delay in the programme of works, resulting in delays to the Reserve Account. The forecast of €34.9 million as at 31 December 2011 (2010: €33.5 million) shown on the Prospectus could not be met. Since April 2011 Final Deeds of Sale were being entered into and the Reserve Account being credited with the agreed percentages from the sale of every apartment in terms of the Deed Trust with Bawag Malta Ltd. The amount credited to the Reserve Account as at 31 December 2011 was €3.6 million of which €2.2 million were utilised to repurchase bonds.

## 9. Inventories - Development project

The main object of the Group is the development of the Fort Cambridge Area situated at Tigne'. The Group acquired the area earmarked for residential development as freehold property and the area earmarked for other development by title of temporary emphyteusis for a period of 99 years.

The Group acquired the property from the Government of Malta on 27 April 2007. The contract of sale included a specific condition obliging the purchaser to acquire the shares of Tigne Developments Company Limited at a specified price. The cost of acquisition of the shares was higher than the net asset's fair value at the date of acquisition; thereby giving rise to an impairment loss on the asset amounting to €10,508,104. The Directors are of the opinion that the substance of this transaction is that the loss arising on the impairment of the asset is not an investment loss but part of the acquisition cost of the land and included the said amount accordingly in the financial statements for the year ended 31 December 2007.

During the prior year the Directors resolved to reduce the book value of the property held for development and resale to the net realisable value as estimated by the Directors, resulting in a write-down of €7,353,381 (refer to Note 29).

Costs incurred on the project up to 31 December 2011 and 2010 comprised:

	Group and Company	
	As at 31 December 2011 €	As at 31 December 2010 € (restated)
<i>Cost of land, demolition, excavation, design works, construction, restoration and finishes</i>		
At 1 January	111,634,310	95,210,677
Additions during the year	13,989,353	16,008,641
Amount transferred from wages (Note 19)	362,622	414,992
Transfers to cost of sales	(13,910,133)	-
At 31 December	<b>112,076,152</b>	111,634,310
<i>Borrowing costs attributable to the project</i>		
At 1 January	22,896,367	16,816,676
Loan interests and direct charges	5,655,216	5,498,194
Amortisation of secured bonds issue cost	136,692	410,074
Imputed interest on shareholders' loans	183,422	171,423
Transfers to cost of sales	(3,174,780)	-
At 31 December	<b>25,696,917</b>	22,896,367
<i>Inventory write-down</i>		
At 1 January	(7,353,381)	-
Inventory write-down	-	(7,353,381)
Transfer to cost of sales	709,883	-
At 31 December	<b>(6,643,498)</b>	(7,353,381)
<b>Total inventories - Development project</b>	<b>131,129,571</b>	127,177,296

**9. Inventories - Development project - continued**

Borrowing costs arising from bank and other borrowings capitalised within inventories are reflected within the table above. A capitalisation rate of 6.8% (2010: 7.4%) was utilised in this respect.

Subsequent to the reporting period, the main sub-contractor registered a special privilege on the above development project property for an amount of €8,136,091, representing the balance due to this sub-contractor upon completion of works on 11 June 2012. This special privilege is subordinated to the bank loans and to the Company's bonds.

**10. Trade and other receivables**

	Group		Company	
	2011	2010	2011	2010
	€	€	€	€
Trade receivables	10,333	9,835	-	-
Amounts owed by fellow subsidiaries	-	-	2,012	617
Amounts owed by other related parties	22,004	3,761	-	-
Other taxation	-	18	-	-
Prepayments and accrued income	1,019,252	790,443	969,717	790,443
	<b>1,051,589</b>	<b>804,057</b>	<b>971,729</b>	<b>791,060</b>

Prepayments principally comprise commissions paid to real estate agents.

**11. Cash and cash equivalents**

For the purpose of the statements of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2011	2010	2011	2010
	€	€	€	€
Cash at bank and in hand	469,004	732,521	465,427	730,889

**12. Share capital**

	Group and Company	
	2011	2010
	€	€
<b>Authorised</b>		
5,600,000 (2010: 5,000,000) "A" ordinary shares of €2.5 each	14,000,000	12,500,000
5,600,000 (2010: 5,000,000) "B" ordinary shares of €2.5 each	14,000,000	12,500,000
	<b>28,000,000</b>	<b>25,000,000</b>

12. Share capital - continued

	Group and Company	
	2011	2010
	€	€
<b>Issued and fully paid up</b>		
1,800,000 (2010: 3,200,000) "A" ordinary shares of €2.5 each	4,500,000	8,000,000
5,400,000 (2010: 3,200,000) "B" ordinary shares of €2.5 each	13,500,000	8,000,000
	<b>18,000,000</b>	<b>16,000,000</b>

All shares enjoy equal rights irrespective of their class.

The following amendments to the Company's authorised and issued share capital took place in terms of resolutions dated 26 December 2011:

Authorised share capital

	Shares (quantity)		Share capital	
	"A" ordinary of €2.50 each	"B" ordinary of €2.50 each	"A" ordinary of €2.50 each €	"B" ordinary of €2.50 each €
At 1 January 2011	5,000,000	5,000,000	12,500,000	12,500,000
Increase in share capital	600,000	600,000	1,500,000	1,500,000
At 31 December 2011	<b>5,600,000</b>	<b>5,600,000</b>	<b>14,000,000</b>	<b>14,000,000</b>

Issued share capital

	Shares (quantity)		Share capital	
	"A" ordinary of €2.50 each	"B" ordinary of €2.50 each	"A" ordinary of €2.50 each €	"B" ordinary of €2.50 each €
At 1 January 2011	3,200,000	3,200,000	8,000,000	8,000,000
Reduction of share capital (Note (i))	(1,400,000)	(1,400,000)	(3,500,000)	(3,500,000)
Issue of share capital	-	3,600,000	-	9,000,000
At 31 December 2011	<b>1,800,000</b>	<b>5,400,000</b>	<b>4,500,000</b>	<b>13,500,000</b>

*(i) Reduction of share capital*

The reduction in issued share capital was effected in order to offset losses in terms of Article 83(5) of the Companies Act, 1995.

**13. Capital contribution reserve**

	Group and Company	
	2011 €000	2010 €000
At beginning of year		
- as previously reported	-	-
- effect of correction of prior year errors	551,105	551,105
- as restated	551,105	551,105
Additions during the year	515,053	-
At end of year	<u>1,066,158</u>	<u>551,105</u>

Capital contribution reserves consist of contributions, in the form of long term, interest-free loans from the shareholders to the Company. The amount of the contribution represents the difference, upon recognition of the borrowings by the Company, between the fair value of the loans and the loans' nominal amount.

These contributions from the shareholders are in excess of initial share capital, they do not themselves bear interest, and the shareholders do not have a right to oblige the Company to return these contributions.

During the year, the shareholders significantly modified the repayment terms of the existing borrowings (Note 14) by granting the Company an extension for repayment from 2012 to 2014. The loans continue to be free of interest. Accordingly, the difference between the fair value of the borrowings and their carrying amount at the date of the modification has been recognised as an increase to the capital contribution reserve.

The capital contribution reserve is non-distributable.

**14. Borrowings**

	Group and Company		
	As at 31 December 2011 €	As at 31 December 2010 € (restated)	As at 1 January 2010 € (restated)
<b>Non-current</b>			
7% bonds 2011 – 2013	34,263,918	36,434,978	36,024,904
Shareholders' loans	6,578,305	8,615,462	4,448,894
Bank loans and overdrafts	-	10,299,907	37,790,157
Total non-current borrowings	<u>40,842,223</u>	<u>55,350,347</u>	<u>78,263,955</u>
<b>Current</b>			
Shareholders' loans	242,795	-	-
Bank loans and overdrafts	37,034,119	30,899,719	4,285,715
Total current borrowings	<u>37,276,914</u>	<u>30,899,719</u>	<u>4,285,715</u>
<b>Total borrowings</b>	<u>78,119,137</u>	<u>86,250,066</u>	<u>82,549,670</u>

**14. Borrowings - continued**

By virtue of an offering memorandum dated 21 March 2007, the Company issued secured bonds amounting to €35 million. The secured bonds are redeemable at par (€100) and are due for redemption on 30 April 2013 but are redeemable in whole or in part, at the option of the Company on 30 April 2011 or 30 April 2012. The secured bonds are guaranteed by a general and special hypothec over Zone A of the property of the Company.

During the year ended 31 December 2011 the Company repurchased, and cancelled, 2,227,409 bonds from the market. The bonds outstanding at the end of the reporting period are measured at the amount of the net proceeds adjusted for the amortisation of the difference between the net proceeds and the redemption value of such bonds, using the effective interest method as follows:

	<b>Group and Company</b>		
	<b>As at 31</b>	<b>As at 31</b>	<b>As at 1</b>
	<b>December</b>	<b>December</b>	<b>January</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	€	€	€
Face value of the secured bonds	<b>32,713,677</b>	34,941,086	34,941,086
Issue costs	<b>1,640,295</b>	1,640,295	1,640,295
Accumulated amortisation	<b>(1,640,295)</b>	(1,503,603)	(1,093,529)
Closing net book amount	<b>-</b>	136,692	546,766
Amortised cost (excluding accrued interest) at 31 December	<b>32,713,677</b>	34,804,394	34,394,320

The bonds are subject to a fixed interest rate of 7% (2010: 7%). The quoted market price as at 31 December 2011 for the secured bonds was €100 (2010: €98).

As at 31 December 2011, the shareholders' loans are unsecured, bear interest at 7%, and are repayable in 2014. Shareholder loans amounting to €3 million (2010: €3 million) do not bear interest. In accordance with the requirements of IAS 39, the interest-free part of the loans were originally recognised at inception at their fair value, and the difference between the fair value and the nominal value at initial recognition was presented as a capital contribution within equity (refer to Note 13).

The bank borrowings are secured by special and general hypothec on the Company's property and by guarantees and hypothecs of related parties. As at the reporting date, the Company was in negotiations with the lenders to amend the existing loan and overdraft facilities. Successful negotiations were concluded in April 2012 and the Company has extended its loan facility originally amounting to €34,000,000 (2010: €34,000,000) and an overdraft facility of €7,200,000 (2010: €7,200,000) to March 2013.

**14. Borrowings - continued**

The interest rate exposure of borrowings was as follows:

	<b>Group and Company</b>	
	<b>As at 31 December 2011</b>	<b>As at 31 December 2010</b>
	€	€
Total borrowings (excluding accrued interest):		
At floating rates	<b>36,987,154</b>	41,199,626
At fixed rates	<b>36,756,472</b>	40,561,085
	<b>73,743,626</b>	<b>81,760,711</b>

Borrowing costs on the above borrowings are recognised in accordance with the accounting policy in Note 1.18.

	<b>Group and Company</b>		
	<b>As at 31 December 2011</b>	<b>As at 31 December 2010</b>	<b>As at 1 January 2010</b>
	€	€	€
<b>Maturity of non-current borrowings</b>			
Due between 1 and 2 years	-	10,299,907	37,790,157
Due between 2 and 5 years	<b>40,842,223</b>	45,050,440	40,473,798
Total non-current borrowings	<b>40,842,223</b>	<b>55,350,347</b>	<b>78,263,955</b>

Effective interest rates at balance sheet date:

	<b>Group and Company</b>	
	<b>As at 31 December 2011</b>	<b>As at 31 December 2010</b>
7% bonds 2011 – 2013	7.00%	7.00%
Shareholders' loans	7.00%	7.00%
Bank overdrafts	6.05%	6.50%
Bank loan	5.61%	6.60%

**15. Provisions for other liabilities and charges**

	<b>Group and Company</b>	
	<b>2011</b>	<b>2010</b>
	<b>€</b>	<b>€</b>
		(restated)
Balance at 1 January	<b>1,400,000</b>	2,330,000
Changes in the estimated outflow of resources required to settle the obligation (Note 5)	-	(930,000)
<b>Balance at 31 December</b>	<b>1,400,000</b>	<b>1,400,000</b>

The contract of purchase of land in the Fort Cambridge area includes a condition that obliges the Company to restore Fort Cambridge within ten years from date of acquisition. The cost to fulfil this contractual obligation was originally estimated by the Company's architect at €2,330,000. The estimated outflow of resources required to settle the obligation, which was revised downwards in the year ended 31 December 2010 (refer to Note 29), has been recognised as an adjustment to the carrying amount of property, plant and equipment (Note 5). The Directors estimate that the provision as at 31 December 2011 does not vary materially from the last estimation.

**16. Trade and other payables**

	<b>Group</b>		
	<b>As at 31 December 2011</b>	<b>As at 31 December 2010</b>	<b>As at 1 January 2010</b>
	<b>€</b>	<b>€</b>	<b>€</b>
		(restated)	(restated)
<b>Non-current</b>			
Other payables	-	-	11,016,044
<b>Current</b>			
Trade payables	<b>873,744</b>	888,382	687,455
Amounts due to related parties	<b>19,970,273</b>	15,302,990	7,560,127
Payments received on account	<b>27,599,080</b>	23,550,642	2,827,147
Social security and other taxes	<b>9,040</b>	12,932	15,158
Accruals	<b>801,900</b>	777,298	410,402
	<b>49,254,037</b>	40,532,244	11,500,289
<b>Total trade and other payables</b>	<b>49,254,037</b>	40,532,244	22,516,333



**16. Trade and other payables - continued**

	<b>As at 31 December 2011 €</b>	<b>Company As at 31 December 2010 € (restated)</b>	<b>As at 1 January 2010 € (restated)</b>
<b>Non-current</b>			
Other payables	-	-	11,016,044
<b>Current</b>			
Trade payables	786,650	846,707	657,759
Amounts due to subsidiaries	3,169,117	3,159,552	3,144,500
Amounts due to related parties	19,970,273	15,302,990	7,560,127
Payments received on account	27,599,080	23,550,642	2,827,147
Social security and other taxes	9,040	12,932	15,158
Accruals	761,681	765,681	404,002
	<b>52,295,841</b>	<b>43,638,504</b>	<b>14,608,693</b>
<b>Total trade and other payables</b>	<b>52,295,841</b>	<b>43,638,504</b>	<b>25,624,737</b>

Amounts due to related parties, which principally comprise amounts due to GAP Contracting Limited for construction works, and in the case of the Company, amounts due to subsidiaries, are unsecured, interest free and have no fixed date for repayment.

Payments received on account represent amounts paid by various purchasers on promise of sale agreements in respect of residential apartments.

**17. Revenue**

	<b>Group</b>		<b>Company</b>	
	<b>2011 €</b>	<b>2010 €</b>	<b>2011 €</b>	<b>2010 €</b>
Sale of property	13,082,581	-	13,082,581	-
Forfeited deposits	256,930	154,885	256,930	154,885
Other	2,764	232,937	-	232,937
<b>Total revenue</b>	<b>13,342,275</b>	<b>387,822</b>	<b>13,339,511</b>	<b>387,822</b>

Other revenue during the year ended 31 December 2010 includes a non-recurring sale of the Midi tunnel amounting to €232,937.

**18. Expenses by nature**

	Group		Company	
	2011 €	2010 €	2011 €	2010 €
Cost of building works	16,375,030	282,150	16,375,030	282,150
Inventory write-down (Note 9)	-	7,353,381	-	7,353,381
Sales commissions	588,252	-	588,252	-
Depreciation (Note 5)	98,498	100,251	79,117	80,639
Directors' emoluments	138,869	164,696	138,869	164,696
Other expenses	153,686	179,895	155,274	168,533
<b>Total cost of sales and administrative expenses</b>	<b>17,354,335</b>	<b>8,080,373</b>	<b>17,336,542</b>	<b>8,049,399</b>

As disclosed in Note 9, an inventory write-down of €7,353,381 was recognised as an unrealised expense during the year ended 31 December 2010. Out of this amount, €709,883 became realised during the year ended 31 December 2011.

Directors' emoluments are presented within employee benefit expense in Note 19.

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2011 and 2010 included above within 'Other expenses' relate to the following:

	Group	
	2011 €	2010 €
Annual statutory audit	22,420	11,502

**19. Employee benefit expense**

	Group and Company	
	2011 €	2010 €
Wages and salaries	481,546	556,905
Social security costs	19,945	22,783
Capitalised cost (Note 9)	(362,622)	(414,992)
	<b>138,869</b>	<b>164,696</b>
 Average number of employees	 <b>16</b>	 <b>17</b>

**20. Other operating income/(expenses) - net**

	<b>Group and Company</b>	
	<b>2011</b>	<b>2010</b>
	€	€
Profit/(loss) on disposal of assets	<b>14,490</b>	(559)

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**21. Finance income**

	<b>Group and Company</b>	
	<b>2011</b>	<b>2010</b>
	€	€
Bank interest income	<b>14,837</b>	11,031

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**22. Other income**

	<b>Group and Company</b>	
	<b>2011</b>	<b>2010</b>
	€	€
Gain from repurchase of bonds (Note 14)	<b>12,888</b>	-

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**23. Tax expense**

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	€	€	€	€
Current tax expense	<b>2,760</b>	1,655	<b>2,228</b>	1,655
Deferred tax expense (Note 7)	<b>8,310</b>	(10,049)	-	-
<b>Tax expense/(income)</b>	<b>11,070</b>	<b>(8,394)</b>	<b>2,228</b>	<b>1,655</b>

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**23. Tax expense - continued**

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

	Group		Company	
	2011	2010	2011	2010
	€	€	€	€
Loss before tax	(3,969,845)	(7,682,078)	(3,954,816)	(7,651,105)
Tax on profit at 35%	(1,389,446)	(2,688,727)	(1,384,186)	(2,677,886)
Tax effect of:				
Income subject to 15% final withholding tax	(2,967)	(2,206)	(2,967)	(2,206)
Expenses not deductible for tax purposes	22,308	22,533	22,308	22,533
Movement in unrecognised deferred tax asset	1,383,623	2,658,808	1,368,948	2,658,808
Other	(2,448)	1,198	(1,875)	406
<b>Tax charge</b>	<b>11,070</b>	<b>(8,394)</b>	<b>2,228</b>	<b>1,655</b>

**24. Directors' emoluments**

	Group and Company	
	2011	2010
	€	€
Salaries and other emoluments	217,817	263,562
Social security costs	3,681	2,423
	<b>221,498</b>	<b>265,985</b>

Directors' emoluments amounting to €82,629 (2010: €102,289) have been capitalised within inventory costs. All other amounts have been recognised as an expense and are presented within administrative expenses,

## 25. Cash generated from operations

Reconciliation of operating loss to cash generated from operations:

	Group		Company	
	2011	2010	2011	2010
	€	€	€	€
Operating loss	(3,997,570)	(7,693,110)	(3,982,541)	(7,662,136)
Adjustments for:				
Depreciation on property, plant and equipment (Note 5)	98,498	100,250	79,117	80,638
Loss on disposal of assets (Note 20)	(14,490)	559	(14,490)	559
Inventory write-down (Note 9)	-	7,353,381	-	7,353,381
Changes in working capital:				
Inventories	1,450,465	(17,284,589)	1,450,465	(17,284,589)
Trade and other receivables	(247,532)	(390,800)	(180,669)	(394,688)
Trade and other payables	8,721,793	18,015,911	8,657,337	18,013,767
Cash generated from operations	<b>6,011,164</b>	<b>101,602</b>	<b>6,009,219</b>	<b>106,932</b>

### *Significant non-cash transactions*

Significant non-cash transactions during the year ended 31 December 2011 comprised the reduction in issued share capital as disclosed in Note 12; the issue of €9,000,000 "B" ordinary shares, which was effected through the capitalisation of shareholders' loans; and the extension by the shareholders of the interest free loan repayment term. The latter transaction resulted in an increase of €515,053 in capital contribution reserves, as disclosed in Note 13.

During the year ended 31 December 2010, significant non-cash transactions comprised the reduction of €7,353,381 in the carrying amount of inventory (refer to Notes 9 and 29).

## 26. Related party transactions

All companies owned by the same shareholders of GAP Holdings Limited and Tigne Skies Limited, being the shareholders of GAP Developments p.l.c., are considered by the Directors to be related parties.

Transactions with related parties mainly comprise the provision of funding by the shareholders, interest expenses charged thereon (details of these transactions are disclosed in Notes 13 and 14), and property development services which are provided by GAP Contracting Limited. All major contracts of work on the Fort Cambridge development project are carried out by GAP Contracting Limited. GAP Holdings Limited owns 50% of GAP Contracting Limited and Tigne' Skies Limited owns the other 50%. GAP Contracting Limited invoices GAP Developments p.l.c. for works carried out at cost.

During the course of the year the Group and the Company entered into the following transactions with related parties:

**26. Related party transactions - continued**

	Group and Company	
	2011	2010
	€	€
<b>Charges</b>		
Development costs chargeable by GAP Contracting Limited	11,602,368	12,888,284
Interest chargeable on shareholders' loans (excluding notional interest charges on the interest-free portion of shareholders' loans)	334,550	357,700
	<b>334,550</b>	<b>357,700</b>

Proceeds from shareholders' loans amounted to €7,242,796 during the year ended 31 December 2011 (2010: €3,660,077). In addition, and as disclosed in Notes 1.1 and 30, subsequent to 31 December 2011 the shareholders committed with the banks to provide additional funding of €12,000,000 by March 2013, of which additional loans of €5,850,000 were granted by the shareholders after the reporting period.

Year-end balances with related parties, arising principally from the transactions referred to previously, are disclosed in Notes 10, 14 and 16 to these financial statements. These notes include information about the terms of these balances.

Key management personnel compensation, consisting of director's remuneration, is disclosed in Note 24.

**27. Commitments**

In addition to settling the liabilities associated with the purchase price of the land, the emphyteutical grant entered into with the Government provides for a series of development obligations relating to the contents of the project and the timescales over which it should be completed. As at the end of the reporting period the development was substantially completed, and outstanding commitments related to these obligations amounted to €14,250,000.

The Group and the Company are also committed to effect payments for ground rent in respect of the temporary emphyteusis on the Fort Cambridge area for a period of 99 years which commenced in April 2007. This commitment amounts to €51,243 within one year from the reporting period, €204,985 after more than one and less than five years, and €8,595,390 between five and ninety five years.

**28. Contingencies**

The Company has received a number of judicial letters from persons who had signed promise of sale agreements with the Company, claiming a refund of the payments on account that were effected to the Company, together with interest as stipulated in the promise of sale agreements. These claims were made on the basis that the apartments had not been completed by the date stipulated in the agreements.

In addition, as at 31 December 2011 the Company had entered into a number of promise of sale agreements with respect to sale of apartments in the Fort Cambridge project, as a result of which the Company has received payments on account. In the event that these sales transactions are not completed, the Company will be required to refund the related payments received on account, which are presented in these financial statements within Trade and other payables.

## 29. Prior year adjustments

The following errors have been corrected in the current year's financial statements:

### *(i) Initial and subsequent measurement of shareholders' loans*

Non-current shareholders' loans (Note 14) were granted to the Company on terms that were favourable to the Company. These amounts were previously recorded, at initial recognition, at the nominal value of the loans granted, which is in accordance with the accounting policy for financial liabilities as disclosed in the accounting policies in Notes 1.11 and 1.13.

However, the difference between the initial recognition amount of the shareholders' loans, and the nominal value of the loans, which in substance represents a capital contribution from the shareholders, was recognised in the year ended 31 December 2009 as a reduction to inventory. This difference amounted to €551,105, and therefore impacts the reported figures for both 1 January 2010 and 31 December 2010.

In accordance with the requirements of IAS 8, these financial statements reflect the required correction to the carrying amount of shareholders' loans as at 1 January 2010. As a result of the correction, the difference between the initial recognition amount of the shareholders' loans, and the nominal value of the loans, has been recognised in a capital contribution reserve as further disclosed in Note 13.

Furthermore, the amortisation during the year ended 31 December 2010 of the shareholders' loans was recognised as a reduction to the carrying amount of inventory, as opposed to an increase in the carrying amount of the shareholders' loans as required by the accounting policies referred to above. These financial statements therefore reflect an adjustment to the carrying amount of shareholders' loans.

### *(ii) Write down of inventory to net realisable value*

An exceptional write down of inventory of development property was recognised in the financial statements for the year ended 31 December 2010 in order to write down the value of inventory to its net realisable value.

The correction of the errors referred to above in respect of the initial and subsequent measurement of shareholders' loans therefore necessitated the additional write-down of inventory by an amount of €722,528.

### *(iii) Derecognition of deferred tax asset*

Deferred tax balances, arising on the Company's unabsorbed capital allowances and tax losses carried forward, were previously recognised in full as an asset in the financial statements. A reassessment of the temporary differences that gave rise to the deferred tax asset resulted in a conclusion by the Directors that it is not probable that future taxable profit will be available against which the temporary differences can be utilised. Accordingly, these deferred tax assets should have been derecognised in the prior year's financial statements.

As a result, these financial statements reflect a derecognition of the deferred tax asset that was previously recognised by the Company, which amounted to €159,694 and €244,823 respectively as at 1 January 2010 and 31 December 2010.

**29. Prior year adjustments - continued**

*(iv) Provisions*

As at 1 January and 31 December 2010, provisions in respect of a contractual obligation to restore Fort Cambridge within ten years from the date of acquisition were classified within Trade and other payables. The related provision, which amounted to €2,330,000 as at 1 January 2010, has been reclassified within these financial statements as Provisions for liabilities and other charges. Similarly, the asset that was recognised in relation to this provision has been reclassified in these financial statements as at 1 January 2010 and is presented within property, plant and equipment.

Furthermore, and based on information that was available when the financial statements for the year ended 31 December 2010 were issued, the estimated cost to settle this obligation was reassessed to be €1,400,000. Accordingly, the provision has been remeasured in these financial statements to a carrying amount of €1,400,000 as at 31 December 2010, with a corresponding adjustment, as required by IFRIC 1, to the carrying amount of property, plant and equipment.

*(v) Classification of liabilities*

As at 1 January 2010, interest accrued on the Company's bonds amounting to €1,630,584, and interest accrued on bank loans amounting to €876,246 were previously classified and presented within accruals. Similarly, as at 31 December 2010, interest accrued on the Company's bonds amounting to €1,630,584, interest accrued on its shareholders' loans amounting to €375,145, and amounts due to related parties amounting to €637,703 were also previously classified and presented within accruals. Following a reassessment of these balances, it was determined that these should respectively be classified and presented within 7% bonds 2011 – 2013, Shareholders' loans, Bank loans, and Amounts due to related parties.

Similarly, payments received on account amounting to €339,693 as at both 1 January 2010 and 31 December 2010, which were previously classified and presented within trade payables, have been reclassified within the financial statements and are presented within Payments received on account.

The impact of the above-disclosed matters was adjusted in these financial statements as shown below:

	Notes	Amounts as previously reported €	Effect of correction of prior year errors €	Amounts as restated €
<b>Group</b>				
<b>As at 1 January 2010</b>				
<b>Non-current assets</b>				
Property, plant and equipment	(iv)	6,404,181	2,330,000	8,734,181
Deferred tax assets	(iii)	157,955	(157,955)	-
<b>Current assets</b>				
Inventory	(i), (iv)	113,806,248	(1,778,895)	112,027,353
			393,150	



29. Prior year adjustments - continued

	Notes	Amounts as previously reported €	Effect of correction of prior year errors €	Amounts as restated €
<b>Capital and reserves</b>				
Accumulated losses	(iii)	(456,779)	(159,694)	(616,473)
Capital contribution reserve	(i)	-	551,105	551,105
<b>Non-current liabilities</b>				
Provisions for liabilities and other charges	(iv)	-	2,330,000	2,330,000
7% bonds 2011 – 2013	(v)	34,394,320	1,630,584	36,024,904
Banks loans	(v)	36,913,911	876,246	37,790,157
Deferred tax liabilities	(iii)	-	1,739	1,739
Other payables	(iv)	13,346,044	(2,330,000)	11,016,044
<b>Current liabilities</b>				
Trade payables	(v)	1,027,148	(339,693)	687,455
Payments received on account	(v)	2,487,454	339,693	2,827,147
Accruals	(v)	2,917,232	(2,506,830)	410,402
			393,150	
<b>As at 31 December 2010</b>				
<b>Non-current assets</b>				
Property, plant and equipment	(iv)	8,635,446	(930,000)	7,705,446
Deferred tax assets	(iii)	253,133	(244,823)	8,310
<b>Current assets</b>				
Inventory	(i), (ii)	127,177,296	-	127,177,296
			(1,174,823)	
<b>Capital and reserves</b>				
Accumulated losses	(ii), (iii)	(7,322,807)	(967,351)	(8,290,158)
Capital contribution reserve	(i)	-	551,105	551,105
<b>Non-current liabilities</b>				
Provisions for liabilities and other charges	(iv)	-	1,400,000	1,400,000
7% bonds 2011 – 2013	(v)	34,804,394	1,630,584	36,434,978
Shareholders' loans	(i), (v)	8,068,894	546,568	8,615,462
Other payables	(iv)	2,330,000	(2,330,000)	-
<b>Current liabilities</b>				
Trade payables	(v)	1,228,075	(339,693)	888,382
Amounts due to related parties	(v)	14,665,287	637,703	15,302,990
Payments received on account	(v)	23,210,949	339,693	23,550,642
Accruals	(v)	3,420,730	(2,643,432)	777,298
			(1,174,823)	

29. Prior year adjustments - continued

	Notes	Amounts as previously reported €	Effect of correction of prior year errors €	Amounts as restated €
<b>Company</b>				
<b>As at 1 January 2010</b>				
<b>Non-current assets</b>				
Property, plant and equipment	(iv)	6,282,238	2,330,000	8,612,238
Deferred tax assets	(iii)	159,694	(159,694)	-
<b>Current assets</b>				
Inventory	(i)	113,806,248	(1,778,895)	112,027,353
			391,411	
<b>Capital and reserves</b>				
Accumulated losses	(iii)	(369,207)	(159,694)	(528,901)
Capital contribution reserve	(i)	-	551,105	551,105
<b>Non-current liabilities</b>				
Provisions for liabilities and other charges	(iv)	-	2,330,000	2,330,000
7% bonds 2011 – 2013	(v)	34,394,320	1,630,584	36,024,904
Banks loans	(v)	36,913,911	876,246	37,790,157
Other payables	(iv)	13,346,044	(2,330,000)	11,016,044
<b>Current liabilities</b>				
Trade payables	(v)	997,452	(339,693)	657,759
Payments received on account	(v)	2,487,454	339,693	2,827,147
Accruals	(v)	2,910,832	(2,506,830)	404,002
			391,411	
<b>As at 31 December 2010</b>				
<b>Non-current assets</b>				
Property, plant and equipment	(iv)	8,533,115	(930,000)	7,603,115
Deferred tax assets	(iii)	244,823	(244,823)	-
<b>Current assets</b>				
Inventory	(i), (ii)	127,177,296	-	127,177,296
			(1,174,823)	

**29. Prior year adjustments - continued**

	Notes	Amounts as previously reported €	Effect of correction of prior year errors €	Amounts as restated €
<b>Capital and reserves</b>				
Accumulated losses	(ii), (iii)	(7,214,310)	(967,351)	(8,181,661)
Capital contribution reserve	(i)	-	551,105	551,105
<b>Non-current liabilities</b>				
Provisions for liabilities and other charges	(iv)	-	1,400,000	1,400,000
7% bonds 2011 – 2013	(v)	34,804,394	1,630,584	36,434,978
Shareholders' loans	(i), (v)	8,068,894	546,568	8,615,462
Other payables	(iv)	2,330,000	(2,330,000)	-
<b>Current liabilities</b>				
Trade payables	(v)	1,186,400	(339,693)	846,707
Amounts due to related parties	(v)	14,665,287	637,703	15,302,990
Payments received on account	(v)	23,210,949	339,693	23,550,642
Accruals	(v)	3,409,113	(2,643,432)	765,681
			<u>(1,174,823)</u>	

In line with the requirements of IAS 1, 'Presentation of financial statements', three statements of financial position, being as at 1 January 2010, 31 December 2010 and 31 December 2011, are being presented in view of the above adjustments to amounts presented in prior financial statements. Similarly, the notes to these financial statements that support the above balances include information as at 1 January 2010, 31 December 2010 and 31 December 2011.

Other notes have not been impacted by the restatement, and accordingly only include information as at 31 December 2010 and 31 December 2011.

**30. Events after the reporting period**

Subsequent to 31 December 2011, the Company successfully negotiated the extension of its existing bank borrowing facilities, as a result of which the amounts due to the banks fall due in staggered payments over the course of 2012 and 2013. As part of these negotiations, the shareholders committed to provide additional funding of €12,000,000 to the Company by March 2013, of which additional loans of €5,850,000 were granted by the shareholders after 31 December 2011.

In addition, the main sub-contractor registered a special privilege on the Fort Cambridge development project property for an amount of €8,136,091, representing the balance due to this sub-contractor upon completion of works on 11 June 2012. This special privilege is subordinated to the bank loans and to the Company's bonds.

**31. Comparative information**

Comparative figures disclosed in the statements of comprehensive income have been reclassified to conform with the current year's presentation format for the purpose of fairer presentation.

**32. Statutory information**

GAP Developments p.l.c. is a limited liability Company and is incorporated in Malta, with its registered address at GAP Holdings Head Office, Censu Scorn Street, Tigne', Sliema SLM 3060, Malta.

Up to the changes in shareholding that took place on 26 December 2011, GAP Developments p.l.c. was 50% owned by Tigne' Skies Limited, and 50% owned by GAP Holdings Limited and George Muscat (who is a shareholder of GAP Holdings Limited). There was no ultimate controlling party as both group of shareholders own 50% of the Company.

Subsequent to the changes in share capital that became effective on 26 December 2011, GAP Developments p.l.c. is 75% owned by Tigne' Skies Limited, and 25% owned by GAP Holdings Limited and George Muscat. As a result of this transaction, the ultimate controlling party became Tigne' Skies Limited.