

GSD MARKETING LIMITED

**Annual Report and Financial Statements
31 December 2018**

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Directors' report

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

Principal activities

The company's principal activities, which are unchanged since last year, are the importation and sale of beer, non-alcoholic beverages in cans and consumables, the sale of products through vending machines, the provision of servicing and other ancillary activities.

Review of the business

The company recorded an increase in revenue to €46,030,167 in 2018 from €41,349,789 in 2017, and gross profit increased from €3,452,240 in 2017 to €3,580,801 in 2018. An increase in distribution and selling costs as well as administrative expenses were incurred, resulting in an operating profit of €526,870 in 2018 compared to €724,197 in 2017. Despite a decrease in tax expense compared to previous year, profit for the year decreased to €297,199 when compared to €452,315 in 2017.

An increase in trade and other receivables was recorded in line with increased activity. This increment in receivables, on which management does not envisage any recoverability issues, was financed by related parties forming part of Mizzi Organisation.

Outlook for 2019

The company represents the beverage importation segment of General Soft Drinks. It operates in a highly competitive environment which is very price sensitive. The company is continuously seeking to reinforce its beverage selection and envisages to retain and grow market share for the forthcoming twelve months.

Risks and uncertainties

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

Results and dividends

The financial results are set out on page 8. The directors have proposed and paid a final net dividend of €300,000 (2017: €300,000).

The directors propose that the balance of retained earnings amounting to €1,853,806 (2017: €1,856,607) be carried forward to the next financial year.

Directors

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

Maurice F. Mizzi
Brian R. Mizzi
Kenneth C. Mizzi

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

Directors' report - continued

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements that give a true and fair view of the state of affairs of the 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 company will continue in business as a going concern.

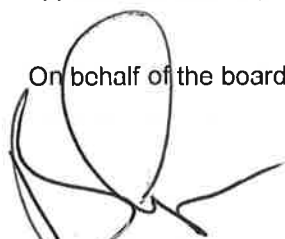
The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of GSD Marketing Limited for the year ended 31 December 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and may be made available on the company's website. The directors 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 company'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.

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



Brian R. Mizzi
Director



Maurice F. Mizzi
Director

Registered office
Marsa Industrial Estate
Marsa
Malta

6 September 2019



Independent auditor's report

To the Shareholders of GSD Marketing Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- GSD Marketing Limited's financial statements give a true and fair view of the company's financial position as at 31 December 2018, and of the 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

GSD Marketing Limited's financial statements, set out on pages 7 to 36, comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement 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 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 GSD Marketing 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 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.



Independent auditor's report - continued

To the Shareholders of GSD Marketing Limited

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 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 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.

We communicate with directors 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 GSD Marketing 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

A handwritten signature in blue ink, appearing to read 'Fabio Axisa'.

Fabio Axisa
Partner

6 September 2019


Statement of financial position

| | | As at 31 December | |
|-------------------------------------|-------|-------------------|-------------------|
| | Notes | 2018 € | 2017 € |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 4 | 1,442,808 | 1,148,562 |
| Trade and other receivables | 6 | 5,651,434 | 6,196,400 |
| Total non-current assets | | 7,094,242 | 7,344,962 |
| Current assets | | | |
| Inventories | 5 | 2,473,519 | 2,004,493 |
| Trade and other receivables | 6 | 17,783,083 | 13,024,654 |
| Current tax asset | | 60,000 | - |
| Cash and cash equivalents | 7 | 1,144,421 | 873,970 |
| Total current assets | | 21,461,023 | 15,903,117 |
| Total assets | | 28,555,265 | 23,248,079 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 8 | 2,334 | 2,334 |
| Retained earnings | | 1,853,806 | 1,856,607 |
| Total equity | | 1,856,140 | 1,858,941 |
| Current liabilities | | | |
| Trade and other payables | 9 | 26,699,125 | 21,345,875 |
| Current tax liabilities | | - | 43,263 |
| Total liabilities | | 26,699,125 | 21,389,138 |
| Total equity and liabilities | | 28,555,265 | 23,248,079 |

The notes on pages 11 to 36 are an integral part of these financial statements.

The financial statements on pages 7 to 36 were authorised for issue by the Board on 6 September 2019 and were signed on its behalf by:


Brian R. Mizzi
Director


Maurice F. Mizzi
Director

Statement of comprehensive income

| | | Year ended 31 December | |
|---------------------------------------------------------|-------|------------------------|--------------|
| | Notes | 2018 € | 2017 € |
| Revenue | 10 | 46,030,167 | 41,349,789 |
| Cost of sales | 11 | (42,449,366) | (37,897,549) |
| Gross profit | | 3,580,801 | 3,452,240 |
| Distribution and selling costs | 11 | (2,006,367) | (1,760,518) |
| Administrative expenses | 11 | (1,107,649) | (971,851) |
| Other operating income | | 60,085 | 4,326 |
| Operating profit | | 526,870 | 724,197 |
| Finance income | 13 | 8,451 | 3,666 |
| Finance costs | 14 | (2,730) | (8,045) |
| Profit before tax | | 532,591 | 719,818 |
| Tax expense | 15 | (235,392) | (267,503) |
| Profit for the year - total comprehensive income | | 297,199 | 452,315 |

The notes on pages 11 to 36 are an integral part of these financial statements.

Statement of changes in equity

| | Note | Share capital € | Retained earnings € | Total € |
|------------------------------------|------|-----------------------|---------------------------|------------------|
| Balance at 1 January 2017 | | 2,334 | 1,704,292 | 1,706,626 |
| Comprehensive income | | | | |
| Profit for the year | | | | |
| - total comprehensive income | | - | 452,315 | 452,315 |
| Transactions with owners | | | | |
| Dividends relating to 2017 | 17 | - | (300,000) | (300,000) |
| Balance at 31 December 2017 | | 2,334 | 1,856,607 | 1,858,941 |
| Comprehensive income | | | | |
| Profit for the year | | | | |
| - total comprehensive income | | - | 297,199 | 297,199 |
| Transactions with owners | | | | |
| Dividends relating to 2018 | 17 | - | (300,000) | (300,000) |
| Balance at 31 December 2018 | | 2,334 | 1,853,806 | 1,856,140 |

The notes on pages 11 to 36 are an integral part of these financial statements.

Statement of cash flows

| | | Year ended 31 December | |
|-------------------------------------------------------|-------|------------------------|-----------|
| | Notes | 2018 € | 2017 € |
| Cash flows from operating activities | | | |
| Cash generated from operations | 18 | 1,503,085 | 1,227,873 |
| Interest received | 13 | 8,451 | 3,666 |
| Interest paid | 14 | (2,730) | (8,045) |
| Tax paid | | (338,655) | (335,485) |
| Net cash generated from operating activities | | 1,170,151 | 888,009 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 4 | (599,700) | (288,060) |
| Cash flows from financing activities | | | |
| Dividends paid | 17 | (300,000) | (300,000) |
| Net movement in cash and cash equivalents | | 270,451 | 299,949 |
| Cash and cash equivalents at beginning of year | | 873,970 | 574,021 |
| Cash and cash equivalents at end of year | 7 | 1,144,421 | 873,970 |

The notes on pages 11 to 36 are an integral part of these 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

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.

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 company's accounting policies (see Note 3 - Critical accounting estimates and judgements).

As at 31 December 2018, the company's current liabilities exceeded its current assets by €5,238,102 (2017: €5,486,021). In this respect, a related party has undertaken not to request repayment of amounts due until alternative financing is available (refer to Note 2.1c)

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company'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 company's accounting policies impacting the Company's financial performance and position. The company 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 1.4 and 1.14 below. On transition to IFRS 9 and IFRS 15, the company did not require retrospective adjustments. The other standards did not have any impact on the 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 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 for IFRS16 'Leases'.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

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 company does not intend to adopt the standard earlier than its mandatory effective date. As at the reporting date, the company has non-cancellable operating lease commitments as disclosed in Note 19 to the financial statements. However, the company 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 company'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 company is still in the process of assessing and evaluating the impact of IFRS 16 on the company's operating leases where the company is the lessee.

1.2 Foreign currencies

(a) Functional and presentation currency

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

1.3 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land is subsequently shown at fair value, based on periodic valuations by professional valuers. 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 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.

1. Summary of significant accounting policies - continued

1.3 Property, plant and equipment - continued

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 company 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.

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

| | |
|-----------------------------|---------------|
| Vending and other equipment | % |
| Motor vehicles | 15 - 20 25 |

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

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 included in profit or loss.

1.4 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.

1. Summary of significant accounting policies – continued

1.4 Financial assets - continued

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.

(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 company'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.

1. Summary of significant accounting policies – continued

1.4 Financial assets - continued

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).

1.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost 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.

1.6 Trade and other receivables

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

Trade 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 company 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.

1.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

1.8 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. Summary of significant accounting policies – continued

1.9 Financial liabilities

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The company'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 company 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.

1.10 Trade and other payables

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

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

1.11 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 company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.12 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.

1.13 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 provided 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, the 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 depreciation on property, plant and equipment and provisions for impairment of trade and other receivables.

1. Summary of significant accounting policies - continued

1.13 Current and deferred tax – continued

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.

1.14 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. The company's business includes various activities as disclosed in Note 10 'Revenue'.

(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 create 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 of beverages – wholesale

The company manufactures and sells a range of beverage products in the wholesale market (including imported finished goods). Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been delivered to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the company has objective evidence that all criteria for acceptance have been satisfied.

1. Summary of significant accounting policies - continued

1.14 Revenue recognition – continued

The beverage goods are also sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (within trade and other payables) would be recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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.

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.

1. Summary of significant accounting policies - continued

1.14 Revenue recognition – continued

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

1.15 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.

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).

1.16 Operating leases

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

The company is the lessee

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

1.17 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment, investment property or property held for development and resale are capitalised as part of its cost. 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 the company's interest-bearing borrowings.

1.18 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. Summary of significant accounting policies - continued

1.19 Accounting policies applicable until 31 December 2017

1.19.1 Financial assets

Classification

The company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the 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 company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.19.2 and 1.7).

Recognition and measurement

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 classified within the loans and receivables category are recognised on settlement date, which is the date on which an asset is delivered to or by the company. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

Impairment

The company 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 company first assesses whether objective evidence of impairment exists. The criteria that the company 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.

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 of the asset 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 receivables is described in Note 1.19.2.

1. Summary of significant accounting policies - continued

1.19 Accounting policies applicable until 31 December 2017 - continued

1.19.2 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 company 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.

1.19.3 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 company's activities. Sales are recognised upon delivery of products or performance of services, net of sales taxes, returns, rebates and discounts. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the company's activities as described below.

(a) Sales of goods

Sales of goods are recognised when the company 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 is recognised when the right to receive payment is established.

(e) Other operating income, consisting mainly of advertising and other similar charges to another company forming part of Mizzi Organisation, is recognised on an accrual basis unless collectability is in doubt.

2. Financial risk management

2.1 Financial risk factors

The company's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company's board of directors provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The company 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 entity's functional currency. The company's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro. Accordingly, the company 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 company has no significant interest-bearing assets other than amounts owed by related parties subject to floating interest rates (refer to Note 21) which expose the company to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on amounts reported in the 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 at the reporting period to be immaterial. The company's interest-bearing instruments are short-term in nature and accordingly the level of interest rate risk is contained. The company's operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

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

| | 2018 € | 2017 € |
|----------------------------------------------|-------------------|-------------------|
| Financial assets measured at amortised cost: | | |
| Trade and other receivables (Note 6) | 23,237,257 | 19,115,195 |
| Cash and cash equivalents (Note 7) | 1,144,421 | 873,970 |
| | 24,381,678 | 19,989,165 |

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 company does not hold any collateral as security in this respect. The figures disclosed above in respect of trade and other receivables exclude prepayments.

2. Financial risk management - continued

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

In view of nature of the company's activities and the market in which it operates, a limited number of customers account for a certain percentage of the company'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. Generally, these customers trade frequently with the company and are deemed by management to have positive credit standing, usually taking cognisance of the performance history without defaults.

The company manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The company'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.

A significant amount of the company's goods for resale are purchased from a related party forming part of Mizzi Organisation (refer to Note 21). In turn the company sells the goods to third parties with the objective that the company acts as the sole customer facing entity for the Organisation's beverage activities. In this respect both the company and the related party make provisions for credit impaired receivables as further explained below.

Impairment of trade receivables (including contract assets)

The company 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 company 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 company uses judgement in making these assumptions and selecting the inputs to the impairment calculation and 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. Loss allowances as at year-end are disclosed in Note 6 to these financial statements.

2. Financial risk management - continued

On that basis, the loss allowance for trade receivables as at 31 December 2018 and 1 January 2018 (upon adoption of IFRS 9) was determined as follows:

| | Up to 60 days past due | 61 to 120 days past due | 121 to 272 days past due | 273 to 365 days past due | +365 days past due | Total |
|---------------------------|------------------------------|-------------------------------|--------------------------------|--------------------------------|--------------------------|------------------|
| 31 December 2018 | | | | | | |
| Expected loss rate | 0.5% - 1.3% | 1.9% - 2.6% | 4.3% | 8.4% | 100% | |
| Gross carrying amount (€) | 9,042,133 | 1,795,841 | 771,160 | 115,706 | 1,387,858 | 13,112,698 |
| Loss allowance (€) | 84,741 | 17,941 | 7,722 | 57,872 | 1,387,685 | 1,555,961 |
| | | | | | | |
| | Up to 60 days past due | 61 to 120 days past due | 121 to 272 days past due | 273 to 365 days past due | +365 days past due | Total |
| 1 January 2018 | | | | | | |
| Expected loss rate | 0.5% - 1.3% | 1.9% - 2.6% | 4.3% | 8.4% | 100% | |
| Gross carrying amount (€) | 7,826,124 | 1,147,665 | 499,860 | 347,611 | 1,780,865 | 11,602,125 |
| Loss allowance (€) | 85,873 | 21,478 | 23,234 | 85,643 | 1,137,738 | 1,353,966 |

The loss allowance for trade receivables is recognised between the company and the related party referred to previously.

The company 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, provisions for impairment in respect of credit impaired balances with corporate trade customers relate to entities which are in adverse trading and operational circumstances. Reversals of provisions for impairment of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The company does not hold any significant collateral as security in respect of the credit impaired assets.

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 company, 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.

Categorisation of receivables as past due is determined by the company 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 company'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 company's trade receivables figures.

2. Financial risk management - continued

Impairment of other receivables

The arrangement between the company and the related party referred to previously also includes receivables from customers in relation to contractual managements. In this respect, management assesses on a forward-looking basis the expected credit losses ('ECL') on the basis of the 'three-stage' model for impairment outlined by IFRS 9, based on changes in credit quality since initial recognition as summarised below:

- Other receivables that are not credit impaired on initial recognition are classified in 'Stage 1' and their credit risk is continuously monitored by the company. Their ECL is measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the receivables are moved to 'Stage 2' but are not yet deemed to be credit impaired.
- If the receivables are credit impaired, they are then moved to 'Stage 3'.
- Instruments in 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs and assumptions used in measuring the ECL are outlined below.

The assessment of SICR incorporates forward-looking information and is reviewed on a periodic basis. As required by IFRS 9, management presumptively considers that a SICR generally occurs when an asset is more than 30 days past due. The entities determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. The probability of default (PD) is also derived from internally compiled statistics and other historical data, adjusted to reflect forward-looking information.

The assessment to determine the extent of increase in credit risk attributable to other receivables since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the receivable. As a result, the definition of default is important and considers qualitative (such as non-adherence to terms and conditions of agreement) and quantitative (such as overdue status) factors where appropriate.

Management determines that a receivable is in default (or credit impaired and accordingly stage 3 for IFRS 9 purposes) by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 60 days for any material credit obligations and there are other indicators that the debtor is unlikely to pay.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and Loss Given Default (LGD) throughout the company's expected loss calculations. The LGD represents an entity's expectation of the extent of loss on a defaulted exposure.

Explanation of inputs

The ECL is measured on either a 12-month or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the product of the PD, EAD and LGD.

The PD represents the likelihood of a customer defaulting on its financial obligation either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. Accordingly, the 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the receivable, respectively.

2. Financial risk management - continued

EAD represents the expected exposure in the event of a default. The EAD of a financial asset is the gross carrying amount at default. The 12-month and lifetime EADs are determined based on the expected payment profiles.

LGD represents management's expectation of the extent of loss on a defaulted exposure. Hence, the LGD represents expected credit losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of any collateral value at the time it is expected to be realised and the time value of money.

The loss allowance for other receivables from customers in relation to contractual arrangements as at 31 December 2018 and 1 January 2018 (upon adoption of IFRS 9) was determined as follows:

| As at 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | Total |
|---------------------------------|----------------|----------------|------------------|------------------|
| Probability of default (PD) | 6.6% | 13.3% | 100% | |
| Loss given default (LGD) | 100% | 100% | 100% | |
| Gross carrying amount (EAD) - € | 3,637,433 | 3,702,446 | 1,378,827 | 8,718,706 |
| Loss allowance (€) | 242,706 | 494,087 | 1,378,827 | 2,115,620 |

| As at 1 January 2018 | Stage 1 | Stage 2 | Stage 3 | Total |
|---------------------------------|----------------|----------------|------------------|------------------|
| Probability of default (PD) | 6.6% | 13.3% | 100% | |
| Loss given default (LGD) | 100% | 100% | 100% | |
| Gross carrying amount (EAD) - € | 2,074,719 | 3,979,760 | 1,671,592 | 7,726,071 |
| Loss allowance (€) | 138,434 | 531,095 | 1,671,592 | 2,341,121 |

The loss allowance for other receivables from customers in relation to contractual arrangements is recognised in full by the related party referred to previously.

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.

Management established an allowance for impairment that represented its estimate of expected credit losses in respect of other receivables. The individually credit impaired receivables mainly relate to a number of independent debtors which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Reversals of provisions for impairment of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The company does not hold any significant collateral as security in respect of the credit impaired assets.

Receivables 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 company, and a failure to make contractual payments for a period of greater than a year past due. Credit losses 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.

2. Financial risk management - continued

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.

The expected credit loss allowances under IFRS 9 are not materially different from impairment loss allowances under the incurred loss model of IAS 39.

Amounts owed by related parties

The company's debtors include significant amounts due from related parties, primarily from related parties forming part of the Mizzi Organisation and other related parties (see Note 6). The Organisation's treasury monitors intra-group credit exposures at 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 company takes cognisance of the related party relationship with these entities and management does not expect any 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.

(c) Liquidity risk

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables (Note 9). 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 company's obligations.

A significant part of the company's purchases are made through a related party forming part of Mizzi Organisation, with the objective that the company acts as the sole customer facing entity for the Organisation's beverage activities. As a result of this arrangement, the company's trade and other payables as at 31 December 2018 include significant amounts due from this related party forming part of Mizzi Organisation (Note 9). This related party has undertaken not to request repayments of amounts due until alternative financing is available.

2. Financial risk management - continued

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 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 financing arrangements with the related party referred to above, 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 company's trade and other payables are entirely repayable within one year from the end of reporting period.

2.2 Capital risk management

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 The General Soft Drinks Company Limited and GSD Marketing Limited. The capital of the entities forming part of 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 at individual entity level are to safeguard the respective 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 company's equity, as reflected in the statement of financial position, constitutes its capital. The company maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the company's activities and the extent of borrowings or debt, the capital level at the end of the reporting period is deemed adequate by the directors.

2.3 Fair values of financial instruments

At 31 December 2018 and 2017 the carrying amounts of cash at bank, receivables, payables, and accrued expenses 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.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, 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.

4. Property, plant and equipment

| | Land € | Vending and other equipment € | Motor vehicles € | Total € |
|------------------------------------|-----------|----------------------------------------|------------------------|-------------|
| At 1 January 2017 | | | | |
| Cost | 350,034 | 1,889,137 | 12,376 | 2,251,547 |
| Accumulated depreciation | - | (1,159,526) | (12,376) | (1,171,902) |
| Net book amount | 350,034 | 729,611 | - | 1,079,645 |
| Year ended 31 December 2017 | | | | |
| Opening net book amount | 350,034 | 729,611 | - | 1,079,645 |
| Additions | - | 288,060 | - | 288,060 |
| Depreciation charge | - | (219,143) | - | (219,143) |
| Closing net book amount | 350,034 | 798,528 | - | 1,148,562 |
| At 31 December 2017 | | | | |
| Cost | 350,034 | 2,177,197 | 12,376 | 2,539,607 |
| Accumulated depreciation | - | (1,378,669) | (12,376) | (1,391,045) |
| Net book amount | 350,034 | 798,528 | - | 1,148,562 |
| Year ended 31 December 2018 | | | | |
| Opening net book amount | 350,034 | 798,528 | - | 1,148,562 |
| Additions | - | 599,700 | - | 599,700 |
| Disposals | - | (2,285) | - | (2,285) |
| Depreciation charge | - | (305,454) | - | (305,454) |
| Depreciation released on disposals | - | 2,285 | - | 2,285 |
| Closing net book amount | 350,034 | 1,092,774 | - | 1,442,808 |
| At 31 December 2018 | | | | |
| Cost | 350,034 | 2,774,612 | 12,376 | 3,137,022 |
| Accumulated depreciation | - | (1,681,838) | (12,376) | (1,694,214) |
| Net book amount | 350,034 | 1,092,774 | - | 1,442,808 |

The company's land has not been revalued since acquisition and initial recognition. The directors have assessed the fair value of this property at 31 December 2018 and 2017, which fair value was deemed to fairly approximate the carrying amount.

5. Inventories

| | 2018 € | 2017 € |
|------------------------|------------------|------------------|
| Spares and consumables | 238,277 | 151,100 |
| Goods held for resale | 2,235,242 | 1,853,393 |
| | 2,473,519 | 2,004,493 |

The cost of inventories recognised as expense is appropriately disclosed in Note 11 to the financial statements. During the current financial year, inventory write-downs amounted to €393,055 (2017: €273,112). These amounts have been included in 'Cost of sales' in profit or loss.

6. Trade and other receivables

| | 2018 € | 2017 € |
|--------------------------------------------------------------------|-------------------|-------------------|
| Current | | |
| Trade receivables - gross | 13,112,698 | 11,602,125 |
| Less: Credit loss allowances in respect of trade receivables | (341,207) | (290,062) |
| Trade receivables - net | 12,771,491 | 11,312,063 |
| Amounts owed by related parties forming part of Mizzi Organisation | 1,091,910 | 517,694 |
| Amounts owed by other related parties | 37,295 | 8,508 |
| Advance payment to suppliers | 514,082 | 11,263 |
| Other receivables | 3,171,045 | 1,069,267 |
| Prepayments | 197,260 | 105,859 |
| | 17,783,083 | 13,024,654 |
| Non-current | | |
| Other receivables | 5,651,434 | 6,196,400 |

7. Cash and cash equivalents

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

| | 2018 € | 2017 € |
|--------------------------|------------------|----------------|
| Cash at bank and in hand | 1,144,421 | 873,970 |

8. Share capital

| | 2018 € | 2017 € |
|------------------------------------------|---------------|-----------|
| Authorised | | |
| 10,000 ordinary shares of €2.329373 each | 23,294 | 23,294 |
| Issued and fully paid | | |
| 1,002 ordinary shares of €2.329373 each | 2,334 | 2,334 |

9. Trade and other payables

| | 2018 € | 2017 € |
|--------------------------------------------------------------------|-------------------|------------|
| Trade payables | 2,131,476 | 1,259,673 |
| Amounts owed to related parties forming part of Mizzi Organisation | 23,923,368 | 19,449,085 |
| Other payables | 216,291 | 229,262 |
| Indirect taxation | 117,917 | 142,344 |
| Accruals | 310,073 | 265,511 |
| | 26,699,125 | 21,345,875 |

10. Revenue

All the company's revenue relates to activities in the local beverages sector and is recognised at a point in time. It also includes revenue from the importation and sale of beer and non-alcoholic beverages in cans, the sale of products through vending machines, the provision of servicing in respect of vending machines and dispense equipment together with other ancillary activities. The company had no unfulfilled performance obligations as at 31 December 2018.

11. Expenses by nature

| | 2018 € | 2017 € |
|-----------------------------------------------------------------------------------------|-------------------|------------|
| Cost of goods sold | 42,066,620 | 37,520,126 |
| Employee benefit expense (Note 12) | 1,526,075 | 1,402,910 |
| Depreciation of property, plant and equipment (Note 4) | 305,454 | 219,143 |
| Operating lease rentals payable: | | |
| - motor vehicles | 45,684 | 45,011 |
| - property | 75,585 | 77,660 |
| Management fees and similar service charges | 712,535 | 706,558 |
| Marketing, business promotion and related expenses | 114,468 | 117,781 |
| Other expenses | 716,961 | 540,729 |
| Total cost of sales; distribution and selling costs; and administrative expenses | 45,563,382 | 40,629,918 |

11. Expenses by nature - continued

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

| | 2018 € | 2017 € |
|------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Movement in credit loss allowances in respect of trade receivables (included in 'Administrative expenses') | 51,145 | (14,627) |
| Exchange differences | (250) | (1,646) |

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:

| | 2018 € | 2017 € |
|--------------------------------------|--------------|--------------|
| Annual statutory audit | 1,800 | 2,280 |
| Tax advisory and compliance services | 330 | - |
| | 2,130 | 2,280 |

12. Employee benefit expense

| | 2018 € | 2017 € |
|-----------------------|------------------|------------------|
| Wages and salaries | 1,443,566 | 1,337,364 |
| Social security costs | 82,509 | 65,546 |
| | 1,526,075 | 1,402,910 |

Average number of persons employed by the company during the year:

| | 2018 | 2017 |
|----------------|-----------|-----------|
| Direct | 48 | 44 |
| Administration | 9 | 5 |
| | 57 | 49 |

13. Finance income

| | 2018 € | 2017 € |
|-----------------------------------------------------------------------------|------------------|-----------|
| Interest receivable from a related party forming part of Mizzi Organisation | 8,451 | 3,666 |

14. Finance costs

| | 2018 € | 2017 € |
|---------------------------|------------------|-----------|
| Bank interest and charges | 2,730 | 8,045 |

15. Tax expense

| | 2018 € | 2017 € |
|---------------------|------------------|-----------|
| Current tax expense | 235,392 | 267,503 |

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

| | 2018 € | 2017 € |
|---------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------|
| Profit before tax | 532,591 | 719,818 |
| Tax on profit at 35% | 186,407 | 251,936 |
| Tax effect of: | | |
| Movement in temporary differences arising on property, plant and equipment and credit loss allowances in respect of trade receivables | 47,935 | 15,567 |
| Expenses not deductible for tax purposes | 1,050 | - |
| Tax charge in the accounts | 235,392 | 267,503 |

At 31 December 2018, the company had deductible temporary differences, arising on property, plant and equipment and provisions for impairment of trade receivables, amounting to €682,067 (2017: €545,114). The related deferred tax assets have not been recognised in these financial statements due to the uncertainty of the realisation of the tax benefits.

16. Director's emoluments

| | 2018 € | 2017 € |
|-------------------------------|---------------|-----------|
| Salaries and other emoluments | 46,767 | 44,120 |

17. Dividends

| | 2018 € | 2017 € |
|-----------------------------------------------------------|----------------|-----------|
| Final dividends paid on ordinary shares: Net dividends | 300,000 | 300,000 |
| Dividends per share | 299.40 | 299.40 |

18. Statement of cash flows

Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

| | 2018 € | 2017 € |
|------------------------------------------------------------------------------|--------------------|-------------|
| Operating profit | 526,870 | 724,197 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment (Note 4) | 305,454 | 219,143 |
| Movement in credit loss allowances in respect of trade receivables (Note 11) | 51,145 | (14,627) |
| Changes in working capital: | | |
| Inventories | (469,026) | (839,063) |
| Trade and other receivables | (4,264,608) | (1,677,671) |
| Trade and other payables | 5,353,250 | 2,815,894 |
| Cash generated from operations | 1,503,085 | 1,227,873 |

Net debt reconciliation

The principal movements in the company's net debt related to cash flow movements and are disclosed as part of the financing activities in the statement of cash flows on page 9.

19. Commitments

Operating lease commitments – where the company is the lessee

The future minimum lease payments payable under non-cancellable motor vehicle operating leases are as follows:

| | 2018 € | 2017 € |
|---------------------------------------------------|---------------|-----------|
| Not later than one year | 43,662 | 45,653 |
| Later than one year and not later than five years | 20,338 | 60,889 |
| | 64,000 | 106,542 |

20. Contingencies

The company, together with certain other related parties forming part of Mizzi Organisation, is jointly and severally liable in respect of guarantees given to secure the banking facilities of various related parties forming part of Mizzi Organisation up to a limit of €70,725,000 (2017: €55,725,000) together with interest and charges thereon. These guarantees are supported by general hypothecary guarantees by the company on its assets for the amount of €24,482,000 (2017: €24,482,000).

21. Related party transactions

GSD Marketing Limited forms part of Mizzi Organisation. 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) of the laws of Malta. 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 Mizzi Organisation are ultimately fully owned by Daragon Limited, Demoncada Holdings Limited, Demoncada Limited, Investors Limited and Maurice Mizzi. Members of Mizzi family in turn ultimately own and control the above mentioned companies.

Accordingly, the members of Mizzi family, the shareholder companies mentioned above, all entities owned or controlled by the members of 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 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.

In the ordinary course of its operations, the company sells goods and services to companies forming part of the Organisation for trading purposes and also purchases 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 company. 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.

21. Related party transactions - continued

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 company:

| | 2018 € | 2017 € |
|-----------------------------------------------------------------|-------------------|-------------------|
| Sales of goods and services | | |
| Revenue from servicing, advertising and similar service charges | 482,836 | 469,145 |
| Sale of goods held for resale | 1,005,243 | 652,887 |
| | 1,488,079 | 1,122,032 |
| Purchases of goods and services | | |
| Purchases of goods held for resale and services | 32,998,681 | 29,948,799 |
| Management fees payable | 92,690 | 80,414 |
| Motor vehicle operating lease rentals payable | 56,729 | 46,931 |
| | 33,148,100 | 30,076,144 |

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 6 and 9 to these financial statements.

The company's expenditure reflected in profit or loss comprises amounts recharged from related parties forming part of Mizzi Organisation of €2,019,168 (2017: €1,882,090).

Key management personnel comprise the directors' remuneration of the company. Key management personnel compensation, consisting of directors' remuneration as disclosed in Note 16, has been recharged by a related party forming part of Mizzi Organisation.

Amounts owed by related parties as at 31 December 2018 of €112,229 (2017: €108,394) are subject to interest at 3.15% (2017: 3.15%). Interest receivable from related parties is disclosed in Note 13.

22. Statutory information

GSD Marketing Limited is a limited liability company and is incorporated in Malta.