CONSOLIDATED HOLDINGS LIMITED

Annual Report and
Consolidated Financial Statements
31 December 2018

Company Registration Number: C 1192

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2018.

Principal activities

The group's principal activity is the operation of a hotel and the holding of investments.

The company's principal activities, which are unchanged since last year, are that of holding investments in various subsidiary undertakings.

Review of the business

The parent company

During the current financial year the company received gross dividends amounting to €1.8 million from its subsidiaries compared to €2.8 million in 2017.

Hospitality

During 2018, as expected revenue for the year increased from €2,729,070 to €6,414,089, primarily due to the investment undertaken by the company in 2017 in the refurbishment and extension of the hotel. The company achieved a gross profit of €2,918,861 for 2018 (2017: €774,112). Administrative costs increased to €1,221,136 (2017: €782,186), as a result of an increase in depreciation following the completion of the refurbishment and extension of the hotel. Finance costs increased primarily due to an increase in utilisation of bank loans. These facilities were utilised for the end financing of the renovation and extensions works undertaken by the company. After taking into consideration financing costs the company ended the current financial year in a net profit position of €1,100,463 (2017: loss of €60,240).

Property, plant and equipment increased with the value of works certified in 2018 in line with certification of works to completion. During the year the company started repaying back both the borrowings obtained from a related party forming part of Mizzi Organisation and from the banks.

Outlook for 2019

Results for 2018 have shown that the refurbishment undertaken by the hotel was well received by its client base. In 2019 the hotel will continue building on the success attained in 2018 and will continue to diversify its clients and market portfolio and seek new opportunities that will increase the occupancy rate of the hotel without losing on the average room rate achieved in 2018.

Results and dividends

The consolidated financial results are set out on page 10. No dividends have been proposed or paid this year. The directors propose that the balance of retained earnings amounting to €20,138,399 (2017: €17,817,340) be carried forward to the next financial year.

Risks and uncertainties

In 2018, there has been no change in the Group's and company's financial risk management objectives and policies, details of which, together with further information on the Group's and the Company's risk exposures can be found in Note 2 to the financial statements.

Directors' report - continued

Directors

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

Maurice F. Mizzi
Brian R. Mizzi
Ian Mizzi
Kenneth Mizzi
Veronique Mizzi - resigned on 1 January 2018 and appointed on 1 July 2018
Angele Calleja - appointed on 1 January 2018
Christopher Mizzi - appointed on 1 July 2018

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

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) 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 Maltese Companies Act (Cap. 386). 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.

The financial statements of Consolidated Holdings Limited for the year ended 31 December 2018 are included in the Annual Report and Consolidated Financial Statements 2018, which is published in hard-copy printed form and made available on the Mizzi Organisation website (www.mizziorganisation.com). The directors of the entities constituting the Mizzi Organisation are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Organisation's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Directors' report - continued

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board

Maurice F. Mizzi
Director

Brian R. Mizzi
Director

Registered office:
Mizzi Organisation Corporate Office
Testaferrata Street
Ta' Xbiex
Malta

6 September 2019

Independent auditor's report

To the Shareholders of Consolidated Holdings Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Consolidated Holdings Limited's group financial statements and parent company financial statements (the "financial stastements") give a true and fair view of the group's and the parent company's financial position as at 31 December 2018, and of the group and parent company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

Consolidated Holdings Limited's financial statements, set out on pages 8 to 63, comprise:

- the consolidated and parent company statements of financial position as at 31 December 2018;
- the consolidated and parent company statements of income statements and comprehensive income for the year then ended;
- the consolidated and parent company statements of changes in equity for the year then ended;
- the consolidated and parent company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the group and the parent company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Independent auditor's report - *continued*

To the Shareholders of Consolidated Holdings Limited

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Independent auditor's report - *continued*

To the Shareholders of Consolidated Holdings Limited

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- 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.

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

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Fabio Axisa
Partner

6 September 2019

Statements of financial position

		As at 31 December			
		Group		Company	
	Notes	**2018**	2017	**2018**	2017
		€	€	**€**	€
ASSETS					
Non-current assets					
Property, plant and equipment	5	**20,867,990**	20,666,567	**-**	-
Investments in subsidiaries	6	**-**	-	**7,048,031**	7,048,031
Investments in associate	7	**19,856,201**	20,799,346	**4,256,568**	4,256,568
Financial assets at FVOCI (2017: Available-for-sale financial assets)	8	**12,057**	12,057	**12,057**	12,057
Loans and advances	9	**713,352**	713,352	**713,352**	713,352
Total non-current assets		**41,449,600**	42,191,322	**12,030,008**	12,030,008
Current assets					
Inventories	10	**68,462**	91,378	**-**	-
Trade and other receivables	11	**7,070,220**	7,140,410	**4,755,798**	4,529,151
Current tax assets		**8,201**	3,736	**8,201**	3,736
Cash and cash equivalents	12	**879,034**	693,368	**148,459**	347
Total current assets		**8,025,917**	7,928,892	**4,912,458**	4,533,234
Total assets		**49,475,517**	50,120,214	**16,942,466**	16,563,242

Statements of financial position - continued

		As at 31 December			
		Group		Company	
	Notes	**2018**	2017	**2018**	2017
		€	€	**€**	€
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	13	**746,797**	746,797	**746,797**	746,797
Revaluation reserves	14	**14,097,866**	14,251,366	**-**	-
Other reserves	15	**1,148,286**	1,334,362	**113,592**	113,592
Retained earnings		**20,138,399**	17,817,340	**14,713,653**	13,016,186
Total equity		**36,131,348**	34,149,865	**15,574,042**	13,876,575
Non-current liabilities					
Borrowings	16	**6,274,047**	7,093,451	**-**	-
Deferred tax liabilities	17	**1,929,460**	1,510,959	**-**	-
Total non-current liabilities		**8,203,507**	8,604,410	**-**	-
Current liabilities					
Trade and other payables	18	**3,031,130**	3,338,789	**354,594**	354,314
Borrowings	16	**2,109,532**	4,027,150	**1,013,830**	2,332,353
Total current liabilities		**5,140,662**	7,365,939	**1,368,424**	2,686,667
Total liabilities		**13,344,169**	15,970,349	**1,368,424**	2,686,667
Total equity and liabilities		**49,475,517**	50,120,214	**16,942,466**	16,563,242

The notes on pages 16 to 63 are an integral part of these consolidated financial statements.

The financial statements on pages 8 to 63 were authorised for issue by the Board on 6 September 2019 and were signed on its behalf by:

Maurice F. Mizzi
Director

Brian R. Mizzi
Director

Income statements

		Year ended 31 December			
		Group		Company	
	Notes	**2018**	2017	**2018**	2017
		€	€	**€**	€
Revenue	19	**6,414,089**	2,729,070	**-**	-
Cost of sales	20	**(3,495,228)**	(1,954,958)	**-**	-
Gross profit		**2,918,861**	774,112	**-**	-
Administrative expenses	20	**(1,228,918)**	(789,912)	**(7,782)**	(7,726)
Other operating income		**19,735**	93,959	**-**	-
Operating profit/(loss)		**1,709,678**	78,159	**(7,782)**	(7,726)
Investment and other related income	22	**1,387**	1,387	**1,786,356**	2,809,750
Finance costs	23	**(297,310)**	(244,741)	**(74,429)**	(59,611)
Share of profit of associates	7	**1,329,705**	1,020,180	**-**	-
Profit before tax		**2,743,460**	854,985	**1,704,145**	2,742,413
Tax (expense)/income	24	**(400,794)**	38,904	**(6,678)**	(381,332)
Profit for the year		**2,342,666**	893,889	**1,697,467**	2,361,081

The notes on pages 16 to 63 are an integral part of these consolidated financial statements.

Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
	Notes	**2018**	2017	**2018**	2017
		€	€	**€**	€
Profit for the year		**2,342,666**	893,889	**1,697,467**	2,361,081
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Movement in deferred tax liability on revalued land and buildings of subsidiary determined on the basis applicable to property disposals	14	**(24,385)**	(280,132)	-	-
Share of other comprehensive income of associate:					
Redemption of capitalised ground rents	15	**(232,836)**	(4,492)	-	-
Other comprehensive income for the year, net of tax		**(257,221)**	(284,624)	-	-
Total comprehensive income for the year		**2,085,445**	609,265	**1,697,467**	2,361,081

The notes on pages 16 to 63 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group

	Notes	Share capital €	Revaluation reserves €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2017		746,797	14,660,608	1,338,854	16,794,341	33,540,600
Comprehensive income						
Profit for the year		-	-	-	893,889	893,889
Other comprehensive income:						
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	14	-	(280,132)	-	-	(280,132)
Depreciation transfer, net of deferred tax	14	-	(12,800)	-	12,800	-
Share of other comprehensive income of associate:						
Share of transfer upon realisation through asset use in respect of revalued land and buildings of an associate	14	-	(116,310)	-	116,310	-
Redemption of ground rents capitalised in associate	15	-	-	(4,492)	-	(4,492)
Total other comprehensive income		-	(409,242)	(4,492)	129,110	(284,624)
Total comprehensive income		-	(409,242)	(4,492)	1,022,999	609,265
Balance at 31 December 2017		**746,797**	**14,251,366**	**1,334,362**	**17,817,340**	**34,149,865**

Statements of changes in equity - continued

Group - continued

	Notes	Share capital €	Revaluation reserves €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2018 - as previously reported		746,797	14,251,366	1,334,362	17,817,340	34,149,865
Impact of changes in accounting policy						
Transition adjustment upon adoption of IFRS 9 on 1 January 2018	2	-	-	-	(103,962)	(103,962)
Balance at 1 January 2018 - as restated		746,797	14,251,366	1,334,362	17,713,378	34,045,903
Comprehensive income						
Profit for the year		-	-	-	2,342,666	2,342,666
Other comprehensive income:						
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	14	-	(24,385)	-	-	(24,385)
Depreciation transfer, net of deferred tax	14	-	(12,800)	-	12,800	-
Share of other comprehensive income of associate:						
Share of transfer upon realisation through asset use in respect of revalued land and buildings of an associate	14	-	(116,315)	-	116,315	-
Redemption of ground rents capitalised in associate	15	-	-	(186,076)	(46,760)	(232,836)
Total other comprehensive income		-	(153,500)	(186,076)	82,355	(257,221)
Total comprehensive income		-	(153,500)	(186,076)	2,425,021	2,085,445
Balance at 31 December 2018		**746,797**	**14,097,866**	**1,148,286**	**20,138,399**	**36,131,348**

Statements of changes in equity - continued

Company

	Share capital €	Other reserve €	Retained earnings €	Total €
Balance at 1 January 2017	746,797	113,592	10,655,105	11,515,494
Comprehensive income				
Profit for the year				
- total comprehensive income	-	-	2,361,081	2,361,081
Balance at 31 December 2017	746,797	113,592	13,016,186	13,876,575
Comprehensive income				
Profit for the year				
- total comprehensive income	-	-	1,697,467	1,697,467
Balance at 31 December 2018	**746,797**	**113,592**	**14,713,653**	**15,574,042**

The notes on pages 16 to 63 are an integral part of these consolidated financial statements.

Statements of cash flows

		Year ended 31 December			
		Group		Company	
	Notes	**2018**	2017	**2018**	2017
		€	€	**€**	€
Cash flows from operating activities					
Cash generated from/(used in) operations	26	**2,917,779**	(320,381)	**(234,149)**	(643,026)
Dividends received		**1,387**	1,387	**-**	35,933
Interest paid		**(311,338)**	(285,741)	**(74,429)**	(59,611)
Tax paid		**(11,143)**	(642)	**(11,143)**	(381,974)
Net cash generated from/(used in) operating activities		**2,596,685**	(605,377)	**(319,721)**	(1,048,678)
Cash flows from investing activities					
Purchase of property, plant and equipment	5	**(1,714,011)**	(5,691,773)	**-**	-
Cash flows from financing activities					
Proceeds from bank borrowings	16	**618,015**	5,981,985	**-**	-
Proceeds from borrowings from associate	16	**721,491**	1,032,353	**467,833**	1,032,353
Proceeds from borrowings from related parties forming part of Mizzi Organisation	16	**-**	1,000,000	**-**	-
Repayments of borrowings from related parties forming part of Mizzi Organisation	16	**(629,637)**	(1,718,971)	**-**	-
Repayment of bank borrowings		**(306,798)**	-		
Net cash generated from financing activities		**403,071**	6,295,367	**467,833**	1,032,353
Net movements in cash and cash equivalents		**1,285,745**	(1,783)	**148,112**	(16,325)
Cash and cash equivalents at beginning of year		**(406,711)**	(404,928)	**347**	16,672
Cash and cash equivalents at end of year	12	**879,034**	(406,711)	**148,459**	347

The notes on pages 16 to 63 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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 Consolidated Holdings Limited and its subsidiary. These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386). They have been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category of property, plant and equipment, and financial assets measured at fair value through other comprehensive income.

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

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU resulted in changes to the group's accounting policies impacting the group's financial performance and position. The group had to change its accounting policies as a result of adopting IFRS 9 *'Financial instruments'* and IFRS 15 *'Revenue from Contracts with Customers'*. The new accounting policies are disclosed in Notes 1.6 and 1.16 below. The impact on the group of the adoption of IFRS 9 is disclosed in Note 2. On transition to IFRS 15 the group did not require retrospective adjustments. The other standards did not have any impact on the group's and company's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the company's accounting periods beginning after 1 January 2018. The company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's Directors are of the opinion that there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application, except IFRS 16 *'Leases'*.

IFRS 16, 'Leases'

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain leases whose term is of not more than one year, as well as leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and although earlier application is permitted, the group did not adopt the standard earlier than its mandatory effective date. As at the reporting date, the group has non-cancellable operating lease commitments as disclosed in Note 27 to the financial statements. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's results and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. At this stage, the group is still in the process of assessing and evaluating the impact of IFRS 16 on the group's operating leases where the group is the lessee.

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

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 uses 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 and the equity interests issued by the group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed 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 acquiree's net assets.

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 identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the 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 unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

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. 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) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

The group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

1.2 Consolidation - continued

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

In the company's separate financial statements, investments in associates are accounted for by the cost method of accounting, i.e. at cost less impairment. 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 associates 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.

1.3 Foreign currencies

(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 currency 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. 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 profit or loss.

1.4 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings are subsequently shown at fair value, based on periodic valuations by professional valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment 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. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

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 and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

1.4 Property, plant and equipment - continued

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost, net of any related deferred income taxes, is transferred from the revaluation reserve to retained earnings.

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

	%
Buildings	2
Furniture, fittings and equipment	10 - 33⅓
Operational equipment	15 - 33⅓
Motor vehicles	25

Freehold land is not depreciated as it is deemed to have an indefinite life.

No depreciation is charged on linen, crockery, cutlery, glassware, uniforms and hotel loose tools. Normal replacements are charged to profit or loss.

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

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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. 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). Property, plant and equipment that suffered an impairment is reviewed for possible reversal of the impairment at the end of each reporting period.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in profit or loss. When revalued assets are disposed of, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

1.5 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of associates is included in 'Investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

1.5 **Intangible assets** - continued

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use.

1.6 Financial assets

Classification
From 1 January 2018, the company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investments in equity instruments that are not held for trading, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The company reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition
The company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised on settlement date, the date on which an asset is delivered to or by the company. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership or has not retained control of the asset.

Measurement
At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

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

1.6 Financial assets - continued

(a) Debt instruments

Subsequent measurement of debt instruments depends on the company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the company may classify its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment losses are presented in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

(b) Equity instruments

The company subsequently measures all equity investments at fair value. Where the Organisation's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables (see Note 2 for further details).

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

1.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out method. The cost of inventories comprises the invoiced value of goods and, in general, includes transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.8 Trade and other receivables

Trade receivables comprise amounts due from customers for 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 receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit loss allowances.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Organisation holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

1.9 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. The bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

1.10 Share capital

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

1.11 Financial liabilities

The group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The group's financial liabilities are classified as financial liabilities measured at amortised cost, i.e. not at fair value through profit or loss under IFRS 9 (2017: 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 derecognises 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

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

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

1.13 Borrowings

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 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 in full, 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.

The principal temporary differences arise from the fair valuation of land and buildings category of property, plant and equipment, depreciation on property, plant and equipment and provisions for impairment of trade and other receivables. Deferred tax on the fair valuation of property, plant and equipment is charged or credited directly to the revaluation reserve. Deferred tax on the difference between the actual depreciation on the asset and the equivalent depreciation based on the historical cost of the asset is realised through profit or loss.

Deferred tax assets are recognised 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. Summary of significant accounting policies - continued

1.16 Revenue recognition

Revenues include all revenues from the ordinary business activities of the company. Ordinary activities do not only refer to the core business but also to other recurring sales of goods or rendering of services. Revenues are recorded net of value added tax.

(a) Sale of goods and services

Revenues are recognised in accordance with the provision of goods or services, provided that collectability of the consideration is probable.

IFRS 15 requires that at contract inception the goods or services promised in a contract with a customer are assessed and each promise to transfer to the customer the good or service is identified as a performance obligation. Promises in a contract can be explicit or implicit if the promises creates a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

A contract asset must be recognised if an entity forming part of the company recorded revenue for fulfillment of a contractual performance obligation before the customer paid consideration or before – irrespective of when payment is due – the requirements for billing and thus the recognition of a receivable exist.

A contract liability must be recognised when the customer paid consideration or a receivable from the customer is due before the company fulfilled a contractual performance obligation and thus recognised revenue.

Multiple-element arrangements involving the delivery or provision of multiple products or services must be separated into distinct performance obligations, each with its own separate revenue contribution that is recognised as revenue on fulfillment of the obligation to the customer. The total transaction price of a bundled contract is allocated among the individual performance obligations based on their relative – possibly estimated – standalone selling prices, i.e., based on a ratio of the standalone selling price of each separate element to the aggregated standalone selling prices of the contractual performance obligations.

Sales from goods and services

The services offered by the group primarily relate to services within the hospitality activity. Revenue from such services is recognised when the service is performed and/or when the goods (primarily food and beverage relating to restaurant and bar sales) are supplied upon performance of the service. Revenue is usually in cash, credit card or on credit.

Contracts – where revenue is recognised over time

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are recognised when incurred.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

1.16 Revenue recognition - continued

The company uses the 'percentage of completion method' to determine the appropriate amount of revenue and costs to recognise in a given period. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed up to the end of the reporting period in relation to the estimated total costs for the contract. Costs incurred during the year that relate to future activity on a contract are excluded from contract costs in determining the stage of completion and are shown as contract work in progress within inventories.

The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the end of the reporting period. The company presents as a contract asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings, within trade and other receivables. The company presents as a contract liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses), within trade and other payables.

IFRS 15 provides more detailed guidance on how to account for contract modifications. Changes must be accounted for either as a retrospective change (creating either a catch up or deferral of previously recorded revenues), prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts which will not require any reallocation.

Financing

The company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the company does not adjust any of the transaction prices for the time value of money.

(b) Interest income

Interest income is recognised in profit or loss for all interest-bearing instruments as it accrues using the effective interest method.

(c) Dividend income is recognised when the right to receive payment is established.

(d) Other operating income is recognised on an accrual basis unless collectibility is in doubt.

1.17 Customer contract assets and liabilities

The timing of revenue recognition may differ from customer invoicing. Trade receivables presented in the statement of financial position represent an unconditional right to receive consideration (primarily cash), i.e. the services and goods promised to the customer have been transferred.

By contrast, contract assets mainly refer to amounts allocated per IFRS 15 as compensation for goods or services provided to customers for which the right to collect payment is subject to providing other services or goods under that same contract. Contract assets, like trade receivables, are subject to impairment for credit risk. The recoverability of contract assets is also verified, especially to cover the risk of impairment should the contract be interrupted.

1. Summary of significant accounting policies - continued

1.17 Customer contract assets and liabilities - continued

Contract liabilities represent amounts paid by customers before receiving the goods and/or services promised in the contract. This is typically the case for advances received from customers or amounts invoiced and paid for goods or services not transferred yet (previously recognised in deferred income).

1.18 Operating leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or a series of payment, the right to use an asset for an agreed period of time.

(a) A group undertaking 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 are capitalised as part of its cost. 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 complete 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.

1.20 Dividend distribution

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

1.21 Accounting policies applicable until 31 December 2017

1.21.1 Financial assets

Classification
The group classifies its financial assets (other than investments in associates and, only in the company's case, investments in subsidiaries) in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. 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 loans and receivables comprise loans and advances, amounts receivable from trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.21.2, 1.21.3 and 1.9).

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

1.21 Accounting policies applicable until 31 December 2017 - continued

1.21.1 Financial assets - continued

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale assets. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months from the end of the reporting period.

Recognition and measurement
The group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the group. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. 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 assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

Changes in the fair value of monetary assets denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the asset and other changes in the carrying amount of the asset. The translation differences on monetary assets are recognised in profit or loss; translation differences on non-monetary assets are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary assets classified as available-for-sale are recognised in other comprehensive income in equity.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques, in most cases by reference to the net asset backing of the investee.

When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss within 'Investment and other related income'. Dividends on available-for-sale equity instruments are recognised in profit or loss within 'Investment and other related income' when the group's right to receive payment is established.

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

1.21 Accounting policies applicable until 31 December 2017 - continued

1.21.1 Financial assets - continued

Impairment
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or 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 first assesses whether objective evidence of impairment exists. The criteria that the group uses 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.

(a) Assets carried at amortised cost
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. Impairment testing of trade, and other receivables is described in Note 1.21.3.

(b) Assets classified as available-for-sale
In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired. If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

1.21.2 Loans and advances

Under the requirements of IAS 39, the group's loans and advances are classified as loans and receivables, unless the group has the intention of trading the asset immediately or in the short-term, in which case the loans and advances are categorised as instruments held-for-trading.

All loans and advances are recognised when cash is advanced to the borrowers. Loans and advances are initially recognised at the fair value of cash consideration given or proceeds advanced, plus transaction costs. These financial assets are subsequently carried at amortised cost using the effective interest method. The group assesses at the end of each reporting period whether there is objective evidence that loans and advances are impaired.

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

1.21 Accounting policies applicable until 31 December 2017 - continued

1.21.3 Trade and other receivables

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

1.21.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Sales are recognised upon delivery of products or performance of services, net of sales taxes, returns, rebates and discounts. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below.

(a) Sales of goods
Sales of goods are recognised when the group has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products.

(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.

(c) Interest income
Interest income is recognised in profit or loss for all interest-bearing instruments as it accrues, using the effective interest method.

(d) Dividend income
Dividend income is recognised when the right to receive payment is established.

Other operating income is recognised on an accrual basis unless collectibility is in doubt.

2. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9, '*Financial Instruments*' on the group's financial statements.

(a) Impact on the financial statements

As a result of the changes in the group's accounting policies and as explained in Note 2(b) below, IFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new requirements are therefore not reflected in the statement of financial position as at 31 December 2017 but are recognised in the opening statement of financial position on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated statement of financial position (extract)

	1 January 2018		
	Based on 31 December 2017 figures as originally stated €	Impact of adoption of IFRS 9 €	As restated €
ASSETS			
Current assets			
Trade and other receivables	7,140,410	(103,962)	7,036,448
Total assets	50,120,214	(103,962)	50,016,252
EQUITY AND LIABILITIES			
Equity			
Retained earnings	17,817,340	(103,962)	17,713,378
Total equity	34,149,865	(103,962)	34,045,903

(b) IFRS 9, 'Financial Instruments' - impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9, 'Financial Instruments' from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 1. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

2. Changes in accounting policies - continued

The total impact on the group's equity as at 1 January 2018 is as follows:

	Retained earnings €
As originally stated – based on 31 December 2017 figures	17,817,340
Adjustments to equity upon adoption of IFRS 9 on 1 January 2018:	
Increase in credit loss allowances on trade and other receivables	(103,962)
As restated	17,713,378

Impairment of financial assets

The group was required to revise its impairment methodology under IFRS 9 for trade receivables. The impact of the change in impairment methodology on the group's retained earnings is disclosed in the table above.

While amounts due from related parties and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was insignificant.

Trade receivables

For trade receivable, the group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 January 2018 was determined as follows for both trade receivables and contract assets:

As at 1 January 2018	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	+120 days past due	Total
Expected loss rate (range)	0.2% - 1.6%	1.9%	2.1%	2.6%	3.3% - 100%	
Gross carrying amount (€)	265,737	166,720	95,948	31,016	204,155	763,576
Loss allowance (€)	**3,304**	**3,168**	**2,015**	**806**	**123,761**	**133,054**

	€
Loss allowance as at 31 December 2017 - utilising IAS 39 principles	29,092
Amounts reflected through restatement of opening retained earnings as at 1 January 2018	103,962
Opening impairment loss allowance as at 1 January 2018 - utilising IFRS 9 principles	133,054

2. Changes in accounting policies - continued

No deferred tax effects were recognised with respect to the increase in the credit loss allowance upon adoption of IFRS 9, disclosed in the table above.

The movements in the credit loss allowances during the current financial year are disclosed in Note 3. Under the incurred loss model of IAS 39, the movement in impairment loss allowance for trade receivables and contract assets would have been an increase of €1,155 during the current financial year.

3. Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency. The group's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro. Accordingly, the group is not significantly exposed to foreign exchange risk and a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

(ii) Cash flow and fair value interest rate risk

The group's and the company's significant instruments which are subject to fixed interest rates comprise loans and receivables to a related party (Note 9), together with borrowings from a related party forming part of Mizzi Organisation and an associate (Note 16). With respect to these instruments, the group and the company are potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

The group's interest rate risk principally arises from bank borrowings (Note 16), and balances with related parties (Note 29), subject to floating interest rates, which expose the group to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial and accordingly the level of interest rate risk is contained. The group's operating cash flows are substantially independent of changes in market interest rates.

(iii) Price risk

The group is not significantly exposed to equity price risk in view of the fact that the financial assets at FVOCI (2017: available-for-sale financial assets) held by the group are not material.

3. **Financial risk management** - continued

3.1 **Financial risk factors** - continued

(b) Credit risk

Credit risk arises mainly from cash and cash equivalents, advances to related parties and credit exposures to customers, including outstanding debtors and committed transactions. The group's exposures to credit risk at the end of the reporting period are analysed as follows:

	Group		**Company**	
	2018	2017	**2018**	2017
	€	€	**€**	€
Financial assets measured at amortised cost:				
Loans and advances (Note 9)	**713,352**	713,352	**713,352**	713,352
Trade and other receivables (Note 11)	**6,891,112**	6,232,161	**4,755,798**	4,529,151
Cash and cash equivalents (Note 12)	**879,034**	693,368	**148,459**	347
	8,483,498	7,638,881	**5,617,609**	5,242,850

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The group does not hold any significant collateral as security in this respect.

Cash and cash equivalents

The company principally banks with local financial institutions with high-quality standing or rating. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss is insignificant.

Trade and other receivables (including contract assets)

The group assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. The group monitors the performance of its trade and other receivables on a regular basis to identify incurred collection losses, which are inherent in the group's debtors, taking into account historical experience in collection of accounts receivable.

In view of the nature of the group's activities and the market in which it operates, a limited number of customers account for a certain percentage of the group's trade and other receivables. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk with respect to contractual debts, these exposures are monitored and reported more frequently and rigorously. These customers trade frequently with the group and are deemed by management to have positive credit standing, usually taking cognisance of the performance history without defaults.

The group manages credit limits and exposures actively in a practicable manner such that there are no significant past due amounts receivable from customers at the end of the reporting period. The group's trade and other receivables, which are not credit impaired financial assets, are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers.

3. Financial risk management - continued

3.1 Financial risk factors - continued

Impairment of trade receivables (including contract assets)

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the payment profiles of sales over a period of time before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group adjusts the historical loss rates based on expected changes in these factors. Credit loss allowances include specific provisions against credit impaired individual exposures with the amount of the provisions being equivalent to the balances attributable to credit impaired receivables. On that basis, the loss allowance for the group as at 31 December 2018 and 1 January 2018 (upon adoption of IFRS 9) was determined as follows:

31 December 2018	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	+121 days past due	Total
Expected loss rate	0.2%-1.6%	1.9%	2.1%	2.6%	3.3%-100%	
Gross carrying amount (€)	317,688	148,248	140,507	63,245	329,461	999,149
Loss allowance (€)	**3,624**	**2,817**	**2,951**	**1,644**	**92,557**	**103,593**

1 January 2018	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	+121 days past due	Total
Expected loss rate	0.2%-1.6%	1.9%	2.1%	2.6%	3.3%-100%	
Gross carrying amount (€)	265,737	166,720	95,948	31,016	204,155	763,576
Loss allowance (€)	**3,304**	**3,168**	**2,015**	**806**	**123,761**	**133,054**

The expected loss rates disclosed in the tables above reflect the fact that the 100% loss rate is triggered for receivables which are past due by 700 days or more.

The group established an allowance for impairment that represented its estimate of expected credit losses in respect of trade receivables. The individually credit impaired trade receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Hence, credit loss allowances in respect of credit impaired balances with corporate trade customers relate to entities which are in adverse trading and operational circumstances. Reversals of credit loss allowances of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The group does not hold any significant collateral as security in respect of the credit impaired assets. The movements in credit loss allowances of these receivables are disclosed in Note 15.

3. **Financial risk management** - continued

3.1 **Financial risk factors** - continued

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than a year past due.

Credit losses on trade receivables and contract assets are presented as net expected credit losses and other impairment charges within operating profit. Subsequent recoveries of amounts written off are credited against the same line item.

Previous accounting policy for impairment of trade and other receivables

In the prior year, the impairment of trade and other receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. Receivables which were not considered specifically credit impaired under the incurred loss model, were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

The company considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Ageing analysis of trade receivables

Categorisation of receivables as past due is determined by the group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers. At 31 December 2018 and 2017, the group's past due but not impaired receivables and the carrying amount of trade receivables that would otherwise be past due or credit impaired whose terms have been renegotiated, were not deemed material in the context of the group's trade receivables figures.

Amounts owed by related parties

The group's receivables include amounts due from related parties, primarily from related parties forming part of Mizzi Organisation and other related parties (Note 9) arising from financing transactions that have taken place in the current and prior years. The Mizzi Organization's treasury monitors intra-group credit exposures at an individual entity level on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any significant losses from non-performance or default.

Since these balances owed by related parties are repayable on demand, expected credit losses are based on the assumption that repayment of the balance is demanded at the reporting date. Accordingly, the expected credit loss allowance attributable to such balances is insignificant.

3. **Financial risk management** - continued

3.1 Financial risk factors - continued

(c) Liquidity risk

The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise borrowings (Note 16) and trade and other payables (Note 18). 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.

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. This is also performed at a central treasury function which controls the overall liquidity requirements of Mizzi Organisation within certain parameters. The monitoring process considers the fact that the company has significant amounts payable to related parties in respect of property and financing transactions that have taken place in prior years. In view of these balances the company's current liabilities exceed current assets; but alternative financing at Mizzi Organisation level is utilised to manage this matter. The company's liquidity risk is actively managed taking cognisance of the matching of cash inflows and outflows arising from expected maturities of financial instruments, together with the company's committed bank borrowing facilities and other intra-Organisation financing that it can access to meet liquidity needs. In this respect management does not consider liquidity risk to the company as significant taking into account the liquidity management process referred to above.

The tables below analyse the group's and the company's principal financial liabilities into relevant maturity groupings based on the remaining term at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	€	€	€	€	€
Group					
At 31 December 2018					
Bank borrowings	**853,200**	**553,200**	**1,659,600**	**4,007,325**	**7,073,325**
Loans from associate	**1,013,830**	**-**	**-**	**-**	**1,013,830**
Loans from related parties forming part of the Mizzi Organisation	**388,688**	**383,462**	**365,427**	**-**	**1,137,577**
Trade and other payables	**3,031,130**	**-**	**-**	**-**	**3,031,130**
At 31 December 2017					
Bank borrowings	1,514,979	553,200	1,659,600	4,120,026	7,847,805
Loans from associate	2,332,353	-	-	-	2,332,353
Loans from related parties forming part of the Mizzi Organisation	294,217	388,688	663,334	536,107	1,882,346
Trade and other payables	3,338,789	-	-	-	3,338,789

3. Financial risk management - continued

3.1 Financial risk factors - continued

	Less than 1 year €	Total €
Company		
At 31 December 2018		
Loans from associate	**1,013,830**	**1,013,830**
Trade and other payables	**354,594**	**354,594**
At 31 December 2017		
Loans from associate	2,332,353	2,332,353
Trade and other payables	354,314	354,314

3.2 Capital risk management

The group's capital is managed at the level of Mizzi Organisation by reference to the aggregate level of equity and borrowings or debt as disclosed in the respective consolidated financial statements of Consolidated Holdings Limited and Mizzi Organisation Limited, together with the financial statements of GSD Marketing Limited and The General Soft Drinks Company Limited. The capital of the entities forming part of the Mizzi Organisation, which have been mentioned above, is managed on an aggregate basis by the Organisation as if they were organised as one entity. The Organisation's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may issue new shares or adjust the amount of dividends paid to shareholders.

The Organisation also monitors the level of capital on the basis of the ratio of aggregated net debt to total capital. Net debt is calculated as total borrowings (as shown in the respective consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the respective statement of financial position, plus net debt. The aggregated figures in respect of the Organisation's equity and borrowings are reflected below:

	2018 €	2017 €
Total borrowings	**101,977,405**	89,205,057
Less: cash and cash equivalents	**(5,553,846)**	(5,952,802)
Net debt	**96,423,559**	83,252,255
Total equity	**147,876,117**	144,284,898
Total capital	**244,299,676**	227,537,153
Net debt/total capital	**39%**	37%

3. **Financial risk management** - continued

3.2 **Capital risk management** - continued

The Organisation manages the relationship between equity injections and borrowings, being the constituent elements of capital as reflected above, with a view to managing the cost of capital. The level of capital of Consolidated Holdings Limited, as reflected in the consolidated statement of financial position, is maintained by reference to its respective financial obligations and commitments arising from operational requirements. In view of the nature of the group's activities and the extent of borrowings or debt, the capital level at the end of the reporting period determined by reference to the consolidated financial statements is deemed adequate by the directors.

3.3 Fair values of financial instruments

At 31 December 2018 and 2017 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances to related parties and other balances with related parties which are repayable on demand is equivalent to their carrying amount.

The fair value of non-current financial instruments 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 non-current borrowings at the end of the reporting periods is not significantly different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as level 2 within the fair value measurement hierarchy required by IFRS 7, '*Financial Instruments: Disclosure*'.

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

As referred to in Note 5 to the financial statements, the group's land and buildings category of property, plant and equipment are fair valued on the basis of professional advice.

5. Property, plant and equipment

Group

	Land and buildings €	Furniture, fittings and equipment €	Operational equipment €	Motor vehicles €	Assets under construction €	Total €
At 1 January 2017						
Cost or valuation	14,495,822	2,197,082	1,498,571	45,641	1,451,580	19,688,696
Accumulated depreciation	(2,118,623)	(2,112,940)	(1,324,024)	(45,641)	-	(5,601,228)
Net book amount	12,377,199	84,142	174,547	-	1,451,580	14,087,468
Year ended 31 December 2017						
Opening net book amount	12,377,199	84,142	174,547	-	1,451,580	14,087,468
Additions	-	-	8,776	7,500	7,018,428	7,034,704
Reclassifications	2,897,697	1,374,109	3,506,356	-	(7,778,162)	-
Disposals	-	(1,804,847)	(1,192,260)	(45,641)	-	(3,042,748)
Depreciation charge	(165,300)	(77,376)	(187,919)	(1,875)	-	(432,470)
Depreciation released on disposals-	-	1,794,185	1,179,787	45,641	-	3,019,613
Closing net book amount	15,109,596	1,370,213	3,489,287	5,625	691,846	20,666,567
At 31 December 2017						
Cost or valuation	17,393,519	1,766,344	3,821,443	7,500	691,846	23,680,652
Accumulated depreciation	(2,283,923)	(396,131)	(332,156)	(1,875)	-	(3,014,085)
Net book amount	15,109,596	1,370,213	3,489,287	5,625	691,846	20,666,567
Year ended 31 December 2018						
Opening net book amount	15,109,596	1,370,213	3,489,287	5,625	691,846	20,666,567
Additions	-	-	-	-	1,035,942	1,035,942
Reclassifications	382,433	604,064	459,937	-	(1,446,434)	-
Depreciation charge	(207,710)	(241,236)	(383,698)	(1,875)	-	(834,519)
Closing net book amount	**15,284,319**	**1,733,041**	**3,565,526**	**3,750**	**281,354**	**20,867,990**
At 31 December 2018						
Cost or valuation	17,775,952	2,370,408	4,281,380	7,500	281,354	24,716,594
Accumulated depreciation	(2,491,633)	(637,367)	(715,854)	(3,750)	-	(3,848,604)
Net book amount	**15,284,319**	**1,733,041**	**3,565,526**	**3,750**	**281,354**	**20,867,990**

During the preceding financial year, the company capitalised borrowings costs amounting to €41,000 utilising a capitalisation rate of 2%. This amount is included in 'Additions' to the category 'Assets under construction' in the above table.

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

Fair valuation of property

The group's land and buildings, within property, plant and equipment were last revalued on 31 December 2014 by independent professionally qualified valuers. The book value of the property had been adjusted to the revaluation and the resultant surplus, net of applicable deferred income taxes, had been credited to the revaluation reserve in shareholders' equity (Note 14).

The directors have reviewed the carrying amount of the property as at 31 December 2018, on the basis of assessments carried out by the independent professionally qualified valuers. No adjustments to the carrying amounts as at 31 December 2018 were deemed necessary.

Valuations were made on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location.

The group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The group's land and buildings, consists of operational property that is owned and managed by a group undertaking. The recurring property fair value measurements at the end of each financial period presented use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the current and preceding financial years.

A reconciliation from the opening balance to the closing balance of property for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, for the current and preceding financial years, is reflected in the table above.

Valuation processes

The valuation of the property is performed regularly on the basis of valuation reports prepared by third party qualified valuers. These reports are based on both:

- information provided by the group which is derived from the group undertaking's financial systems and is subject to the entity's overall control environment; and

- assumptions and valuation models used by the valuers; with assumptions being typically market related and based on professional judgement and market observation.

5. Property, plant and equipment - continued

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by designated officers within the Mizzi Organisation. This includes a review of fair value movements over the period. When the designated officers consider that the valuation report is appropriate, the valuation report is recommended to the group undertaking's Board of directors. The Board then considers the valuation report as part of its overall responsibilities.

At the end of every reporting period, the designated officers assess whether any significant changes or developments have been experienced since the last external valuation. This analysis is usually supported by an assessment performed by the third party property valuers. The officers report to the Board on the outcome of this assessment.

Valuation techniques

At 31 December 2018 and 2017, the valuation assessments were performed using a discounted cash flow approach. Throughout this process, the highest and best use of the property has been revised taking cognisance of the outcome of the valuation method applied.

In view of a limited number of similar or comparable properties and property transactions, comprising sales or rentals, in the local market, the valuations have been performed using unobservable inputs. The significant inputs to the approaches used are generally those described below:

- Discounted cash flow ("DCF") approach: considers the free cash flows arising from the projected income streams expected to be derived from the operation of the property, discounted to present value using an estimate of the weighted average cost of capital that would be available to finance such an operation. The significant unobservable inputs utilised with this technique include:

Earnings before interest, tax, depreciation and amortisation (EBITDA)	based on projected income streams less operating expenditure necessary to operate the hotel, but prior to depreciation and financing charges;
Growth rate	based on management's estimated average growth of the company's EBITDA levels, mainly determined by projected growth in income streams;
Discount rate	reflecting the current market assessment of the uncertainty in the amount and timing of projected cash flows. The discount rate reflects the estimated weighted average cost of capital that would be available for financing such an operation. The discount rate is based on an assumed debt to equity ratio; estimation of cost of equity is based on risk free interest rates adjusted for country risk and equity risk premium adjusted for entity-specific risk factor; estimation of cost of debt is based on risk free interest rates adjusted for country risk and assumed credit spread.

5. Property, plant and equipment - continued

Information about fair value measurements using significant unobservable inputs (Level 3), as at 31 December 2018 and 2017

Description by class based on highest and best use	Valuation technique	Significant unobservable input	Range of unobservable Inputs (weighted average)
Current use as commercial premises (hotel operations)	DCF approach	EBITDA	/ €4,000,000
		Growth rate	2% per annum
		Discount rate	7.45% (post-tax)
		Perpetuity yield	6%
		Estimated capital expenditure	Nil

In relation to the DCF approach, an increase in the projected levels of EBITDA and growth rate would result in an increased fair value of the property, whereas a higher discount rate would give rise to a lower fair value.

At 31 December 2018 and 2017, the directors considered the current use of the property to be equivalent to the highest and best use.

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2018 €	2017 €
Cost	**12,014,563**	11,632,130
Accumulated depreciation	**(2,373,264)**	(2,204,940)
Net book amount	**9,641,299**	9,427,190

Bank borrowings in the name of group undertakings and related parties forming part of Mizzi Organisation are secured on the group's land and buildings (see Notes 16 and 29).

6. Investments in subsidiary

Company

	2018 €	2017 €
Year ended 31 December		
Opening cost and carrying amount	**7,048,031**	4,914,978
Increase in investments in subsidiary	**-**	2,133,053
Closing cost and carrying amount	**7,048,031**	7,048,031

6. Investments in subsidiary - continued

The increase in the investments in subsidiary during the preceding financial year was financed through the capitalisation of amounts owed by the subsidiary amounting to €2,133,053.

The subsidiaries at the end of the financial reporting periods, whose results and financial position affected the figures of the group, are shown below:

	Registered office	Class of shares held	Percentage of shares held 2018 %	Percentage of shares held 2017 %
The Waterfront Hotel Limited	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	**100**	100
		5% Non-cumulative redeemable preference shares	**100**	100

7. Investments in associates

Group

	2018 €	2017 €
Year ended 31 December		
Opening carrying amount	**20,799,346**	19,783,658
Share of profit	**1,329,705**	1,038,964
Derecognition of carrying amount upon partial disposal of investment in associate (refer to note below)	**-**	(18,784)
Redemption of capitalised ground rents (Note 15)	**(232,836)**	(4,492)
Dividends received	**(2,040,014)**	-
Closing carrying amount	**19,856,201**	20,799,346

	2018 €	2017 €
At 31 December		
Cost	**1,482,751**	1,482,751
Share of profits and reserves	**18,373,450**	19,316,595
Carrying amount	**19,856,201**	20,799,346

The group's share of profit of the associate, disclosed in the tables above and in profit or loss, is after tax and non-controlling interests in the associate.

7. **Investments in associates** - continued

In December 2017, as part of a reorganisation process, the group's associate Mizzi Associated Enterprises Limited ("MAE") transferred all the shares it held in Mellieha Bay Hotel Limited and Kemmuna Limited (both companies within the hotel operating segment) directly to its shareholders in their respective ownership proportions. These share transfers were made for a consideration of €2,773,817 which was settled through a dividend distribution from MAE to its shareholders. Accordingly, these share transfers did not have an impact on the group's carrying amount in the investments in associates.

As part of this reorganisation, Consolidated Holdings Limited ("CHL") also transferred 1% of its holding in Kemmuna Limited to Alf. Mizzi & Sons Limited. This resultant loss, representing the carrying amount of the investment disposed by CHL amounted to €18,784, has been recognised in profit or loss and presented within 'Share of profit of associates'.

As a result of the transactions noted above, the associates at 31 December 2018 and 2017 whose results and financial position affected the figures of the group, are shown below:

	Registered office	**Class of shares held**	**Percentage of shares held**	
			2018	2017
			%	%
Mizzi Associated Enterprises Limited	30 Archbishop Street Valletta Malta	Ordinary shares	**51**	51
Mellieha Bay Hotel Limited	Mellieha Bay Hotel Marfa Road, Ghadira Malta	Ordinary shares	**51**	51
Kemmuna Limited	30 Archbishop Street Valletta Malta	Ordinary shares	**24**	24

The proportion of the voting power held in Mizzi Associated Enterprises Limited and Mellieha Bay Hotel is 50%. The shareholding in Mizzi Associated Enterprises Limited and Mellieha Bay Hotel Limited is held directly by Consolidated Holdings Limited (51%) and Alf. Mizzi & Sons Limited (49%). Neither of these shareholders is in a position to exercise a dominant influence on the company as they are only entitled under the company's Memorandum and Articles of Association to elect two directors each.

The directors of the parent company take cognisance of the Mizzi Organisation's intentions to sell the shareholding (or part thereof) in Kemmuna Limited (an associated undertaking) after the end of the financial reporting period. After considering the requirements of IFRS 5, 'Non-current assets held for sale and discontinued operations', the directors are of the opinion that the criteria for reclassification of the investments in associate to assets classified as held for sale as stipulated within IFRS 5 were not fully met as at 31 Decembers 2018 and as at the date of authorisation for issue of these financial statements.

Disclosure requirements emanating from IFRS 12 'Disclosure of interests in other entities'.

Mizzi Associated Enterprises Limited's principal activity is the ownership and the development of property for trading and rental purposes. The principal activity of Mellieha Bay Hotel Limited and Kemmuna Limited is the ownership and operation of the Mellieha Bay Hotel and the Comino Hotel respectively. The associates' principal places of business are based in Malta.

7. Investments in associates - continued

The above investments provide strategic partnerships for the group providing economies of scale and depth within business sectors which are targeted by the group for diversification or consolidation purposes.

The investments in these associates, which are an unlisted private companies, is measured using the equity method in accordance with the group's accounting policy. Summarised financial information for the associates are set out below:

Summarised balance sheets

	Mellieha Bay Hotel Limited		**Kemmuna Limited**	
	2018	2017	**2018**	2017
	€	€	**€**	€
ASSETS				
Non-current assets	**34,093,378**	35,506,244	**6,302,246**	6,461,784
Current assets				
Cash and cash equivalents	**2,312,174**	1,708,411	**883,076**	496,835
Other current assets	**1,410,304**	1,774,654	**476,150**	368,846
Total current assets	**3,722,478**	3,483,065	**1,359,226**	865,681
Total assets	**37,815,856**	38,989,309	**7,661,472**	7,327,465
LIABILITIES				
Non-current liabilities				
Financial liabilities	**-**	1,400,000	**-**	-
Other liabilities	**3,877,234**	4,162,961	**549,819**	549,819
Total non-current liabilities	**3,877,234**	5,562,961	**549,819**	549,819
Current liabilities				
Trade and other payables	**1,826,987**	1,516,498	**386,000**	163,193
Other financial liabilities	**-**	63,979	**324,734**	-
Other liabilities	**351,411**	506,237	**-**	-
Total current liabilities	**2,178,398**	2,086,714	**710,734**	163,193
Total liabilities	**6,055,632**	7,649,675	**1,260,553**	713,012
Net assets	**31,760,224**	31,339,634	**6,400,919**	6,614,453

7. Investments in associates - continued

Summarised balance sheet

	Mizzi Associated Enterprises Limited Consolidated financial statements	
	2018	2017
	€	€
ASSETS		
Non-current assets	**1,848,898**	453,398
Current assets		
Cash and cash equivalents	**8,275**	133,053
Other current assets	**3,373,516**	6,644,784
Total current assets	**3,381,791**	6,777,837
Total assets	**5,230,689**	7,231,235
LIABILITIES		
Current liabilities		
Trade and other payables	**204,934**	128,724
Other financial liabilities	**3,274**	65,085
Other liabilities	**317,874**	34,050
Total current liabilities	**526,082**	227,859
Total liabilities	**526,082**	227,859
Net assets	**4,704,607**	7,003,376

The group's respective share of the net assets reflected in the above disclosure is in substance equivalent to the carrying amount of its investment in the associates except as outlined below. The group's share of the net assets of MAE, Mellieha Bay Hotel Limited and Kemmuna Limited extracted from the respective financial statements, do not reflect the group's carrying amount of the investments in the respective entities. The difference arises as a result of fair value adjustments made at the time that MAE acquired Mellieha Bay Hotel Limited and Kemmuna Limited in prior years. Furthermore, there are no significant contingent liabilities relating to the group's interest in the associates.

7. Investments in associates - continued

Summarised statements of comprehensive income

	Mellieha Bay Hotel Limited 2018 €	Kemmuna Limited 2018 €	Mizzi Associated Enterprises Limited 2018 €	Mizzi Associated Enterprises Limited 2017 €
Revenue	**9,535,646**	**2,257,712**	**2,007,979**	9,335,187
Depreciation	**(1,768,379)**	**(184,397)**	**(1,498)**	(1,299,536)
Interest income	**-**	**-**	**148,700**	135,464
Interest expense	**(54,972)**	**(14,944)**	**(1,600)**	(113,358)
Profit/(Loss) before tax	**1,020,551**	**(213,534)**	**2,568,874**	2,825,888
Tax expense	**(599,961)**		**(418,741)**	(788,706)
Profit/(Loss) for the year	**420,590**	**(213,534)**	**2,150,133**	2,037,182
Other comprehensive income/(loss)	**-**		**-**	(7,640)
Total comprehensive income/(loss)	**420,590**	**(213,534)**	**2,150,133**	2,029,542
Dividends received from Associate	**-**		**2,040,014**	2,808,363

The consolidated results of MAE for 2017 as disclosed above include the full year results for Mellieha Bay Hotel Limited and MAE's share of the results of Kemmuna Limited since the MAE re-organisation and share transfers described earlier occurred at the end of the preceding financial year.

Company

	2018 €	2017 €
Years ended 31 December		
Opening cost and carrying amount	**4,256,568**	1,482,751
Increase in investments in associates	**-**	2,773,817
Closing cost and carrying amount	**4,256,568**	4,256,568

8. Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets)

	Group and Company	
	2018	2017
	€	€
Year ended 31 December		
Opening and closing net book amount	**12,057**	12,057
At 31 December		
Cost	**93,809**	93,809
Provisions for impairment	**(81,752)**	(81,752)
Net book amount	**12,057**	12,057

The group's and company's financial assets at FVOCI, consisting primarily of unquoted equity instruments, are fair valued annually. Fair value is mainly estimated by reference to the net asset backing of the investee. The fair value of the group's financial assets at FVOCI at the end of the reporting period was deemed by the directors to approximate their carrying amount.

9. Loans and advances

	Group and Company	
	2018	2017
	€	€
Year ended 31 December		
Opening and closing cost and carrying amount	**713,352**	713,352

Loans and advances for the group and the company represent redeemable preference shares issued by a related party forming part of Mizzi Organisation that were allotted to the parent company in the preceding financial year and settled through a dividend distribution. These preference shares are redeemable on or before 31 December 2064 at the discretion of the issuers' Board of Directors and subject to dividends at 3.0% per annum on a non-cumulative basis. In the accounting records of the issuers, such redeemable preference shares are classified as financial liabilities rather than equity, as they meet the necessary criteria established by IAS 32 - "*Financial Instruments: Presentation*".

10. Inventories

	Group	
	2018	2017
	€	€
Food and beverages	**57,168**	81,016
Others	**11,294**	10,362
	68,462	91,378

The cost of inventories recognised as expense is appropriately disclosed in Note 19 to the financial statements.

11. Trade and other receivables

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Current				
Trade receivables	**895,556**	734,484	**-**	-
Amounts owed by related parties forming part of Mizzi Organisation	**5,901,410**	5,407,925	**4,755,798**	4,529,151
Amounts owed by other related parties	**36,099**	47,385	**-**	-
Other receivables	**58,047**	42,367	**-**	-
Indirect taxation	**100,354**	838,419	**-**	-
Prepayments and accrued income	**78,754**	69,830	**-**	-
	7,070,220	7,140,410	**4,755,798**	4,529,151

Receivables above are disclosed net of credit loss allowances as follows:

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Trade receivables	**103,593**	29,092	**-**	-

12. Cash and cash equivalents

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

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Cash at bank and in hand	**879,034**	693,368	**148,459**	347
Bank overdrafts (Note 16)	**-**	(1,100,079)	**-**	-
	879,034	(406,711)	**148,459**	347

13. Share capital

	Group and Company	
	2018	2017
	€	€
Authorised		
500,000 ordinary shares of €2.329373 each	**1,164,687**	1,164,687
Issued and fully paid		
320,600 ordinary shares of €2.329373 each	**746,797**	746,797

14. Revaluation reserves

Group

	2018	2017
	€	€
Surplus arising on fair valuation of:		
Land and buildings of subsidiary	**4,386,225**	4,423,410
Land and buildings of associates	**9,711,641**	9,827,956
	14,097,866	14,251,366

14. Revaluation reserves - continued

The movements in each category are analysed as follows:

	2018 €	2017 €
Land and buildings of subsidiary		
At beginning of year	**4,423,410**	4,716,342
Transfer upon realisation through asset use	**(19,693)**	(19,693)
Movement in deferred tax liability determined on the basis applicable to property disposals (Note 17)	**(24,385)**	(280,132)
Deferred income taxes on realisation through asset use (Note 17)	**6,893**	6,893
At end of year	**4,386,225**	4,423,410

	2018 €	2017 €
Land and buildings of associates		
At beginning of year	**9,827,956**	9,944,266
Transfer upon realisation through asset use - share of depreciation transfer, net of deferred tax	**(116,315)**	(116,310)
At end of year	**9,711,641**	9,827,956

The tax impact included in the revaluation reserves as at 31 December 2018, relates to deferred taxation arising on the surplus on fair valuation of land and buildings of subsidiary for an amount of €1,528,451 (2017: €1,510,959). The movements in the tax impact relating to this component of other comprehensive income during the current and the preceding financial year is presented in the respective table above.

The revaluation reserves are non-distributable.

15. Other reserves

The movements in each category are analysed as follows:

Group

	2018 €	2017 €
Share of associate's incentives and benefits reserve	**1,034,694**	1,034,694
Capital reserves	**113,592**	113,592
Share of associate's capital reserve	**-**	186,076
	1,148,286	1,334,362

15. Other reserves - continued

	2018 €	2017 €
Share of associate's incentives and benefit reserve		
At beginning and end of year	**1,034,694**	1,034,694

	2018 €	2017 €
Capital reserves		
At beginning and end of year	**113,592**	113,592

	2018 €	2017 €
Share of associate's capital reserve		
At beginning of year	**186,076**	190,568
Redemption of capitalised ground rents (Note 7)	**(186,076)**	(4,492)
At end of year	-	186,076

The capital reserves are not considered by the directors to be available for distribution.

Company

	2018 €	2017 €
Capital reserve		
At beginning and end of year	**113,592**	113,592

In accordance with Articles 24B and 36 of the Business Promotion Act, transfers are effected by an associate to an incentives and benefits reserve representing the net amount of profits subject to income tax at a reduced rate of tax. Such profits are set aside for the exclusive purpose of financing the upgrading projects within a subsidiary of the associate as approved by Malta Enterprise Corporation in accordance with Article 6 of the Business Promotion Act. The incentives and benefits reserve is not distributable and shall be retained for a period of eight years, which expire at the latest on 31 December 2021, after which it can be distributed by means of a bonus issue.

The capital reserves are not considered by the directors of the respective entities to be available for distribution.

16. Borrowings

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Current				
Bank overdrafts	**-**	1,100,079	**-**	-
Bank loans	**735,730**	335,141	**-**	-
Loans from related party forming part of Mizzi Organisation	**359,972**	259,577	**-**	-
Loans from associate	**1,013,830**	2,332,353	**1,013,830**	2,332,353
	2,109,532	4,027,150	**1,013,830**	2,332,353
Non-current				
Bank loans	**5,557,472**	5,646,844	**-**	-
Loans from related party forming part of Mizzi Organisation	**716,575**	1,446,607	**-**	-
	6,274,047	7,093,451	**-**	-
Total borrowings	**8,383,579**	11,120,601	**1,013,830**	2,332,353

Group

The group's banking facilities as at 31 December 2018 amounted to €9,416,501 (2017: €9,423,300). These facilities are mainly secured by:

(a) General hypothec given by the subsidiary for an amount of €9,343,000 (2017: €9,400,000) over assets, supported by a special hypothec over property for the same amount;
(b) General hypothecary guarantee by a related party forming part of Mizzi Organisation for the amount of €6,243,000 (2017: €6,300,000) over assets; and
(c) Guarantees by a related party forming part of Mizzi Organisation for €3,100,000 (2017: €3,100,000).

The group's bank borrowings are entirely, subject to variable rates of interest linked to Euribor. The weighted average effective interest rates for bank borrowings at the end of the reporting period are as follows:

	2018	2017
Bank overdrafts	**-**	2%
Bank loans	**2%**	2%

16. **Borrowings** - continued

Maturity of the group's non-current bank borrowings:

	2018 €	2017 €
Between 1 and 2 years	**444,337**	442,801
Between 2 and 5 years	**1,389,280**	1,383,226
Over 5 years	**3,723,855**	3,820,817
	5,557,472	5,646,844

The loans from an associate are repayable on demand, unsecured and subject to a fixed interest rate of 3% (2017: 3%).

The loans from related party forming part of Mizzi Organisation is unsecured, subject to weighted average fixed interest of 3.15% (2017: 3.6%) per annum and repayable as follows:

	2018 €	2017 €
Within 1 year	**359,972**	259,577
Between 1 and 2 years	**366,209**	348,134
Between 2 and 5 years	**350,366**	594,092
Over 5 years	-	504,381
	1,076,547	1,706,184

Company

The company's banking facilities as at 31 December 2018 amounted to €23,300 (2017: €23,300). These facilities are mainly secured by guarantees by a related party forming part of Mizzi Organisation.

17. Deferred taxation

Group

Deferred income taxes are calculated on all 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% (2017: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. tax effect of 10% (2017: 10%) of the transfer value.

17. Deferred taxation - continued

The movement in the deferred tax is as follows:

	2018 €	2017 €
At beginning of year	**1,510,959**	1,269,731
Movement in deferred tax liability determined on the basis applicable to property disposals:		
Property, plant and equipment - recognised in other comprehensive income (Note 14)	**24,385**	280,132
Realisation through asset use (Note 24)	**(6,893)**	(6,893)
Deferred income taxes on temporary differences arising on depreciation of property, plant and equipment (Note 24)	**5,718**	210,452
Deferred income taxes attributable to unabsorbed capital allowances (Note 24)	**395,291**	(242,463)
At end of year	**1,929,460**	1,510,959

All the amounts disclosed in the table above, which have been referenced to Note 24, are recognised in profit or loss. The other amounts referenced to Note 14, have been recognised directly in equity in other comprehensive income.

The balance at 31 December represents:

	2018 €	2017 €
Temporary differences arising on fair valuation of property	**1,248,926**	1,231,434
Deferred taxation arising on transfer of property from group undertakings	**279,525**	279,525
Temporary differences arising on depreciation of property, plant and equipment	**401,009**	395,292
Deferred taxation attributable to unabsorbed capital allowances	**-**	(395,292)
	1,929,460	1,510,959

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months.

17. **Deferred taxation** - continued

At 31 December 2018 and 2017, the group had the following unutilised tax credits and temporary differences:

	Unrecognised		**Recognised**	
	2018	2017	**2018**	2017
	€	€	**€**	€
Unutilised tax credits arising from:				
Unabsorbed capital allowances	**200,741**	213,626	-	1,129,405
Deductible temporary differences arising from credit loss allowances in respect of trade and other receivables	**103,593**	29,092	-	-
Deductible temporary differences arising from credit loss allowances in respect of financial assets at FVOCI (2017: available-for-sale financial assets)	**81,752**	81,752	-	-
Taxable temporary differences arising on depreciation of property, plant and equipment	-	-	**(1,145,740)**	(1,129,405)

The unrecognised deferred tax assets at the end of the reporting periods have not been reflected in these financial statements due to the uncertainty of the realisation of the tax benefits. Whereas tax losses have no expiry date, unabsorbed capital allowances are forfeited upon cessation of the trade.

Company

At 31 December 2018, the company had unutilised tax credits arising from unabsorbed capital allowances amounting to €200,741 (2017: €200,741). At the end of the reporting period, the company also had deductible temporary differences arising on provisions for impairment of financial assets at FVOCI (2017: available-for-sale financial assets), amounting to €81,752 (2017: €81,752). The related deferred tax assets have not been recognised in these financial statements due to the uncertainty of the realisation of the tax benefits. Unabsorbed capital allowances are forfeited upon cessation of the trade.

18. **Trade and other payables**

	Group		**Company**	
	2018	2017	**2018**	2017
	€	€	**€**	€
Current				
Trade payables	**411,227**	308,096	-	-
Payables in respect of capital expenditure	**623,862**	1,301,931	-	-
Amounts owed to related parties forming part of Mizzi Organisation	**1,578,189**	1,439,829	**346,786**	346,789
Amounts owed to other related parties		7,605	-	-
Indirect taxation		-		
Accruals and deferred income	**417,852**	281,328	**7,808**	7,525
	3,031,130	3,338,789	**354,594**	354,314

19. Revenue

The group's revenue, which is entirely derived from hotel operations in the local market.

All of the company's revenue consists of revenue recognised at a point in time. As at 31 December 2018, the company had no unfulfilled obligations arising from contracts with customers.

20. Expenses by nature

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Employee benefit expense (Note 21)	**1,740,945**	1,232,047	-	-
Hotel food and beverage costs	**343,437**	165,676	-	-
Hotel operating supplies, services and related expenses	**1,007,371**	693,184	-	-
Management fees and similar service charges	**199,964**	90,174	-	-
Depreciation of property, plant and equipment (Note 5)	**834,519**	432,470	-	-
Operating lease rentals payable and similar charges:				
- Motor vehicles	**22,825**	19,119	-	-
Other expenses	**575,085**	112,200	**7,782**	7,726
Total cost of sales and administrative expenses	**4,724,146**	2,744,870	**7,782**	7,726

Operating profit/(loss) is stated after (crediting)/charging the following:

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Movement in credit loss allowances in respect of trade receivables (included in 'Administrative expenses')	**(29,461)**	-	-	-
Loss on disposal of property, plant and equipment	-	23,135	-	-

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2018 and 2017 relate to the following:

	Group	
	2018	2017
	€	€
Annual statutory audit	**8,150**	20,150
Tax advisory and compliance services	**900**	3,100
Other non-audit services	**22,258**	-
	31,308	23,250

The auditor's remuneration for the company attributable to the year ended 31 December 2018 amounted to €3,650 (2017: €3,650).

21. Employee benefit expense

	Group	
	2018	2017
	€	€
Wages and salaries	**949,117**	781,496
Outsourced wages and salaries	**707,891**	385,647
Social security costs	**83,937**	64,904
	1,740,945	1,232,047

Average number of persons employed during the year:

	Group	
	2018	2017
Direct	**44**	36
Administration	**19**	15
	63	51

22. Investment and other related income

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Gross dividends receivable from investments in associate	**-**	-	**1,784,969**	2,808,363
Other gross dividends receivable	**1,387**	1,387	**1,387**	1,387
	1,387	1,387	**1,786,356**	2,809,750

23. Finance costs

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Bank interest and charges	**197,272**	130,675	**79**	43
Interest payable to related party forming part of Mizzi Organisation	**25,688**	54,498	**-**	-
Interest payable to associate	**74,350**	59,568	**74,350**	59,568
	297,310	244,741	**74,429**	59,611

24. Tax expense/(income)

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Current taxation:				
Current tax expense	**485**	-	**485**	381,332
Adjustment recognised in financial period for current tax of prior periods	**6,193**	-	**6,193**	-
Deferred taxation (Note 17)	**394,116**	(38,904)	**-**	-
	400,794	(38,904)	**6,678**	381,332

The tax on the profit before tax differs from the theoretical amount that would arise using the basic tax rate applicable as follows:

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Profit before tax	**2,743,460**	854,985	**1,704,145**	2,742,413
Tax on profit at 35%	**960,211**	299,245	**596,451**	959,845
Tax effect of:				
Movement in temporary differences arising on property, plant and equipment and credit loss allowances in respect of trade and other receivables	**382,653**	(247,723)	**-**	-
Expenses not deductible for tax purposes	**29,604**	25,660	**28,773**	23,082
Dividend income not taxed at 35%	**-**	-	**(624,739)**	(601,595)
Share of result of associate	**(465,397)**	(357,063)		-
Utilisation of unabsorbed tax losses and capital allowances brought forward from previous years	**(414,739)**	-		-
Unabsorbed capital allowances claimed during the year	**-**	240,977		-
Tax credits	**(97,732)**	-	**-**	-
Over provision of tax in prior years	**6,193**	-	**6,193**	-
Tax charge/(credit) in the accounts	**400,794**	(38,904)	**6,678**	381,332

The tax impact relating to components of other comprehensive income is presented in the tables within Note 14 to the financial statements.

25. Directors' emoluments

	Group	
	2018	2017
	€	€
Salaries and other emoluments	**92,689**	67,019

26. Cash generated from/(used in) operations

Reconciliation of operating profit/(loss) to cash generated from/(used in) operations:

	Group		Company	
	2018	2017	**2018**	2017
	€	€	**€**	€
Operating profit/(loss)	**1,709,678**	78,159	**(7,782)**	(7,726)
Adjustments for:				
Depreciation of property, plant and equipment (Note 5)	**834,519**	432,470	**-**	-
Loss on disposal of property, plant and equipment	**-**	23,135	**-**	-
Movement in credit loss allowances in respect of trade and other receivables	**(29,461)**	-	**-**	-
Movement due to change in accounting policy (Note 2)	**(103,962)**	-	**-**	-
Changes in working capital:				
Inventories	**22,916**	(28,614)	**-**	-
Trade and other receivables	**99,651**	(1,473,944)	**(226,647)**	(964,549)
Trade and other payables	**384,438**	648,413	**280**	329,249
Cash generated from/(used in) operations	**2,917,779**	(320,381)	**(234,149)**	(643,026)

Non-cash transactions

The principal non-cash transaction for the preceding financial year consists of the following:

- the share transfers from the group's associate undertaking for an amount of €2,773,817 in exchange of dividends from the same associate, as disclosed in more detail in Note 7.
- the capitalisation of amounts owed by subsidiary, as disclosed in Note 6.

Net debt reconciliation

The principal movements in the group's net debt related to cash flow movements are disclosed as part of the financing activities in the statement of cash flows on page 15.

27. Commitments

Capital commitments

Commitments for capital expenditure not provided for in these financial statements are as follows:

	2018	2017
	€	€
Authorised but not contracted for	**305,000**	750,000

Operating lease commitments - where a group undertaking is the lessee

A group undertaking has a motor vehicle leasing arrangement with a related party, which is a company forming part of the Mizzi Organisation, whereby operating lease rentals amounting to €11,347 (2017: €19,111) are payable annually for the right to use assets owned by the related party in the course of the respective company's operations.

28. Contingencies

(a) The company, together with its subsidiary and related parties forming part of Mizzi Organisation, is jointly and severally liable in respect of guarantees given to secure the banking facilities of group undertakings and related parties forming part of Mizzi Organisation up to a limit of €79,376,000 (2017: €64,076,000) together with interest and charges thereon. These guarantees are supported by general hypothecary guarantees for the amount of €81,482,000 (2017: €81,482,000) over the company's assets.

The company's subsidiary, together with related parties forming part of Mizzi Organisation, are jointly and severally liable in respect of guarantees given to secure the banking facilities of group undertakings and related parties forming part of Mizzi Organisation up to limits of €48,160,000 (2017: €33,160,000), together with interest and charges thereon. These guarantees are supported by special hypothecary guarantees over the subsidiary's property for the amount of €29,000,000 (2017: €29,000,000).

(b) The company has undertaken to provide financial support to a subsidiary so as to enable the entity to meet its liabilities as they fall due. The subsidiary's profit for the year ended 31 December 2018 amounted to €1,100,463 (2017: loss of €60,240) and as at 31 December 2018 its current liabilities exceeded its current assets by €881,478 (2017: €1,251,268).

(c) At 31 December 2018, the subsidiary had contingent liabilities amounting to €6,608 (2017: €10,888) in respect of guarantees business issued by the bank on its behalf in favour of third parties in the ordinary course of business.

29. Related party transactions

Consolidated Holdings Limited and its subsidiary form part of the Mizzi Organisation. The Mizzi Organisation is not a legal entity and does not constitute a group of companies within the meaning of the Maltese Companies Act (Cap. 386). The Organisation is a conglomerate of companies principally comprising Consolidated Holdings Limited and Mizzi Organisation Limited, together with all their respective subsidiaries, The General Soft Drinks Company Limited and GSD Marketing Limited.

The entities constituting the Mizzi Organisation are ultimately fully owned by Daragon Limited, Demoncada Holdings Limited, Demoncada Limited, Investors Limited and Maurice Mizzi. Members of the Mizzi family in turn ultimately own and control the above mentioned companies.

Accordingly, the members of the Mizzi family, the shareholder companies mentioned above, all entities owned or controlled by the members of the Mizzi family and the shareholder companies, the associates of entities comprising the Organisation and the Organisation entities' key management personnel are the principal related parties of the entities forming part of the Mizzi Organisation.

Trading transactions with these related parties would typically include interest charges, management fees, service charges and other such items which are normally encountered in a group context.

Group

In the ordinary course of their operations, group undertakings sell services to companies forming part of the Organisation for trading purposes and also purchase goods and services from these companies.

In the opinion of the directors, disclosure of related party transactions, which are generally carried out on commercial terms and conditions, is only necessary when the transactions effected have a material impact on the operating results and financial position of the group. The aggregate invoiced amounts in respect of a considerable number of transaction types carried out with related parties are not considered material and accordingly they do not have a significant effect on these financial statements.

Except for transactions disclosed or referred to previously, the following significant operating transactions, which were carried out principally with related parties forming part of Mizzi Organisation, have a material effect on the operating results and financial position of the group:

	2018	2017
	€	€
Purchases of goods and services		
Purchases of goods held for resale and services	**55,604**	128,018
Purchase of property, plant and equipment	**503,524**	2,279,615
Management fees payable	**178,590**	117,263

29. **Related party transactions** - continued

The transactions disclosed above were carried out on commercial terms. Year-end balances with related parties, arising principally from the transactions referred to previously, are disclosed in Notes 11, 16 and 18 to these financial statements. Such balances are repayable on demand, unsecured and interest free unless disclosed otherwise in the respective notes.

The group's expenditure reflected in profit or loss comprises amounts recharged from related parties forming part of Mizzi Organisation of €204,764 (2017: €69,362).

Key management personnel comprise the directors of the company and of the other group undertaking. Key management personnel compensation, consisting of directors' remuneration as disclosed in Note 25, has been recharged by a related party forming part of Mizzi Organisation.

Amounts owed to related parties as at 31 December 2018 of €205,139 (2017: €72,064) are subject to interest at 3.6% (2017: 3.6%). Interest payable to related parties is disclosed in Note 23.

Company

The company's expenditure reflected in profit or loss comprises amounts recharged from a related party forming part of Mizzi Organisation of €6,305 (2017: €6,400).

30. Statutory information

Consolidated Holdings Limited is a limited liability company and is incorporated in Malta.