

MIZZI ORGANISATION

Combined Financial Statements
for the financial year ended 31 December 2018

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Independent auditor's report

To the Owners of Mizzi Organisation

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Mizzi Organisation's combined financial statements give a true and fair view of the financial position of the entities constituting the Mizzi Organisation, as set out in Note 1.1 – Basis of preparation, as at 31 December 2018, and of their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and on the basis set out in the said Note 1.1 to the combined financial statements.

What we have audited

The Mizzi Organisation's combined financial statements, set out on pages 4 to 105, comprise:

- the combined statement of financial position as at 31 December 2018;
- the combined income statement and combined statement of comprehensive income for the year then ended;
- the combined statement of changes in equity for the year then ended;
- the combined statement of cash flows for the year then ended; and
- the notes to the combined 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 Mizzi Organisation 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 Owners of Mizzi Organisation

Emphasis of the matter

Without qualifying our opinion, we draw attention to the fact that, as outlined in Note 1.1 – Basis of preparation, these combined financial statements have been prepared on the basis of the assumption that the Mizzi Organisation has operated as a legal group and a single consolidated entity. This financial information is not necessarily indicative of the Mizzi Organisation's financial position and financial performance that would have actually been presented had the Organisation actually operated as a legal group and a single consolidated entity.

Restriction on use

This report is solely intended for the information and use of the owners as referred to in Note 1.1 to these combined financial statements. Readers are cautioned that the combined financial statements may not be appropriate for any other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

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

The directors of the entities constituting the Mizzi Organisation are responsible for the preparation of these combined financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and on the basis set out in Note 1.1 – Basis of preparation, 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 combined financial statements, the directors are responsible for assessing the Mizzi Organisation'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 Organisation or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for ensuring the company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the combined 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.



Independent auditor's report - continued

To the Owners of Mizzi Organisation

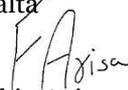
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Organisation to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the Organisation audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta



Fabio Axisa

Partner

6 September 2019

- a) The maintenance and integrity of the Mizzi Organisation website is the responsibility of the directors of the entities constituting the Mizzi Organisation; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the combined financial statements since they were initially presented on the website.
- b) Legislation in Malta governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Combined statement of financial position

		At 31 December	
	Notes	2018 €	2017 €
ASSETS			
Non-current assets			
Property, plant and equipment	5	121,767,149	119,708,110
Investment property	6	59,948,097	51,295,510
Intangible assets	7	131,898	60,000
Investments in associates	8	22,836,698	23,999,877
Loans and advances	9	575,938	575,938
Financial assets at FVOCI (2017: Available-for-sale financial assets)	10	4,661,322	5,798,530
Deferred tax assets	23	272,593	284,304
Trade and other receivables	11	16,771,647	14,999,560
		226,965,342	216,721,829
Current assets			
Inventories	13	30,612,794	30,064,042
Trade and other receivables	11	42,040,091	37,218,041
Loans and advances	9	200,000	200,000
Current tax assets		1,012,493	1,138,981
Financial assets at FVPL	14	1,205,636	719,424
Cash and cash equivalents	15	5,553,846	5,952,802
		80,624,860	75,293,290
Assets classified as held for sale	16	3,548	1,587,871
		80,628,408	76,881,161
Total assets		307,593,750	293,602,990

Combined statement of financial position - continued

	Notes	At 31 December	
		2018 €	2017 €
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	2,468,437	2,468,437
Capital contribution reserve	17	3,042,999	-
Revaluation reserves	18	56,525,088	57,061,452
Fair value gains and other reserves	19	27,487,566	28,248,427
Hedging reserve	20	(506,244)	(527,992)
Retained earnings		58,858,271	57,034,574
Total equity		147,876,117	144,284,898
Non-current liabilities			
Trade and other payables	21	8,926	9,818
Borrowings	22	70,742,124	61,028,399
Deferred tax liabilities	23	12,294,908	12,298,031
Derivative financial instruments	24	778,837	812,296
Total non-current liabilities		83,824,795	74,148,544
Current liabilities			
Trade and other payables	21	44,177,126	46,300,320
Current tax liabilities		480,431	692,570
Borrowings	22	31,235,281	28,176,658
Total current liabilities		75,892,838	75,169,548
Total liabilities		159,717,633	149,318,092
Total equity and liabilities		307,593,750	293,602,990

The notes on pages 11 to 105 are an integral part of these combined financial statements.

The combined financial statements on pages 4 to 105 were authorised for issue by the boards of directors of the entities constituting the Mizzi Organisation on 6 September 2019 and were signed on their behalf by:


 Maurice F. Mizzi
 Director
 Consolidated Holdings Limited
 GSD Marketing Limited
 Mizzi Organisation Limited
 The General Soft Drinks Company Limited


 Brian R. Mizzi
 Director
 Consolidated Holdings Limited
 GSD Marketing Limited
 Mizzi Organisation Limited
 The General Soft Drinks Company Limited

Combined income statement

	Notes	Year ended 31 December	
		2018 €	2017 €
Revenue	25	175,016,920	162,107,470
Cost of sales		(127,384,280)	(122,474,716)
Gross profit		47,632,640	39,632,754
Selling and other direct expenses		(24,870,108)	(20,013,968)
Administrative expenses		(16,451,775)	(13,063,311)
Net gains from changes in fair value of investment property	6	-	5,461,104
Write-downs of carrying amount of assets classified as held for sale	16	-	(16,000)
Other operating income	28	1,678,936	1,192,386
Operating profit		7,989,693	13,192,965
Investment and other related income	29	126,157	380,622
Finance income	30	90,301	23,549
Finance costs	31	(3,462,297)	(2,490,046)
Share of profits of associates	8	1,716,459	1,491,778
Profit before tax		6,460,313	12,598,868
Tax expense	32	(1,031,601)	(1,488,060)
Profit for the year		5,428,712	11,110,808

The notes on pages 11 to 105 are an integral part of these combined financial statements.

Combined statement of comprehensive income

	Notes	Year ended 31 December	
		2018 €	2017 €
Profit for the year		5,428,712	11,110,808
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	18	(47,182)	(271,128)
Financial assets at FVOCI:			
- Gains from changes in fair value	18	(161,685)	-
Share of other comprehensive income of associate:			
- Redemption of capitalised ground rents	8	(232,836)	(4,492)
<i>Items that may be subsequently reclassified to profit or loss</i>			
Available-for-sale financial assets:			
- Gains from changes in fair value	18	-	39,205
- Reclassification adjustments for net gains included in profit or loss upon disposal	18	-	(23,775)
Cash flow hedges, net of deferred tax	20	21,748	285,620
Other comprehensive income for the year, net of tax		(419,955)	25,430
Total comprehensive income for the year		5,008,757	11,136,238

The notes on pages 11 to 105 are an integral part of these combined financial statements.

Combined statement of changes in equity

	Notes	Share capital €	Hedge reserves €	Revaluation reserves €	Fair value gains and other reserves €	Retained earnings €	Total €
Balance at 1 January 2017		2,468,437	(813,612)	57,467,349	22,938,766	53,087,720	135,148,660
Comprehensive income							
Profit for the year		-	-	-	-	11,110,808	11,110,808
Other comprehensive income:							
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	18	-	-	(271,128)	-	-	(271,128)
Depreciation transfer, net of deferred tax	18	-	-	(33,889)	-	33,889	-
Gains from changes in fair value of available-for-sale financial assets	18	-	-	39,205	-	-	39,205
Reclassification adjustments for net gains included in profit or loss upon disposal of available-for-sale financial assets	18	-	-	(23,775)	-	-	(23,775)
Transfer of fair value gains on investment property arising during the year, net of deferred tax movements determined on the basis applicable to property disposals	19	-	-	-	4,900,594	(4,900,594)	-
Transfer of movement in deferred tax liability on fair value gains on investment property determined on the basis applicable to property disposals	19	-	-	-	413,559	(413,559)	-
Cash flow hedges, net of deferred tax	20	-	285,620	-	-	-	285,620
Share of other comprehensive income of associates:							
Share of depreciation transfer upon realisation through asset use in respect of revalued land and buildings of an associate	18	-	-	(116,310)	-	116,310	-
Share of redemption of capitalised ground rents in associate	8	-	-	-	(4,492)	-	(4,492)
Total other comprehensive income		-	285,620	(405,897)	5,309,661	(5,163,954)	25,430
Total comprehensive income		-	285,620	(405,897)	5,309,661	5,946,854	11,136,238
Transactions with owners							
Dividends relating to 2017	34	-	-	-	-	(2,000,000)	(2,000,000)
Balance at 31 December 2017		2,468,437	(527,992)	57,061,452	28,248,427	57,034,574	144,284,898

Combined statement of changes in equity - continued

	Notes	Share capital €	Capital contribution reserve €	Hedge reserves €	Revaluation reserves €	Fair value gains and other reserves €	Retained earnings €	Total €
Balance at 1 January 2018 - as previously reported		2,468,437	-	(527,992)	57,061,452	28,248,427	57,034,574	144,284,898
<i>Impact of changes in accounting policies:</i>								
Transition adjustment upon adoption of IFRS 15 on 1 January 2018	2	-	-	-	-	-	(39,037)	(39,037)
Transition adjustment upon adoption of IFRS 9 on 1 January 2018	2	-	-	-	(177,294)	-	(2,144,206)	(2,321,500)
Balance at 1 January 2018 - as restated		2,468,437	-	(527,992)	56,884,158	28,248,427	54,851,331	141,924,361
Comprehensive income								
Profit for the year		-	-	-	-	-	5,428,712	5,428,712
Other comprehensive income:								
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	18	-	-	-	(47,182)	-	-	(47,182)
Depreciation transfer, net of deferred tax	18	-	-	-	(33,889)	-	33,889	-
Gains from changes in fair value of financial assets at FVOCI	18	-	-	-	(161,685)	-	-	(161,685)
Transfer of movement in deferred tax liability on fair value gains on investment property determined on the basis applicable to property disposals	19	-	-	-	-	67,214	(67,214)	-
Realised fair value gains on property upon disposal, net of deferred tax movements determined on the basis applicable to property disposals	19	-	-	-	-	(641,999)	641,999	-
Cash flow hedges, net of deferred tax	20	-	-	21,748	-	-	-	21,748
Share of other comprehensive income of associates:								
Share of depreciation transfer upon realisation through asset use in respect of revalued land and buildings of an associate	18	-	-	-	(116,314)	-	116,314	-
Share of redemption of capitalised ground rents in associate	8	-	-	-	-	(186,076)	(46,760)	(232,836)
Total other comprehensive income		-	-	21,748	(359,070)	(760,861)	678,228	(419,955)
Total comprehensive income		-	-	21,748	(359,070)	(760,861)	6,106,940	5,008,757
Transactions with owners								
Dividends relating to 2018	34	-	-	-	-	-	(2,100,000)	(2,100,000)
Capital contributions arising from amounts owed to shareholders which have been waived	17	-	3,042,999	-	-	-	-	3,042,999
Balance at 31 December 2018		2,468,437	3,042,999	(506,244)	56,525,088	27,487,566	58,858,271	147,876,117

The notes on pages 11 to 105 are an integral part of these combined financial statements.

Combined statement of cash flows

	Notes	Year ended 31 December	
		2018 €	2017 €
Cash flows from operating activities			
Cash generated from operations	35	9,434,097	9,140,690
Dividends received		2,937,225	495,381
Interest received	30	90,301	23,549
Interest paid		(3,448,573)	(2,847,564)
Tax paid		(1,167,557)	(1,614,631)
Net cash generated from operating activities		7,845,493	5,197,425
Cash flows from investing activities			
Payments for property, plant and equipment		(12,589,715)	(21,586,548)
Proceeds from disposal of property, plant and equipment		1,333,690	1,385,882
Payments for investment property	6	(9,463,196)	(2,384,503)
Payments for intangible assets	7	(93,220)	(60,000)
Payments for investments in associates	8	(64,000)	(8,001)
Advances to associate	9	-	(200,107)
Purchase of available-for-sale financial assets	10	-	(204,286)
Proceeds from disposal of financial assets at FVOCI (2017: available-for-sale financial assets)	10	80,726	165,728
Purchase of financial assets at FVPL	14	(498,502)	(75,974)
Proceeds from disposal of financial assets at FVPL	14	806,821	117,544
Proceeds from disposal of assets classified as held for sale	16	1,584,323	-
Net cash used in investing activities		(18,903,073)	(22,850,265)
Cash flows from financing activities			
Proceeds from bank borrowings	22	16,854,474	7,481,985
Repayments of bank borrowings	22	(6,472,466)	(2,963,610)
Repayments of borrowings from related parties	22	-	(35,735)
Proceeds from borrowings from associate	22	721,490	1,032,353
Repayments of borrowings from associate	22	(2,040,014)	-
Dividends paid	34	(2,100,000)	(2,000,000)
Net cash generated from financing activities		6,963,484	3,514,993
Net movements in cash and cash equivalents		(4,094,096)	(14,137,847)
Cash and cash equivalents at beginning of year		(12,696,981)	1,440,866
Cash and cash equivalents at end of year	15	(16,791,077)	(12,696,981)

The notes on pages 11 to 105 are an integral part of these combined financial statements.

Notes to the combined financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these combined 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 combined financial statements have been prepared solely to assist the owners of the Mizzi Organisation to present the financial position and results of the entities forming part of the Mizzi Organisation.

These combined financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial information has been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category within property, plant and equipment, investment property, financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income.

The preparation of combined financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors of the entities forming part of the Mizzi Organisation to exercise their judgement in the process of applying the Organisation's accounting policies (see Note 4 – Critical accounting estimates and judgements).

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the Organisation adopted amendments and interpretations to existing standards that are mandatory for the Organisation'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 Organisation's accounting policies impacting the Organisation's financial performance and position. The Organisation had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9, 'Financial Instruments', and
- IFRS 15, 'Revenue from Contracts with Customers'.

The new accounting policies are disclosed in Note 1 below. The impact of the adoption of these standards is disclosed in Note 2. The other standards did not have any impact on the Organisation's accounting policies and did not require retrospective adjustments.

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

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

IFRS 16, 'Leases'

IFRS 16 was published in January 2016. The Organisation will apply the standard from its mandatory adoption date of 1 January 2019, replacing IAS 17 'Leases'.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Under IFRS 16, "Leases", a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. IFRS 16 removes the distinction between operating and finance leases for lessees, and requires them to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts; the only exceptions are short-term and low-value leases. The Organisation will apply the standard from its mandatory adoption date of 1 January 2019 and will apply the simplified transition approach. Under this approach, the Organisation will not restate comparative amounts for the year prior to first adoption, the lease liability is measured at the present value of the remaining lease payments as at 1 January 2019, and the right-of-use assets at that date will be measured at an amount equivalent to this lease liability plus prepaid lease expenses.

The Organisation has entered into lease arrangements for the use of immovable properties; these arrangements were classified as operating leases under IAS 17. As at the reporting date, the Organisation has non-cancellable operating lease commitments in respect of the lease of these immovable properties which amounted to €38,128,000.

Management has estimated that the lease liability for the Organisation's lease arrangements amounts to circa €21,100,000, and the right-of-use asset at that date amounts to circa €21,530,000, which is inclusive of the prepaid rent at 1 January 2019; management is assessing the impact on deferred tax balances, and there is no adjustment to equity upon initial application of the standard. The adoption of IFRS 16 will also result in the replacement of operating lease rental expenditure on this arrangement by amortisation of the right-of-use asset, and by an interest cost on the lease liability. Management estimates that rental costs on these arrangements, amounting to around €1,666,000 for the year ending 31 December 2019, will be replaced by an annual amortisation charge on the right-of-use asset amounting to €1,340,000 and a notional interest expense of €646,000. The adoption of IFRS 16 will therefore result in a decrease of circa €320,000 in profitability for the year ending 31 December 2019.

Rental payments under IFRS 16 are allocated between interest payments and a reduction in the lease liability, with a corresponding impact on the Organisation's statement of cash flows. The reduction in lease liability, amounting to €1,020,000 for the year ending 31 December 2019, will accordingly be reported as a financing cash flow instead of an operating cash flow. The Organisation will be presenting rental payments allocated to interest, amounting to €646,000 for the year ending 31 December 2019, as operating cash flows in accordance with the Organisation's accounting policy.

The Mizzi Organisation

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

Ultimately, common individuals forming part of the Mizzi family and/or common individual companies owned by these individuals equally own the entities disclosed above. However these entities do not form a legal group and fail to meet the definition of a 'group' under the requirements of IFRSs as adopted by the EU. The financial results and financial position of these entities are not consolidated into the financial statements of a single legal company on a statutorily required basis, since no individual company owns or controls them. The companies constituting the Mizzi Organization are all owned by the same parties in the same proportions and are managed together as a single economic entity, notwithstanding the fact that a certain degree of autonomy and flexibility is granted to individual operating companies in the Organisation.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

These combined financial statements have been prepared on the basis of the assumption that the Mizzi Organisation has operated as a legal group and a single consolidated entity. This financial information is not necessarily indicative of the Mizzi Organisation's financial position and financial performance that would have actually been presented had the Organisation actually operated as a legal group and a single consolidated entity.

The combined financial statements for the Mizzi Organisation have been prepared by aggregating the consolidated financial statements of the companies constituting the Mizzi Organisation, since all these entities are under common management and control but do not form a legal group. In terms of generally accepted accounting practice, all entities managed in this manner should be included in the combined financial statements.

The total authorised, issued and fully paid up share capital in the combined financial statements has been assumed to be the aggregate of all of the authorised, issued and fully paid up share capital of Consolidated Holdings Limited, Mizzi Organisation Limited, The General Soft Drinks Company Limited and GSD Marketing Limited.

The aggregated financial information has been adjusted to eliminate the impacts of all intra-Organisation transactions and balances, and to reflect the appropriate classification of and accounting treatment for property owned by the Organisation taking cognisance of use of such assets from the Organisation's perspective. Accordingly, for the purposes of this combined financial information, property which is occupied by any company within the Mizzi Organisation is classified as property, plant and equipment and is accounted for in accordance with IAS 16 (refer to accounting policy 1.5) since such property would be considered as owner-occupied.

The entities forming part of the Mizzi Organisation, whose results and financial position affected the figures of the Organisation in these combined financial statements are shown below.

(i) Consolidated Holdings Limited

The principal activity of Consolidated Holdings Limited is the holding of investments. The registered address of the holding company is Mizzi Organisation corporate office, Testaferrata Street, Ta' Xbiex, Malta. The only subsidiary held directly by Consolidated Holdings Limited is as follows:

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

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

(ii) Mizzi Organisation Limited

The principal activity of Mizzi Organisation Limited is the holding of investments and managing the affairs of the other companies within the Mizzi Organisation. In recent years this undertaking also adopted a financing function to the companies forming part of the Organisation. The registered address of the holding company is Mizzi Organisation Corporate office, Testaferrata Street, Ta' Xbiex, Malta. The principal subsidiaries held directly by Mizzi Organisation Limited are as follows:

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
Mizzi Brothers Limited	Sale of clothes and similar goods from rented premises	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100
Mizzi Estates Limited	Renting out of property, mainly to other companies forming part of the Mizzi Organisation, and sale of property development	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100
Mizzi Organisation Finance p.l.c.	Finance and investment company in connection with the ownership, development, operation and financing of the business activities of the companies forming part of the Mizzi Organisation	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100
Muscats Motors Limited	Importation and sale of motor vehicles and spare parts, together with the provision of other ancillary services	Muscats Garage Rue D' Argens Gzira Malta	Ordinary shares	100	100
Industrial Motors Limited	Importation and sale of motor vehicles and spare parts, together with the provision of other ancillary services	Antonio Bosio Street Msida Malta	Ordinary shares	100	100
United Acceptances Finance Limited	Finance company which entails granting and administering hire purchase agreements	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
Arkadia Marketing Limited	Owner and operator of shopping and commercial centres and the sale of foodstore and other goods	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares 5% Non-redeemable preference shares	100 100	100 100
Continental Cars (Imports) Limited	Importation and sale of motor vehicles (non-trading)	Continental Garage Testaferrata Street Msida Malta	Ordinary shares	100	100
Continental Cars Limited	Importation and sale of motor vehicles and spare parts, together with the provision of other ancillary services	Continental Garage Testaferrata Street Msida Malta	Ordinary shares	100	100
Festa Limited	Provision of holiday related services and involvement in the administration of the car leasing operations	Industrial House Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100
Hubbalit Developments Limited	Owner of site for development (non-trading)	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100
Mizzi Limited	Importation and sale of domestic appliances and spare parts, together with the provision of other ancillary services	The Lyric Antonio Bosio Street Msida Malta	Ordinary shares	100	100
Mizzi Organisation International s.r.o. (in dissolution)	Non-trading	Palisady 29 Bratislava 811 06 Slovakia	Ordinary shares	100	100
Nissan Motor Sales Limited	Importation and sale of motor vehicles and spare parts, together with the provision of other ancillary services	Industrial House National Road Blata l-Bajda Malta	Ordinary shares	100	100
St. Paul's Court Limited	Owner of property (non-trading)	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
Titan International Limited	Importation, sale and servicing of power, heating and ventilation equipment and lifts	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100
Mizzi Motors Limited	Sale and leasing out of motor vehicles	200, Rue D'Argens Gzira Malta	Ordinary shares	100	100
CIE Recruitment International Limited	Recruitment agency	Mizzi Organisation Corporate Office Testaferrata Street Malta	Ordinary shares	60	60

The impact of the non-controlling interest in CIE Recruitment International Limited on the Organisation's financial results and financial position is insignificant.

The subsidiary held by Mizzi Organisation Limited through Festa Limited is as follows:

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
Malta Farmhouses Limited	Owner of property for development (non-trading)	Mizzi Organisation Corporate Office Testaferrata Street Malta	Ordinary shares	100	100

The subsidiary held by Mizzi Organisation Limited through Arkadia Marketing Limited is as follows:

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
Arkadia Catering Limited	Operator of foodstore and catering establishments within the 'Valletta Market'	Mizzi Organisation Corporate Office Testaferrata Street Malta	Ordinary shares	100	100

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

The subsidiaries held by Mizzi Organisation Limited through Nissan Motor Sales Limited, Continental Cars Limited and Muscats Motors Limited, in equal shareholding proportions of 33¹/₃% each, are as follows:

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
All About Car Parts Limited	Importation and sale of motor vehicle spare parts	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100
Mizzi Automotive Services Limited	Provision of panel beating, spray painting and other services in the automotive industry, together with sale of spare parts	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	100	100

(iii) The General Soft Drinks Company Limited

The principal activity of The General Soft Drinks Company Limited is the bottling of soft drinks, mineral water and other beverages. The registered address of the company is Marsa Industrial Estate, Marsa, Malta.

(iv) GSD Marketing Limited

The principal activity of GSD Marketing Limited is the importation and sale of beer, non-alcoholic beverages and consumables, the sale of products through vending machines, the provision of servicing and other ancillary activities. The registered address of the company is Marsa Industrial Estate, Marsa, Malta.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Associates of the Mizzi Organisation

The principal associates whose results and financial position affected the figures of the Mizzi Organisation in this combined financial information are shown below.

(i) Consolidated Holdings Limited

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
Mizzi Associated Enterprises Limited	The ownership and operation of hotels, and the development of property for trading and rental purposes	30 Archbishop Street Valletta Malta	Ordinary shares	51	51

Following a reorganisation process in Mizzi Associated Enterprises Limited in December 2017 (refer to Note 8), Consolidated Holdings Limited also holds directly shares in the following companies:

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
Mellieha Bay Hotel Limited	Owner and operator of the 'Mellieha Bay Hotel'	Mellieha Bay Hotel Marfa Road, Ghadira Malta	Ordinary shares	51	51
Kemmuna Limited	Owner and operator of the 'Comino Hotel'	30 Archbishop Street Valletta Malta	Ordinary shares	24	24

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

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

(ii) Mizzi Organisation Limited

Name	Principal activity	Registered office	Class of shares held	Percentage shares held	
				2018 %	2017 %
Institute of English Language Studies Limited	The provision of English language courses to foreign students and other related activities	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	50	50
The Players Group Limited	Holding of investment in Maltco Lotteries Limited	8/1, Magazines Junction Floriana Malta	Ordinary shares	25	25
FirstUnited Insurance Brokers Limited	To operate as an insurance broker	25, Villa Eden Princess Elizabeth Street Ta' Xbiex Malta	Ordinary shares	31¼	31¼
Primax Limited	Holding of investments	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	50	50
Aquibix Limited	To deliver IT solutions and create and sell IT products	St. Michael's Farmhouse Triq I-Arznu, Maghtab Naxxar Malta	Ordinary shares	50	50
Finopz Limited	To deliver IT solutions and create and sell IT products	Palladium House 1-4 Argyll Street London W1F 7LD United Kingdom	Ordinary shares	50	-
Dial-a-Cab Limited (in dissolution)	The provision of taxi services	Capital Business Centre Taz-Zwejt Street, San Gwann Malta	Ordinary shares	50	50

The shareholding in Institute of English Language Studies Limited is held through Festa Limited, a subsidiary of Mizzi Organisation Limited. All the other shareholdings are held directly by Mizzi Organisation Limited.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

(iii) The General Soft Drinks Company Limited

Name	Principal activity	Registered office	Class of shares held	Percentage of shares held	
				2018 %	2017 %
Malta Deposit and Return System Limited (in dissolution)	Non-trading - in liquidation	Mizzi House National Road Blata l-Bajda Malta	Ordinary shares Redeemable preference shares	35½ 35½	35½ 35½

The shareholding is held directly by The General Soft Drinks Company Limited.

1.2 Consolidation

(a) Subsidiaries

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

The Organisation uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Organisation. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Organisation recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

Intra-Organisation transactions, balances and unrealised gains on transactions between entities forming part of Mizzi Organisation are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Organisation.

(b) Associates

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

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

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

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

1.3 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Organisation's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The combined financial statements are presented in euro, which is the Organisation's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Companies forming part of Mizzi Organisation

The results and financial position of all the entities forming part of Mizzi Organisation that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of each reporting period;
- (ii) income and expenses for each performance statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

1. Summary of significant accounting policies - continued

1.4 Business combinations involving entities under common control

Business combinations involving entities under common control are transactions in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. The key feature of a transaction among entities under common control is that there is no change in the ultimate control of the combining entities as a result of the transaction. Control could be exercised by a group of individuals that are all part of the same close family group when they have the collective power to govern the financial and operating policies of the entity.

The Organisation has chosen to apply the pooling of interests method to account for transactions involving entities under common control. The Organisation accounts for business combinations involving entities under common control by recording:

- a) the transaction as if it had already taken place at the beginning of the earliest period presented;
- b) the assets and liabilities of the acquired entity using predecessor book values from the consolidated financial statements of the controlling party, and
- c) the difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity as an adjustment to equity.

When the controlling party does not prepare financial statements, the book values from the financial statements of the acquired entity are used.

1.5 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organisation 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.

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

1. Summary of significant accounting policies - continued

1.5 Property, plant and equipment - continued

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

	%
Buildings	1 - 2
Improvements to premises	2 - 33 $\frac{1}{3}$
Plant, machinery and operational equipment	5 - 33 $\frac{1}{3}$
Furniture, fittings and office equipment	5 - 33 $\frac{1}{3}$
Motor vehicles	10 - 33 $\frac{1}{3}$

Freehold land is not depreciated as it is deemed to have an indefinite life. Assets in the course of construction and payments on account are not depreciated. Buildings and integral assets capitalised in respect of leasehold property are depreciated over the term of the property lease arrangement or over the estimated useful life of the assets if shorter than the lease term, ranging from ten to twenty years.

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

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

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Property, plant and equipment that suffered an impairment is reviewed for possible reversal of the impairment at the end of each reporting period.

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

1.6 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property, when such identification is made. Investment property principally comprises land and buildings.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property 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. After initial recognition, investment property is carried at fair value, representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

1. Summary of significant accounting policies - continued

1.6 Investment property - continued

These valuations are reviewed regularly by a professional valuer. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Organisation and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the Organisation decides to dispose of an investment property without development, the Organisation continues to treat the property as an investment property. Similarly, if the Organisation begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus; with any remaining decrease charged to profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

For a transfer from inventories to investment property, arising on changes in intended use as evidenced by commencement of an operating lease arrangement rather than sale, any difference between the property's fair value at the transfer date and its previous carrying amount within inventories shall be recognised in profit or loss.

1. Summary of significant accounting policies - continued

1.7 Intangible assets

(a) Goodwill

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

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

(b) Franchise and licence rights

Franchise rights and licence rights are measured initially at historical cost. Franchise and licence rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of franchise and licence rights over their estimated useful lives (5 - 10 years).

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.8 Financial assets

Classification

From 1 January 2018, the Organisation 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 Organisation 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 Organisation reclassifies debt investments when and only when its business model for managing those assets changes.

1. Summary of significant accounting policies - continued

1.8 Financial assets - continued

Recognition and derecognition

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

Measurement

At initial recognition, the Organisation 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 Organisation's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Organisation 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.

1. Summary of significant accounting policies - continued

1.8 Financial assets - continued

(b) Equity instruments

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

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

Impairment

From 1 January 2018, the Organisation 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 Organisation 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).

For hire purchase debtors and other receivables, the Organisation 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 (see Note 2 for further details).

1.9 Inventories

Goods held for resale

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the following methods:

- inventories of motor vehicles and motorcycles are valued by specifically identifying their individual costs;
- inventories of spare parts, stocks of goods held for resale and other stocks are valued on the weighted average cost method.
- inventories of hotel food, beverages and other related goods are valued using the first-in, first-out method.

The cost of inventories, including that of new materials, comprises the invoiced value of goods and, in general, includes transport and handling costs. The cost of manufactured finished goods comprises raw materials, direct labour, other direct costs and related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. In respect of container stocks, net realisable value is estimated by writing down the cost of these stocks to estimated residual values over their estimated useful life.

1. Summary of significant accounting policies - continued

1.9 Inventories - continued

Property held for development and resale

When the main object of a property project is development for resale purposes, the asset is classified in the financial statements as inventories. Property is also classified as inventory, where there is a change in use of investment property evidenced by the commencement of development with a view to sale. Such property would be reclassified at the deemed cost, which is the fair value at the date of reclassification. Development property is carried at the lower of cost and net realisable value. Cost comprises the purchase cost of acquiring the land together with other costs incurred during its subsequent development, including costs incurred on demolition, site clearance, excavation, construction and other related activities. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

1.10 Trade and other receivables

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

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

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

1. Summary of significant accounting policies - continued

1.11 Amounts receivable from hire purchase debtors

An entity forming part of the Mizzi Organisation acquires and finances trade receivables arising from the sale of goods and services by other companies within the Organisation. These receivables are transferred to this entity upon origination, once hire purchase terms are granted upon sale of goods or services, at their face value with no rights of recourse whatsoever. Accordingly, credit loss allowances attributable to amounts receivable from hire purchase debtors are recognised in the entity's profit or loss.

Amounts receivable from hire purchase debtors are covered by bills of exchange for the face value of the debts financed together with the amount of the hire purchase interest element which would be earned over the entire period of credit. The interest element of the bills of exchange is accounted for as income and as a receivable from hire purchase debtors over the credit period as interest accrues with the passage of time. Acquired receivables are initially recognised at the face value or cost of the hire purchase debts financed. Subsequent to initial recognition, amounts receivable from hire purchase debtors are carried at the face value of the debts financed adjusted for the recognition of hire purchase interest income, less credit loss allowances in respect of these receivables. Provision for impairment of hire purchase receivables is further described in Note 2.

Receivables covered by bills of exchange factored out to bankers with an option to repurchase them at face value as they fall due are not derecognised from the Organisation's statement of financial position. The entity would have retained substantially all the risks and rewards of ownership of the hire purchase receivables which it factors out to bankers. The transferee does not have the ability to obtain the benefits of the receivables and the transferor retains substantially all the risks of the assets. Essentially these factoring facilities are accounted for as collateralised borrowings for an amount of the face value of the bills of exchange subject to interest charges.

Receivables covered by bills of exchange factored out to bankers without an option to repurchase them as they fall due are derecognised by the subsidiary since the transferor would have transferred substantially all the risks and rewards of ownership of the hire purchase receivables. The transferee has the ability to obtain the benefits of the underlying receivables i.e. the right to receive a stream of cash flows in the form of principal and interest amounts. The banker's right of recourse under this facility is limited to 15% of the value of the bills factored in the preceding six months, which is not deemed to be a transfer of risk in view of the limited recourse period. A financial liability would be recognised in this respect at fair value.

1.12 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, bank overdrafts and the current portion of the factoring facility in respect of bills of exchange factored out. The bank overdrafts and the short-term portion of the facility in respect of bills of exchange factored out are shown within borrowings in current liabilities in the statement of financial position.

1. Summary of significant accounting policies - continued

1.13 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale, and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction, rather than through continuing use, and a sale is considered highly probable. These assets may be a component of an entity, a disposal group or an individual non-current asset.

1.14 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. The composition of the share capital for the purpose of these combined financial statements is described in the Basis of preparation in the Note 1.1.

1.15 Financial liabilities

The Organisation recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Organisation's financial liabilities, other than derivative contracts, 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 Organisation 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.

1.16 Trade and other payables

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

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

Preference shares which are mandatorily redeemable on or by a specific date, are classified as liabilities. The dividend on these preference shares is recognised in profit or loss as interest expense.

1.18 Derivative financial instruments

The Organisation elected to retain the provisions and accounting policies for derivative financial instruments that applied under IAS 39.

Derivative financial instruments consisting mainly of interest rate swap agreements, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

1. Summary of significant accounting policies - continued

1.18 Derivative financial instruments - continued

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability if the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

On the date a derivative contract is entered into, the Organisation designates certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met. Under the requirements of IAS 39, the criteria for a derivative instrument to be accounted for as a cash flow hedge include:

- formal documentation of the hedging instrument, hedging item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

Accordingly, the Organisation documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific forecast transactions. The Organisation also documents its assessment, both at the hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedging reserve in equity.

Where the forecast transaction results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged forecast transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the Organisation's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in profit or loss when the hedged forecast transaction affects profit or loss. However, if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The fair values of derivative instruments held for hedging purposes are disclosed in Note 23 to the financial statements.

1. Summary of significant accounting policies - continued

1.19 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.

1.20 Current and deferred tax

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

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.21 Provisions

Provisions are recognised when the Organisation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Costs related to the ongoing activities of the Organisation are not provided in advance. Provisions are not recognised for future operating losses.

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

1. Summary of significant accounting policies - continued

1.22 Revenue recognition

Revenues include all revenues from the ordinary business activities of the Organisation. 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 Organisation's business includes various activities as disclosed in Note 25 '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 Organisation 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 an entity forming part of the Organisation 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 Organisation 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 Organisation has objective evidence that all criteria for acceptance have been satisfied.

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.

1. Summary of significant accounting policies - continued

1.22 Revenue recognition - continued

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.

Sales of goods – retail

The Organisation sells goods on a retail basis across a number of business categories primarily motor vehicles and related spare parts, foodstore goods, clothing and other goods, and other equipment within the power, heating and ventilation sector. Sales of goods are recognised when the Organisation has delivered products to the customer and there are no unfulfilled obligations 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. Retail sales for foodstore goods, clothing and other goods is usually in cash or by credit card. Other sales can be either in cash or on credit.

Sales from services

The services offered by the Organisation, apart from services within the hospitality activity, are primarily those intrinsic to the goods sold on a retail basis noted above such as motor vehicles service and repair, and maintenance and repair services to the equipment within the power, heating and ventilation sector.

Revenue from services is generally recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue arising from hospitality activities is recognised when the service is performed and/or when the goods (primarily food and beverage relating to restaurant and bar sales) are supplied upon performance of the service. Revenue is usually in cash, credit card or on credit.

Contracts – where revenue is recognised over time

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

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

The Organisation 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.

1. Summary of significant accounting policies - continued

1.22 Revenue recognition - continued

The Organisation 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 Organisation 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.

Customer loyalty programme

An organisation undertaking operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discounts on future purchases. A contract liability for the award points is recognised at the time of the sale. Revenue is recognised when the points are redeemed or when they are forfeited.

Property for development and resale

Sales of property are recognised when the significant risks and rewards of ownership of the property being sold are effectively transferred to the buyer. This is generally considered to occur at the later of the contract of sale and the date when all obligations relating to the property are completed such that possession of the property can be transferred in the manner stipulated by the contract of sale. Accordingly, revenue is recognised at a point in time when the legal title has passed to the customer. Amounts received in respect of sales that have not yet been recognised in the financial statements, due to the fact that the significant risks and rewards of ownership have not been transferred to the purchaser, are treated as contract liabilities – payments received in advance from customers and presented within trade and other payables.

Financing

The Organisation 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 Organisation does not adjust any of the transaction prices for the time value of money.

(b) Rental income

Rents receivable and premia charged to clients are included in the financial statements as revenue. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments received under operating leases are credited to profit or loss on a straight-line basis over the period of the lease.

(c) Interest income

Interest income is recognised in profit or loss for all interest-bearing instruments as it accrues using the effective interest method. Bill commission income received upon commencement of a hire purchase agreement is in part refundable to the customer, in case of prepayments, on a proportional basis. Accordingly, these refundable fees are recognised in profit or loss on a straight-line basis over the term of the agreements.

1. Summary of significant accounting policies - continued

1.22 Revenue recognition - continued

- (d) Dividend income is recognised when the right to receive payment is established.
- (e) Other operating income is recognised on an accrual basis unless collectibility is in doubt.

1.23 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).

1.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Organisation will comply with all attached conditions. Government grants related to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants related to assets, i.e. in respect of the purchase of property, plant and equipment, are included in liabilities as deferred government grants, and are credited to profit or loss on a straight-line basis over the expected lives of the related assets, presented under 'Other operating income'.

Grants related to income are presented as a deduction in reporting the related expense.

1.25 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.

- (a) An undertaking is the lessee

Leases of assets where 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.

- (b) An undertaking is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with accounting policy 1.5. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term.

1. Summary of significant accounting policies - continued

1.26 Borrowing costs

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

1.27 Dividend distribution

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

1.28 Accounting policies applicable until 31 December 2017

1.28.1 Financial assets

Classification

The Organisation classifies its financial assets (other than derivative financial instruments and investments in associates) in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, i.e. financial assets acquired principally for the purpose of selling in the short-term. A financial asset is also classified in this category if, on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Organisation 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 Organisation's loans and receivables comprise loans and advances, trade and other receivables, amounts receivable from hire purchase debtors and cash and cash equivalents in the statement of financial position (refer to accounting policies 1.28.2, 1.28.3, 1.11 and 1.12).

(c) Available-for-sale financial assets

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

1. Summary of significant accounting policies - continued

1.28 Accounting policies applicable until 31 December 2017 - continued

1.28.1 Financial assets - continued

Recognition and measurement

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

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

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

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

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

1. Summary of significant accounting policies - continued

1.28 Accounting policies applicable until 31 December 2017 - continued

1.28.1 Financial assets - continued

Impairment

The Organisation 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 Organisation first assesses whether objective evidence of impairment exists. The criteria that the Organisation uses to determine that there is objective evidence of an impairment loss include:

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

(a) Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount 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, hire purchase and other receivables is described in accounting policies 1.11 and 1.12.

(b) Assets classified as available-for-sale

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

1.28.2 Loans and advances

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

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

1.28.3 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Organisation will not be able to collect all amounts due according to the original terms of receivables.

1. Summary of significant accounting policies - continued

1.28 Accounting policies applicable until 31 December 2017 - continued

1.28.3 Trade and other receivables - continued

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.

1.28.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Organisation's activities. Sales are recognised upon delivery of products or performance of services, net of sales taxes, returns, rebates and discounts. The Organisation 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 Organisation's activities as described below.

(a) Sales of goods

Sales of goods are recognised when the Organisation 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) Sales relating to long-term contracts

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 Organisation 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.

1. Summary of significant accounting policies - continued

1.28 Accounting policies applicable until 31 December 2017 - continued

1.28.4 Revenue recognition - continued

The Organisation presents as an 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 Organisation presents as a 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.

(d) Interest income

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

Bill commission income received upon commencement of a hire purchase agreement is in part refundable to the customer, in case of prepayments, on a proportional basis. Accordingly, these refundable fees are recognised in profit or loss on a straight-line basis over the term of the agreements.

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

(f) Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

(g) Sales of property are recognised when the significant risks and rewards of ownership of the property being sold are effectively transferred to the buyer. This is generally considered to occur at the later of the contract of sale and the date when all obligations relating to the property are completed such that possession of the property can be transferred in the manner stipulated by the contract of sale. Amounts received in respect of sales that have not yet been recognised in the Financial Statements, due to the fact that the significant risks and rewards of ownership have not been transferred to the purchaser, are treated as payments received on account and presented within trade and other payables.

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

2. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9, 'Financial Instruments' and IFRS 15, 'Revenue from Contracts with Customers' on the Organisation's combined financial statements.

(a) Impact on the financial statements

As a result of the changes in the Organisation's accounting policies and as explained in Note 2(b) and Note 2(c) below, IFRS 9 and IFRS 15 were adopted without restating comparative information. The reclassifications and the adjustments arising from the new requirements are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

2. Changes in accounting policies - continued

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

Consolidated statement of financial position (extract)

1 January 2018

	Based on 31 December 2017 figures as previously stated €	Impact of adoption of IFRS 9 €	Impact of adoption of IFRS 15 €	As restated €
ASSETS				
Non-current assets				
Available-for-sale financial assets	5,798,530	(894,797)	-	4,903,733
Current assets				
Trade and other receivables	37,218,041	(2,321,500)	(39,037)	34,857,504
Financial assets at FVPL	719,424	894,797	-	1,614,221
Total assets	293,602,990	(2,321,500)	(39,037)	291,242,453
EQUITY AND LIABILITIES				
Equity				
Revaluation reserves	57,061,452	(177,294)	-	56,884,158
Retained earnings	57,034,574	(2,144,206)	(39,037)	54,851,331
Total equity	144,284,898	(2,321,500)	(39,037)	141,924,361

2. Changes in accounting policies - continued

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

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

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

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

	Retained earnings €	Revaluation reserves €
As previously stated – based on 31 December 2017 figures	57,034,574	57,061,452
Adjustments to equity upon adoption of IFRS 9 on 1 January 2018:		
Increase in credit loss allowances on trade and other receivables	(2,321,500)	-
Reclassification of cumulative fair value movements relating to available-for-sale financial assets reclassified to financial assets at FVPL	177,294	(177,294)
As restated before considerations for IFRS 15 [(refer to Note 2(c)]	54,890,368	56,884,158

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Organisation's management has assessed which business models apply to the financial assets held by the Organisation and has classified its financial instruments into the appropriate IFRS 9 categories. The main effect resulting from this review comprised the reclassification of certain equity investments from available-for-sale financial assets to financial assets measured at fair value through profit or loss. This reclassification had no impact on the Organisation's equity, but gave rise to a reclassification from revaluation reserves to retained earnings (as disclosed above).

Furthermore, on the same date, the Organisation has elected to present in OCI changes in the fair value of the remaining equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of €4,903,733 were categorised as financial assets at FVOCI from available-for-sale financial assets and cumulative fair value gains of €508,156 were designated as such within the FVOCI revaluation reserve from the available-for-sale financial assets reserve on 1 January 2018.

The key financial assets presented in the statements of financial position, comprising loans and advances, trade and other receivables and cash equivalents, were classified as loans and receivables measured at amortised cost for IAS 39 purposes and remain categorised as financial assets measured at amortised cost under IFRS 9 requirements.

2. Changes in accounting policies - continued

(ii) Impairment of financial assets

The Organisation has the following main types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables and contract assets;
- hire purchase receivables; and
- other receivables from customers in relation to contractual arrangements.

The Organisation was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Organisation's retained earnings and equity is disclosed in the table above.

While loans and advances receivable from associates and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was insignificant.

Trade receivables and contract assets

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

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

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	+120 days past due	Total
As at 1 January 2018						
Expected loss rate (range)	0.2% - 1.61%	0.3% - 1.9%	0.4% - 2.1%	0.6% - 21%	1% - 100%	
Gross carrying amount (€)	11,955,764	3,607,462	2,048,721	1,331,872	7,683,672	26,627,491
Loss allowance (€)	141,334	35,295	23,506	23,007	2,750,756	2,973,898

Loss allowance as at 31 December 2017 - utilising IAS 39 principles	€ 2,846,557
Amounts reflected through restatement of opening retained earnings as at 1 January 2018	127,341
Opening impairment loss allowance as at 1 January 2018 - utilising IFRS 9 principles	<u>2,973,898</u>

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

2. Changes in accounting policies - continued

The movements in the credit loss allowances during the current financial year are disclosed in Note 3. Under the incurred loss model of IAS 39, the movement in impairment loss allowance for trade receivables and contract assets would have been an increase of €269,741 during the current financial year.

Hire purchase debtors and other receivables

Entities within the Mizzi Organisation carrying hire purchase debtors and other receivables assess 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:

- Hire purchase debtors and other receivables that are not credit impaired on initial recognition are classified in 'Stage 1' and their credit risk is continuously monitored by the Organisation. 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, the respective entities presumptively consider 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 hire purchase debtors and 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.

The entities determine 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 whether 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 respective entity's expected loss calculations. The LGD represents an entity's expectation of the extent of loss on a defaulted exposure.

2. Changes in accounting policies - continued

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.

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 hire purchase receivables and other receivables from customers in relation to contractual arrangements as at 1 January 2018 was determined as follows:

Hire purchase debtors

As at 1 January 2018	Stage 1	Stage 2	Stage 3	Total
Probability of default (PD)	16.1%	16.1%	100%	
Loss given default (LGD)	50%	100%	100%	
Gross carrying amount (EAD) - €	11,226,088	1,702,232	4,896,406	17,824,726
Loss allowance (€)	898,897	273,433	4,896,406	6,068,736
				€
Loss allowance as at 31 December 2017 - utilising IAS 39 principles				3,874,577
Amounts reflected through restatement of opening retained earnings as at 1 January 2018				2,194,159
Opening impairment loss allowance as at 1 January 2018 - utilising IFRS 9 principles				6,068,736

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

2. Changes in accounting policies - continued

Other receivables from customers in relation to contractual arrangements

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
				€
Loss allowance as at 31 December 2017 - utilising IAS 39 principles				2,341,121
Amounts reflected through restatement of opening retained earnings as at 1 January 2018				-
Opening impairment loss allowance as at 1 January 2018 – utilising IFRS 9 principles				<u>2,341,121</u>

The movements in the credit loss allowances during the current financial year are disclosed in Note 3. Under the incurred loss model of IAS 39, the movement in impairment loss allowances for hire purchase debtors and other receivables would have been a decrease of €904,868 during the current financial year.

2. Changes in accounting policies - continued

(c) IFRS 15, 'Revenue from Contracts with Customers' – Impact of adoption

IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative stand-alone selling price basis, based on a five-step model focusing on:

- The identification of contracts, customers and contract amendments;
- The identification of distinct performance obligations (promises made by the supplier), their reference price (individual selling price) and the transfer to the customer of control of performance obligations continuously or at a point in time;
- The determination of the transaction price (consideration promised by the customer), its fixed and variable components (and related recognition restrictions) and its allocation to the performance obligations.

The Organisation decided to adopt the new standard on a modified retrospective basis and recognised the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 January 2018, i.e. the date of initial application. Under this transition method the Organisation did not restate prior year comparative financial information for the effect of IFRS 15 but instead restated 1 January 2018 opening retained earnings for the full cumulative impact of adopting this standard.

The Organisation utilised the following accounting options:

- Entities forming part of the Mizzi Organisation applied the option for simplified initial application, limiting the retrospective application of IFRS 15 to contracts that have not yet been completely fulfilled at the date of initial application. The contracts that have not yet been completely fulfilled as of 1 January 2018 are accounted for as if they had been recognised in accordance with IFRS 15 from the beginning.
- A significant financing component is not considered for the amount and timing of revenue recognition if the period between when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.
- In general, contract costs whose amortisation period would not be more than one year are immediately recognised as an expense.

The Organisation has adopted IFRS 15, 'Revenue from Contracts with Customers' from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As outlined previously, in accordance with the transition provisions in IFRS 15, the Organisation has adopted the new rules without restating comparative information. The adjustments arising from the new requirements are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening combined statement of financial position on 1 January 2018 – refer to table in Note 11 reflecting an analysis of contract assets at 1 January 2018 following the adoption of IFRS 15.

2. Changes in accounting policies - continued

The total impact on the Organisation's retained earnings, upon adoption of IFRS 15, as at 1 January 2018, restated by the impact of IFRS 9, is as follows:

	€
Retained earnings - based on 31 December 2017 figures - restated by the impact of IFRS 9 [refer to Note 2(b)]	54,890,368
Adjustments to retained earnings upon adoption of IFRS 15 on 1 January 2018:	
Decrease in contract assets	(39,037)
	54,851,331
Retained earnings as restated	54,851,331

Up to 31 December 2017, under IAS 11, 'Construction contracts', an Organisation undertaking involved in the activities of power, heating and ventilation equipment, accounted for long-term contract revenue generated from the related supply of material and labour hours as one performance obligation. Upon the adoption of IFRS 15, the undertaking considered the supply of material and the provision of labour hours as two distinct performance obligations. The adjustment to retaining earnings disclosed in the table above arose as a result of this revised accounting treatment.

3. Financial risk management

3.1 Financial risk factors

The Organisation's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Organisation's overall risk management, covering risk exposures for all companies constituting the Mizzi Organisation, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Organisation's financial performance. The board of directors governing all Mizzi Organisation entities 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 Organisation uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) *Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency. A portion of the Organisation's purchases are denominated in US dollar, sterling and Japanese yen and accordingly the Organisation is exposed to foreign exchange risk arising from such purchases. The exposures from these instruments and the resultant exchange differences recognised in profit or loss are not deemed material in the context of the Organisation's figures.

3. Financial risk management - continued

3.1 Financial risk factors - continued

The Organisation's main risk exposure reflecting the carrying amount of payables denominated in foreign currencies at the end of the reporting period were not significant.

Balances denominated in foreign currencies are settled within very short periods in accordance with the negotiated credit terms. Also, foreign exchange risk attributable to future transactions is not deemed to be material since the respective undertakings manage the related risk by reflecting, as far as is practicable, the impact of exchange rate movements registered with respect to purchases in the respective sales prices.

The Organisation's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro, except as outlined above. As outlined previously management does not consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions denominated in foreign currencies to be significant.

Accordingly, 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 Organisation's significant instruments which are subject to fixed interest rates primarily consist of amounts receivable from hire purchase debtors (Note 12) and certain bank loans as disclosed in Note 22. In this respect, the Organisation is potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

The Organisation's interest rate risk principally arises from bank borrowings (Note 22), including bills of exchange factored out to bank, issued at variable rates, which expose the Organisation to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. In prior years, the principal holding company of the Organisation entered into a cash flow hedging agreement in respect of the variability of future floating interest payments of particular bank facilities. As at 31 December 2018, the notional amount of the outstanding interest rate swap contract was €21.1 million (2017: €23.9 million) - refer to Note 24.

Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial and accordingly the level of interest rate risk is contained. The Organisation's operating cash flows are substantially independent of changes in market interest rates.

(iii) Price risk

The Organisation is exposed to commodity price risk in relation to purchases of certain raw materials. The related entity enters into contractual arrangements for the procurement of these raw materials at variable market prices but at the end of the reporting period there were no outstanding contractual commitments in this respect. Management does not consider the potential impact of a defined shift in commodity prices on profit or loss to be significant, particularly in view of the weighting of purchases of such raw materials in relation to the Organisation's total purchases.

The Organisation is exposed to equity securities price risk in view of investments held by the Organisation which have been classified in the combined statement of financial position as financial assets at FVOCI and financial assets at FVPL (as at 31 December 2017, the Organisation also had investments classified as available-for-sale financial assets). To manage its price risk arising from investments in equity securities, the Organisation diversifies its portfolio in terms of listing status and business sectors of investees.

3. Financial risk management - continued

3.1 Financial risk factors - continued

A significant portion of the Organisation's investments are quoted on the Malta Stock Exchange (refer to Note 10 and 14) and are accordingly incorporated in the MSE equity index. The impact of a reasonable possible shift in the MSE equity index on the Organisation's income statement and revaluation reserve is not deemed significant in the context of the Organisation's figures reported. The analysis is based on the assumption that the equity index had increased/decreased by 5% at the end of the reporting period, with all other variables held constant, and that all the equity instruments listed on the Malta Stock Exchange moved according to the historical correlation with the index. With respect to the Organisation's financial investments, comprising listed equity securities traded on foreign stock exchanges (refer to Note 14), the carrying amount of these investments is not deemed material in the context of the Organisation's financial position. Another portion of the Organisation's investments are in unlisted private companies (refer to Note 10).

(b) Credit risk

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

	2018	2017
	€	€
Financial assets measured at amortised cost:		
Loans and advances (Note 9)	775,938	775,938
Trade and other receivables (Note 11)	52,926,591	46,121,261
Cash and cash equivalents (Note 14)	5,553,846	5,952,802
	59,256,375	52,850,001

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 Organisation does not hold significant collateral as security in this respect. The figures disclosed in the table above in respect of trade and other receivables exclude prepayments and indirect taxation.

Cash and cash equivalents

Entities forming part of the Mizzi Organisation principally bank with local and European 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.

Loans receivable from associates and other amounts owed by associates and other related parties

The Organisation's receivables include loans receivable from associates and other amounts owed by associates and other related parties (Notes 9 and 11). The Organisation monitors credit exposures with related parties at an individual entity level on a regular basis and ensures timely performance of these assets in the context of overall Organisation liquidity management. The Organisation assesses the credit quality of these related parties taking into account financial position, performance and other factors. The Organisation takes cognisance of the related party relationship with these entities and management does not expect any significant losses from non-performance or default.

3. Financial risk management - continued

3.1 Financial risk factors - continued

The loans to associates are categorised as Stage 1 for IFRS 9 purposes (i.e. performing) in view of the factors highlighted above. The expected credit loss allowances on such loans are based on the 12-month probability of default, capturing 12-month expected losses, and hence are considered insignificant.

Since the other balances owed by associates and other 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.

Trade and other receivables (including contract assets)

The Organisation's debtors mainly comprise trade receivables arising from the core operations of the Mizzi Organisation companies, amounts receivable from hire purchase debtors in respect of financing provided by an undertaking and other receivables from customers in relation to contractual obligations. The Organisation assesses the credit quality of its customers, the majority of which are unrated, taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of products, services and financing transactions are effected with customers with an appropriate credit history. The Organisation monitors the performance of its trade, hire purchase and other receivables on a regular basis to identify incurred collection losses, which are inherent in the Organisation's debtors, taking into account historical experience in collection of accounts receivable.

In view of the nature of the Organisation's activities and the markets in which it operates, a limited number of customers account for a certain percentage of the Organisation's trade and other receivables, particularly in respect of amounts receivable from hire purchase debtors. Generally, these customers trade frequently with the respective entity forming part of the Mizzi Organisation and are deemed by management to have a positive credit standing, usually taking cognisance of the performance history without defaults.

As at 31 December 2017, an undertaking had a significant concentration of credit risk with respect to hire purchase receivables because the face value of receivables from one customer amounted to €1,110,448. Over the years, this customer traded frequently with the Organisation and historically was deemed by management to have acceptable credit standing up to credit granting stage, usually taking cognisance of the performance history in relation to defaults at that point in time. Whilst no individual customer or group of dependent customers (except as disclosed above) is considered by management as a significant concentration of credit risk with respect of contractual debts, these exposures are monitored and reported more frequently and rigorously. In view of the financial circumstances of this customer, provisions for impairment covering the entire receivables were deemed necessary at the end of the preceding financial reporting period reflecting the possibility of default and potential recoveries from the customer. These exposures are monitored in the rigorous manner disclosed above.

The Organisation manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The Organisation's trade and hire purchase receivables, which are not credit impaired financial assets, are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers.

3. Financial risk management - continued

3.1 Financial risk factors - continued

Impairment of trade receivables (including contract assets)

The Organisation 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 Organisation 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 Organisation adjusts the historical loss rates based on expected changes in these factors. Credit loss allowances include specific provisions against credit impaired individual exposures with the amount of the provisions being equivalent to the balances attributable to credit impaired receivables. On that basis, the loss allowance for the Organisation as at 31 December 2018 and 1 January 2018 (upon adoption of IFRS 9) was determined as follows:

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	+120 days past due	Total
31 December 2018						
Expected loss rate	0.2% - 1.61%	0.3% - 1.9%	0.4% - 2.1%	0.6% - 21%	1% - 100%	
Gross carrying amount (€)	16,961,252	3,312,046	2,825,042	1,005,071	6,598,851	30,702,262
Loss allowance (€)	92,659	17,612	19,106	9,918	3,087,160	3,226,455
	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	+120 days past due	Total
1 January 2018						
Expected loss rate	0.2% - 1.61%	0.3% - 1.9%	0.4% - 2.1%	0.6% - 21%	1% - 100%	
Gross carrying amount (€)	11,955,764	3,607,462	2,048,721	1,331,872	7,683,672	26,627,491
Loss allowance (€)	141,334	35,295	23,506	23,007	2,750,756	2,973,898

The expected loss rates disclosed in the tables above reflect the fact that the 100% loss rate is triggered for receivables which are past due by 365 days or more.

3. Financial risk management - continued

3.1 Financial risk factors - continued

The Organisation 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 Organisation does not hold any significant collateral as security in respect of the credit impaired assets. The movements in credit loss allowances of these receivables are disclosed in Note 26.

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 Organisation, 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.

Ageing analysis of trade receivables

As at 31 December 2018, trade receivables of €8,318,433 (2017: €6,413,248) were past due but not credit impaired. Such past due debtors comprise mainly debts allocated to the over 180 days past due category. These past due debtors mainly relate to a number of independent customers for whom there is no recent history of default. Whilst a limited number of customers account for a certain percentage of the Organisation's past due debts, management has not identified any major concerns with respect to concentration of credit risk as outlined above.

3. Financial risk management - continued

3.1 Financial risk factors - continued

Categorisation of receivables as past due is determined by the Organisation 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 carrying amount of trade receivables that would otherwise be past due or credit impaired whose terms have been renegotiated is not deemed material in the context of the Organisation's trade receivables figures.

Impairment of hire purchase debtors and other receivables

Entities within the Mizzi Organisation that carry hire purchase debtors and other receivables, assess 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:

- Hire purchase debtors and other receivables that are not credit impaired on initial recognition are classified in 'Stage 1' and their credit risk is continuously monitored by the Organisation. 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, the respective entities presumptively consider 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 hire purchase debtors and 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.

The entities determine 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 respective entity's expected loss calculations. The LGD represents an entity's expectation of the extent of loss on a defaulted exposure.

3. Financial risk management - continued

3.1 Financial risk factors - continued

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.

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 hire purchase receivables and 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:

Hire purchase debtors

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Probability of default (PD)	16.1%	16.1%	100%	
Loss given default (LGD)	50%	100%	100%	
Gross carrying amount (EAD) - €	12,532,238	2,523,199	4,492,415	19,547,852
Loss allowance (€)	1,006,540	405,307	4,492,415	5,904,262
<hr/>				
As at 1 January 2018	Stage 1	Stage 2	Stage 3	Total
Probability of default (PD)	16.1%	16.1%	100%	
Loss given default (LGD)	50%	100%	100%	
Gross carrying amount (EAD) - €	11,226,088	1,702,232	4,896,406	17,824,726
Loss allowance (€)	898,897	273,433	4,896,406	6,068,736

3. Financial risk management - continued

3.1 Financial risk factors - continued

Other receivables from customers in relation to contractual arrangements

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

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.

The Organisation established an allowance for impairment that represented its estimate of expected credit losses in respect of hire purchase debtors and 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 Organisation does not hold any significant collateral as security in respect of the credit impaired assets. The movements in credit loss allowances of these receivables are disclosed in Note 26.

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 Organisation, 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.

3. Financial risk management - continued

3.1 Financial risk factors - continued

Ageing analysis of hire purchase debtors

As at 31 December 2018 amounts receivable from hire purchase debtors of €2,296,737 (2017: €2,037,268) were past due but not credit impaired. These mainly relate to a number of independent customers for whom there is no recent history of default. Categorisation of hire purchase receivables as past due is determined by the Organisation on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers.

The ageing analysis of these past due but not credit impaired hire purchase receivables is as follows:

	2018	2017
	€	€
Up to 3 months	2,296,737	1,884,342
3 to 6 months	-	67,097
6 to 12 months	-	57,333
12 months and over	-	28,496
	2,296,737	2,037,268

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 Organisation 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.

(c) Liquidity risk

The Organisation is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise borrowings (Note 22) and trade and other payables (Note 21). 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 Organisation's obligations.

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. This is also performed at a central treasury function which controls the overall liquidity requirements of Mizzi Organisation within certain parameters. The Organisation'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 Organisation's committed bank borrowing facilities and other financing that it can access to meet liquidity needs.

3. Financial risk management - continued

3.1 Financial risk factors - continued

In this respect management does not consider liquidity risk to the Organisation as significant taking into account the liquidity management process referred to above.

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

	Less than 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €	Total €
At 31 December 2018					
Bank borrowings	31,679,192	11,621,243	37,608,753	30,111,808	111,020,996
Loans from associate and other related party	1,613,829	-	-	-	1,613,829
Trade and other payables	44,169,246	-	-	6,988	44,176,234
	77,462,267	11,621,243	37,608,753	30,118,796	156,811,059

	Less than 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €	Total €
At 31 December 2017					
Bank borrowings	27,179,249	9,078,166	26,713,645	39,943,697	102,914,757
Loans from associate and other related party	2,932,353	-	-	-	2,932,353
Trade and other payables	46,292,440	-	-	6,988	46,299,428
	76,404,042	9,078,166	26,713,645	39,950,685	152,146,538

3. Financial risk management - continued

3.1 Financial risk factors - continued

The table below analyses the Organisation's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €	Total €
At 31 December 2018					
Interest rate swap	300,746	210,926	212,941	(8,805)	715,808
<hr/>					
	Less than 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €	Total €
At 31 December 2017					
Interest rate swap	353,286	230,257	190,815	(41,074)	733,284
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3.2 Capital risk management

The Organisation's capital is managed at the level of Mizzi Organisation by reference to the aggregate level of equity and borrowings or debt as disclosed in the respective consolidated financial statements of Consolidated Holdings Limited and Mizzi Organisation Limited together with the financial statements of The General Soft Drinks Company Limited and GSD Marketing Limited. The capital of the entities forming part of the Mizzi Organisation, which have been mentioned above, is managed on an aggregate basis by the Organisation as if they were organised as one entity. The Organisation's objectives when managing capital are to safeguard the Organisation'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 entities forming part of the Organisation may issue new shares or adjust the amounts of dividends paid to shareholders.

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

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

3.2 Capital risk management - continued

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

3.3 Fair values of financial instruments

The Organisation is required by IFRS 7, 'Financial instruments: Disclosures' to disclose for financial instruments that are measured in the statement of financial position at fair value, fair value measurements by level of the following fair value measurement hierarchy:

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

3.3.1 Financial instruments carried at fair value

The Organisation's interest rate swap agreement (refer to Note 24) is fair valued on the basis of a valuation technique base on discounted cash flows determined by reference to forward interest rates at the end of the reporting period. Accordingly, the derivative financial instruments are categorised as level 2 instruments since initial recognition.

The fair value of financial assets at FVOCI and FVPL (and available-for-sale financial assets as at 31 December 2017), consisting of listed equity securities traded in active markets, is based on quoted market prices at the end of each reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer or broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Organisation is the current bid price. The fair value of equity securities that are not traded in an active market (for instance, investments in unlisted local private companies) is mainly estimated by reference to the net asset backing of the investee and the use of valuation techniques, principally discounted cash flow models. When the Organisation uses valuation techniques, it makes assumptions that are based on market conditions existing at the end of each reporting period. The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The Organisation's financial assets comprising equity securities with a carrying amount of €3,561,630 (2017: €4,131,890) are categorised as level 1 instruments since these investments are listed in an active market. These assets have been categorised as level 1 since initial recognition. With respect to investments with a carrying amount of €2,305,328 (2017: €2,386,064) the fair value is determined by reference to level 2 categorisation and is deemed to approximate carrying amounts.

3.3.2 Financial instruments not carried at fair value

At 31 December 2018 and 2017 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the combined 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. Financial risk management - continued

3.3 Fair values of financial instruments - continued

The fair value of advances and other balances with related parties which are short-term or repayable on demand is equivalent to their carrying amount.

The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Organisation for similar financial instruments. The carrying amount of the Organisation's non-current advances to associates and non-current hire purchase receivables fairly approximates the estimated fair value of these assets based on discounted cash flows. The fair value of the Organisation's non-current floating and fixed interest rate bank borrowings at the end of the reporting periods is not significantly different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2 within the fair value measurement hierarchy.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these combined financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

As referred to in Notes 5 and 6 to this combined financial information, the Organisation's land and buildings category of property, plant and equipment and investment property are fair valued on 31 December on the basis of professional advice.

5. Property, plant and equipment

	Land, buildings and improvements to premises €	Plant, machinery and operational equipment €	Furniture, fittings and office equipment €	Motor vehicles €	Assets in the course of construction and payments on account €	Total €
At 1 January 2017						
Cost or valuation	96,100,317	31,239,979	23,826,246	14,164,045	5,315,439	170,646,026
Accumulated depreciation and impairment losses	(15,328,383)	(27,595,089)	(19,350,427)	(8,347,822)	-	(70,621,721)
	80,771,934	3,644,890	4,475,819	5,816,223	5,135,439	100,024,305
Year ended 31 December 2017						
Opening net book amount	80,771,934	3,644,890	4,475,819	5,816,223	5,315,439	100,024,305
Additions	369,621	958,044	1,852,238	3,435,280	20,590,124	27,205,307
Reclassifications	2,897,697	3,624,429	1,204,162	-	(7,726,288)	-
Disposals	-	(1,224,949)	(2,289,087)	(2,226,766)	-	(5,740,802)
Depreciation charge	(1,247,466)	(1,724,142)	(1,564,302)	(1,839,734)	-	(6,375,644)
Depreciation released on disposals	-	1,089,900	2,069,118	1,435,926	-	4,594,944
Closing net book amount	82,791,786	6,368,172	5,747,948	6,620,929	18,179,275	119,708,110
At 31 December 2017						
Cost or valuation	99,367,635	34,597,503	24,593,559	15,372,559	18,179,275	192,110,531
Accumulated depreciation and impairment losses	(16,575,849)	(28,229,331)	(18,845,611)	(8,751,630)	-	(72,402,421)
Net book amount	82,791,786	6,368,172	5,747,948	6,620,929	18,179,275	119,708,110
Year ended 31 December 2018						
Opening net book amount	82,791,786	6,368,172	5,747,948	6,620,929	18,179,275	119,708,110
Additions	801,274	1,562,433	1,958,238	3,556,683	1,618,993	9,497,621
Reclassification from investment property (Note 6)	810,609	-	-	-	-	810,609
Reclassifications	10,721,194	4,818,125	3,977,594	-	(19,516,913)	-
Disposals	-	(16,755)	(11,128)	(1,739,740)	-	(1,767,623)
Depreciation charge	(1,556,993)	(1,644,359)	(2,140,822)	(1,762,875)	-	(7,105,049)
Depreciation released on disposals	-	16,755	8,845	597,881	-	623,481
Closing net book amount	93,567,870	11,104,371	9,540,675	7,272,878	281,355	121,767,149
At 31 December 2018						
Cost or valuation	111,700,712	40,961,306	30,518,263	17,189,502	281,355	200,651,138
Accumulated depreciation and impairment losses	(18,132,842)	(29,856,935)	(20,977,588)	(9,916,624)	-	(78,883,989)
Net book amount	93,567,870	11,104,371	9,540,675	7,272,878	281,355	121,767,149

Fair valuation of property

The principal elements of the Organisation's land and buildings, within property, plant and equipment, were last revalued on 31 December 2016 by independent professionally qualified valuers. The book value of these properties had been adjusted to the revaluation and the resultant surplus, net of applicable deferred income taxes, had been credited to the revaluation reserve in shareholders' equity (Note 18).

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

5. Property, plant and equipment - continued

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

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

The Organisation's land and buildings, within property, plant and equipment, consists of operational premises that are owned and managed by companies forming part of the Organisation. The Organisation's investment property comprises property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies constituting the Organisation (refer to Note 6). All the recurring property fair value measurements at the end of each financial period presented use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

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

A reconciliation from the opening balance to the closing balance of property for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, for the current and preceding financial years, is reflected in the table above and in Note 6 for investment property.

Property classified within property, plant and equipment having a carrying amount of €14,160,000 (2017: €13,350,000) and other property classified within investment property with a carrying amount of €14,170,000 (2017: €6,125,000), have not been revalued since acquisition or initial recognition. The directors have assessed the fair values of these properties at 31 December 2018 and 2017, which fair values were deemed to fairly approximate the carrying amounts.

Structural and ancillary integral improvements to a particular building in Valletta amounting to €10.3 million are categorised within the land, buildings and improvements to premises category in property, plant and equipment. Such improvements have been reclassified to this category during the current financial year upon commissioning of the said works and have not been revalued since initial recognition. This property in Valletta is subject to a 65 year emphyteutical grant entered into in 2016.

Valuation processes

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

- information provided by the Organisation which is derived from the respective company's financial systems and is subject to the company's overall control environment; and
- assumptions and valuation models used by the valuers; with assumptions being typically market related and based on professional judgement and market observation.

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

5. Property, plant and equipment - continued

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

Valuation techniques

The external valuations of the Level 3 property as at 31 December 2018 and 2017, have been performed using a multi-criteria approach, with every property being valued utilising the valuation technique considered by the external valuer to be the most appropriate for the respective property.

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

- Adjusted sales comparison approach: a sales price per square metre related to transactions in comparable properties located in proximity to the respective property, with significant adjustments for differences in the size, age, exact location and condition of the property. The term airspace is a conceptual unit representing a packet of three-dimensional accessible, usable and developable space. The concept of sales price factor per airspace or square metre is the value expected to be fetched on the open market and represents the present value of the property after deduction of all development, refurbishment and related costs.
- Yield methodology: an annual rent rate per square metre (also related to comparable properties or transactions and adjusted as described above) together with a market capitalisation rate utilised for capitalisation of rental income streams. Where applicable, costs to completion (determined by reference to cost per square metre), which must be incurred for the property to generate the envisaged rental income streams, are also taken into account.
- Discounted cash flow ("DCF") approach: considers the free cash flows arising from the projected income streams expected to be derived from the operation of the property, discounted to present value using an estimate of the weighted average cost of capital that would be available to finance such an operation. The significant unobservable inputs utilised with this technique include:

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

5. Property, plant and equipment - continued

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

Description by class based on highest and best use	Fair value at 31 December 2018 €000	Valuation technique	Significant unobservable input	Range of unobservable inputs (weighted average)
Current use as commercial premises	10,522	Adjusted sales comparison approach	Sales price per square metre (€)	700 - 2,000 (2,000)
	20,060			Yield methodology
	15,284	DCF approach	Capitalisation rate (%)	5.0 - 9.0 (7.2)
			EBITDA	€4,000,000
Growth rate			2% per annum	
		Discount rate	7.45% (post-tax)	
		Perpetuity yield	6%	
		Estimated capital expenditure	Nil	
Redevelopment into residential/commercial premises	22,263	Adjusted sales comparison approach	Residential and Commercial airspace sales price per square metre (€)	150 - 1,600 (1,400)
			Residential: sales price factor per square metre (€)	190 – 1,220 (650)
			Commercial: sales price factor per square metre (€)	880 - 1,550 (1,190)
Marketed for residential use	3,400	Adjusted sales comparison approach	Sales price per residential unit (€)	96,000 – 210,000 (174,000)
Development for commercial use	350	Adjusted sales comparison approach	Sales price per square metre (€)	450 – 1,250 (1,000)

5. Property, plant and equipment - continued

Description by class based on highest and best use	Fair value at 31 December 2018 €000	Valuation technique	Significant unobservable input	Range of unobservable Inputs (weighted average)
Developable land for residential/commercial use	2,914	Capitalised rental income less cost to completion	Annual rent per square metre (€)	225 - 275 (240)
			Capitalisation rate (%)	7.3 – 8.0 (7.8)
			Cost to completion per square metre (€)	1,050
	12,813	Adjusted sales comparison approach	Residential: sales price factor per square metre (€)	800
	Commercial: sales price factor per square metre (€)		490	
Extended commercial premises	17,650	Yield methodology	Annual rent per square metre (€)	110 – 1,200 (900)
			Capitalisation rate (%)	7.5
	10,150	Adjusted sales comparison approach	Residential: sales price factor per square metre (€)	300
			Commercial: sales price factor per square metre (€)	660

5. Property, plant and equipment - continued

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

Description by class based on highest and best use	Fair value at 31 December 2017 €000	Valuation technique	Significant unobservable input	Range of unobservable inputs (weighted average)
Current use as commercial premises	10,600	Adjusted sales comparison approach	Sales price per square metre (€)	700 - 2,000 (2,000)
	19,800			Yield methodology
	15,100	DCF approach	Capitalisation rate (%)	5.0 - 9.0 (7.2)
			EBITDA	€4,000,000
Growth rate			2% per annum	
		Discount rate	7.45% (post-tax)	
		Perpetuity yield	6%	
		Estimated capital expenditure	Nil	
Redevelopment into residential/commercial premises	22,000	Adjusted sales comparison approach	Residential and Commercial airspace sales price per square metre (€)	150 - 1,600 (1,300)
			Residential: sales price factor per square metre (€)	175 - 1,220 (640)
			Commercial: sales price factor per square metre (€)	880 - 1,550 (1,190)
Marketed for residential use	3,400	Adjusted sales comparison approach	Sales price per residential unit (€)	96,000 – 210,000 (174,000)
Development for commercial use	350	Adjusted sales comparison approach	Sales price per square metre (€)	450 – 1,250 (1,000)

5. Property, plant and equipment - continued

Description by class based on highest and best use	Fair value at 31 December 2017 €000	Valuation technique	Significant unobservable input	Range of unobservable Inputs (weighted average)	
Developable land for residential/commercial use	2,700	Capitalised rental income less cost to completion	Annual rent per square metre (€)	225 - 275 (240)	
			Capitalisation rate (%)	7.3 – 8.0 (7.8)	
			Cost to completion per square metre (€)	1,050	
	12,800		Adjusted sales comparison approach	Residential: sales price factor per square metre (€)	800
			Commercial: sales price factor per square metre (€)	490	
Extended commercial premises	17,300	Yield methodology	Annual rent per square metre (€)	110 – 1,190 (900)	
			Capitalisation rate (%)	7.5	
	10,150		Adjusted sales comparison approach	Residential: sales price factor per square metre (€)	300
				Commercial: sales price factor per square metre (€)	660

5. Property, plant and equipment - continued

With respect to the adjusted sales comparison approach, the higher the sales price per square metre, the sales price per residential unit, or the sales price factor per square metre, the higher the resultant fair valuation.

In relation to the yield methodology, the higher the rental amount per square metre, the higher the resultant fair valuation, but conversely, the lower the market capitalisation rate and the costs to completion per square metre (where applicable), the higher the resultant fair valuation.

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

With the exception of the first and third property classes presented in the tables above, the highest and best use of the Organisation's properties differs from their current use taking cognisance of the potential for development, redevelopment or further development of the respective properties.

The Organisation's revalued land and buildings within property, plant and equipment are primarily classified in the following categories:

	2018	2017
	€000	€000
Class as presented in tables above		
Current use as commercial premises	39,460	39,150
Redevelopment into residential/commercial premises	3,000	2,800
Extended commercial premises	27,800	27,450
	70,260	69,400

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

	2018	2017
	€	€
Cost	54,594,429	42,768,701
Accumulated depreciation and impairment losses	(15,457,684)	(13,902,525)
Net book amount	39,136,745	28,866,176

Bank borrowings in the name of undertakings forming part of the Mizzi Organisation are secured on the major assets constituting the Organisation's land and buildings category.

Other disclosures

During the preceding financial year, Mizzi Organisation capitalised borrowing costs amounting to €363,000 utilising a capitalisation rate of 3%. This amount is included in 'Additions' to the category 'Assets in course of construction and payments on account' in the table above.

The reclassification to property, plant and equipment from investment property during the current financial year is attributable to the transfer of property as a result of change in use, whereby the property is now owner occupied and forms part of the Organisation's operational premises.

5. Property, plant and equipment - continued

The category of motor vehicles disclosed in the main 'Property, plant and equipment' table above comprises motor vehicles leased out under operating leases as follows:

	At 31 December 2018 €	At 31 December 2017 €	At 1 January 2017 €
Cost	8,472,628	7,223,394	6,654,979
Accumulated depreciation	(3,620,420)	(2,817,498)	(2,612,824)
Net book amount	4,852,208	4,405,896	4,042,155

The movement in the net book amount of leased motor vehicles is analysed as follows:

	2018 €	2017 €
Year ended 31 December		
Opening net book amount	4,405,896	4,042,155
Additions	1,362,450	1,681,289
Disposals	(113,216)	(1,112,874)
Depreciation charge	(871,184)	(963,436)
Depreciation released on disposals	68,262	758,762
Closing net book amount	4,852,208	4,405,896

6. Investment property

	2018 €	2017 €
Year ended 31 December		
Opening carrying amount	51,295,510	43,449,903
Additions of newly acquired property	7,424,182	1,018,441
Additions resulting from subsequent expenditure	2,039,014	1,366,062
Reclassification to property, plant and equipment (Note 5)	(810,609)	-
Net gains from changes in fair value	-	5,461,104
Closing carrying amount	59,948,097	51,295,510
At 31 December		
Cost	25,779,137	17,126,550
Fair value gains	34,168,960	34,168,960
Carrying amount	59,948,097	51,295,510

The reclassification from investment property to property, plant and equipment during the current financial year is attributable to the transfer of property as a result of change in use, whereby the property is now owner occupied and forms part of the Organisation's operational premises.

6. Investment property - continued

The Organisation's investment properties are valued annually on 31 December at fair value, by professionally qualified valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Valuations are determined on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area and, whenever possible, having regard to recent market transactions for similar properties in the same location.

Disclosures required in terms of IFRS 13 in relation to fair value measurements attributable to investment property are presented in Note 5. The Organisation's investment property is reflected within all classes presented in the table in Note 5, with the exception of the class representing extended commercial premises.

If the investment property was stated on the historical cost basis, the amounts would be as follows:

	2018	2017
	€	€
Cost	25,779,137	17,126,550
Accumulated depreciation	(3,097,474)	(2,282,446)
Net book amount	22,681,663	14,884,104

As at 31 December 2018, bank borrowings in the name of undertakings forming part of the Mizzi Organisation are secured on the Organisation's investment property with a fair value of €31,416,000 (2017: €31,140,000).

Investment property disclosed above includes property leased out under operating leases as follows:

	At 31 December 2018	At 31 December 2017	At 1 January 2017
	€	€	€
Cost	7,262,257	7,152,655	7,149,115
Fair value gains	4,423,552	4,423,551	4,423,551
Carrying amount	11,685,809	11,576,206	11,572,666

The movement in the carrying amount of leased property is analysed as follows:

	2018	2017
	€	€
Year ended 31 December		
Opening carrying amount	11,576,206	11,572,666
Additions resulting from subsequent expenditure	109,603	3,540
Closing carrying amount	11,685,809	11,576,206

7. Intangible assets

	Franchise and licence rights	
	2018	2017
	€	€
At 1 January		
Cost	106,587	46,587
Accumulated amortisation	(46,587)	(46,587)
Net book amount	60,000	-
Year ended 31 December		
Opening net book amount	60,000	-
Additions	93,220	60,000
Amortisation charge	(21,322)	-
Closing net book amount	131,898	60,000
At 31 December		
Cost	199,807	106,587
Accumulated amortisation	(67,909)	(46,587)
Net book amount	131,898	60,000

Amortisation of franchise rights with a cost of €60,000 commenced during the current financial year once the operations relating to the franchise were launched.

8. Investments in associates

	2018	2017
	€	€
Year ended 31 December		
Opening carrying amount	23,999,877	22,759,683
Additions	64,000	8,001
Share of profit	1,716,459	1,495,950
Dividends received	(2,710,802)	(212,908)
Derecognition of carrying amount upon dissolution of associate	-	(27,573)
Derecognition of carrying amount upon partial disposal of investment in associate	-	(18,784)
Redemption of capitalised ground rents	(232,836)	(4,492)
Closing carrying amount	22,836,698	23,999,877
At 31 December		
Cost	2,219,678	2,155,678
Share of profits and reserves	20,689,040	21,916,219
Provisions for impairment	(72,020)	(72,020)
Carrying amount	22,836,698	23,999,877

8. Investments in associates - continued

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

The impact of the acquisition of Finopz Limited during the current financial year was not material on the Organisation's financial position as at 31 December 2018 and the financial results for the year then ended.

During the preceding financial year, the shareholders of FirstUnited Insurance Management Limited, a former associate of Mizzi Organisation Limited, approved the voluntary dissolution and consequential winding up of the company. As a result of this resolution the carrying amount of the investment in this associate has been derecognised from the Organisation's financial statements upon liquidation of the company. The resultant gain of €14,612, taking into account the final distributions made by the associate, has been recognised in profit or loss and presented within 'Share of profit of associates'.

Furthermore, in December 2017, as part of a reorganisation process, Mizzi Associated Enterprises Limited ("MAE"), an associate of Consolidated Holdings Limited ("CHL"), transferred all the shares it held in Mellieha Bay Hotel Limited and Kemmuna Limited (both companies within the hotel operating segment) directly to its shareholders in their respective ownership proportions (refer to Note 1.1). The share transfers to CHL were made for a consideration of €2,773,817 which was settled through a dividend distribution from MAE. Accordingly, these share transfers did not have an impact on the Organisation's carrying amount of the investments in associates.

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

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

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

Institute of English Language Studies Limited's ("IELS") principal activity is the provision of English language courses to foreign students and other related activities; whilst The Players Group Limited's ("TPG") principal activity is the holding of an investment in Maltco Lotteries Limited. Mizzi Associated Enterprises Limited's ("MAE") principal activity is the ownership and development of property for trading and rental purposes. The principal activity of Mellieha Bay Hotel Limited and Kemmuna Limited is the ownership and operation of the Mellieha Bay Hotel and the Comino Hotel respectively. All the associates' principal place of business is based in Malta.

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

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

8. Investments in associates - continued

Summarised balance sheets

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

8. Investments in associates - continued

Summarised balance sheet

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

8. Investments in associates - continued

Summarised balance sheets

	IELS		TPG	
	2018 €	2017 €	2018 €	2017 €
ASSETS				
Non-current assets	7,025,039	7,424,204	5,508,148	5,525,905
Current assets				
Cash and cash equivalents	203,725	212,346	11,282	11,545
Other current assets	1,612,038	1,656,472	-	-
Total current assets	1,815,763	1,868,818	11,282	11,545
Total assets	8,840,802	9,293,022	5,519,430	5,537,450
LIABILITIES				
Non-current liabilities				
Financial liabilities	663,510	358,670	2,292,103	2,292,103
Other liabilities	25,237	94,084	-	-
Total non-current liabilities	688,747	452,754	2,292,103	2,292,103
Current liabilities				
Trade and other payables	2,257,166	2,379,930	1,852	1,652
Other financial liabilities	2,334,606	2,952,383	-	-
Other liabilities	-	169,051	-	-
Total current liabilities	4,591,772	5,501,364	1,852	1,652
Total liabilities	5,280,519	5,954,118	2,293,955	2,293,755
Net assets	3,560,283	3,338,904	3,225,475	3,243,695

The Organisation's respective share of the net assets reflected in the above disclosures is in substance equivalent to the carrying amount of its investment in the associates except as outlined below. The Organisation's share of the net assets of MAE, Mellieha Bay Hotel Limited and Kemmuna Limited extracted from the respective financial statements, do not reflect the Organisation's carrying amount of the investments in the respective entities. The difference arises as a result of fair value adjustments made at the time that MAE acquired Mellieha Bay Hotel Limited and Kemmuna Limited in prior years.

Furthermore, there are no significant contingent liabilities relating to the Organisation's interest in the associates.

The statutory financial year end for Institute of English Language Studies Limited is 31 October and accordingly the financial information made available to shareholders relates to financial year ended 31 October 2018. Accordingly, the financial statements of Institute of English Language Studies Limited used in applying the equity method are attributable to the financial year ended 31 October 2018, which year end is different from that of the reporting entity.

8. Investments in associates - continued

The other associates of the Organisation are not deemed material, individually and in aggregate, to the Organisation as a reporting entity taking cognisance of the Organisation's financial position and aggregate assets. Accordingly, the disclosure requirements emanating from IFRS 12 'Disclosure of interests in other entities', were not deemed necessary for the user's understanding of the financial results and the financial position of the Organisation. The results of the other principal associates and their assets and liabilities are as follows:

	Assets €	Liabilities €	Revenues €	Results €
2018				
Aquibix Limited	1,122,362	902,895	827,642	85,009
FirstUnited Insurance Brokers Limited	2,561,454	1,699,654	1,524,861	261,913
<hr/>				
	Assets €	Liabilities €	Revenues €	Results €
2017				
Aquibix Limited	925,342	754,776	601,144	77,781
FirstUnited Insurance Brokers Limited	2,658,515	1,811,242	1,501,989	274,428
<hr/>				

The Organisation's share of the results of Malta Deposit and Return System Limited is not recognised in these financial statements. A provision for impairment had been recognised for the Organisation's investment in this associate as the shareholders of Malta Deposit and Return System Limited had approved the voluntary dissolution and consequential winding up of the company. The Organisation's share of the results of the associate and its share of the assets and liabilities are not deemed material for the purposes of disclosure.

9. Loans and advances

The non-current and current loans and advances as at 31 December 2018 amounting to €575,938 (2017: €575,938) and €200,000 (2017: €200,000) respectively represent advances that the Organisation made by way of shareholder's loans to associates. These advances do not bear interest and do not have any fixed date of repayment. However, an amount of €575,938 (2017: €575,938) is not repayable within one year. The purpose of these advances is to fund the respective associate's financial commitments in respect of specific business ventures. In accordance with the formal terms of the financing arrangement, the amounts advanced as shareholder's loans amounting to €575,938 (2017: €575,938) are earmarked for capitalisation i.e. conversion into ordinary share capital. At the end of the reporting period, in the opinion of the directors, the fair value of these assets approximate the carrying amount.

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

<i>Equity investments</i>	2018	2017
	€	€
Year ended 31 December		
Opening carrying amount – as previously reported	5,798,530	5,720,767
Reclassification to financial assets at FVPL – upon adoption of IFRS 9 on 1 January 2018 (Note 14)	(894,797)	-
Opening carrying amount – as restated	4,903,733	5,720,767
Additions at cost	-	204,286
Net (losses)/gains from changes in fair value (Note 18)	(161,685)	39,205
Disposals	(80,726)	(165,728)
Closing carrying amount	4,661,322	5,798,530
At 31 December		
Cost	5,029,538	5,827,768
Fair value gains	346,471	685,449
Provisions for impairment	(714,687)	(714,687)
Carrying amount	4,661,322	5,798,530

Upon adoption of IFRS 9, the Organisation has irrevocably elected to present in profit or loss changes in the fair value of certain equity investments previously classified as available-for-sale, because such investments are expected to be sold in the short to medium term. As a result, assets with a fair value of €894,797 were reclassified from available-for-sale financial assets to financial assets at FVPL and cumulative fair value gains of €177,294 were reclassified from the available-for-sale financial assets revaluation reserve to retained earnings on 1 January 2018.

Furthermore, on the same date, the Organisation has irrevocably elected to present in OCI changes in the fair value of the remaining equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of €4,903,733 were categorised as financial assets at FVOCI from available-for-sale financial assets and cumulative fair value gains of €508,156 were designated as such within the FVOCI revaluation reserve from the available-for-sale financial assets reserve on 1 January 2018.

The carrying amount of equity investments at FVOCI at 31 December comprise the following individual investments:

	2018	2017*
	€	€
Plaza Centres p.l.c.	2,355,993	-
BNF Bank p.l.c.	1,750,000	-
Manoel Island Yacht Yard Limited	360,000	-
Cleves Sofia Holdings Ltd	183,039	-
Other equity investments	12,290	-
	4,661,322	-

*These investments were classified as available-for-sale in 2017 and all such investments were all held as at the end of the preceding financial year.

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

The Organisation's equity investments consist of:

	2018	2017
	€	€
Investments listed on the Malta Stock Exchange	2,355,994	3,412,466
Investments in local unlisted financial institution	1,750,000	1,750,000
Other investments in unlisted local private companies	555,328	636,064
	4,661,322	5,798,530

The Organisation's investments, consisting of equity instruments, are fair valued annually. For investments traded on the Malta Stock Exchange, fair value is determined by reference to quoted market prices. For other unlisted investments, fair value is mainly estimated by reference to the net asset backing of the investee and the use of valuation techniques, principally discounted cash flow models. The cost of the other unlisted investments approximates fair value and no movements have been recognised in equity. In prior years, impairment losses had been recognised in respect of investments in unlisted companies which were in unexpected adverse trading and operating conditions.

11. Trade and other receivables

	2018	2017
	€	€
Current		
Trade receivables	24,325,565	21,556,702
Amounts receivable from hire purchase debtors (Note 12)	2,239,706	4,560,306
Contract assets		
Gross amounts due from customers for contract work	3,150,242	2,224,232
Amounts owed by associates	1,314,467	1,048,160
Amounts owed by other related parties	230,808	251,804
Advance payments to suppliers	1,336,884	135,127
Other receivables	3,852,467	1,673,600
Indirect taxation	2,337,541	3,276,091
Prepayments	3,252,411	2,492,019
	42,040,091	37,218,041
Non-current		
Amounts receivable from hire purchase debtors (Note 12)	11,403,884	9,389,843
Other receivables	5,072,568	5,281,487
Prepayments	295,195	328,230
	16,771,647	14,999,560

11. Trade and other receivables - continued

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

	2018	2017
	€	€
Trade receivables	3,208,095	2,446,557
Gross amounts due from customers for contract work	18,360	400,000
Other receivables: current amounts	1,537,276	1,426,623
Other receivables: non-current amounts	578,344	914,498
Amounts owed by associate	287,500	287,500
	5,629,575	5,475,178

Credit loss allowances in respect of amounts receivable from hire purchase debtors are disclosed separately in Note 12.

Other receivables mainly comprise amounts receivable from the Organisation's customers in relation to contractual arrangements entered into with these parties.

Non-current amounts in respect of amounts receivable from hire purchase debtors and other receivables are principally receivable within five years from the end of the reporting period. The other non-current amounts principally relate to advance payments which are expected to be realised over the time of the related agreements up to nine years after the end of the reporting period.

The aggregate amount of costs incurred and recognised profits (less recognised losses) to date for contracts in progress at the end of the reporting period amounts to €4,608,621 (2017: €5,067,629). Gross amounts due from and to customers in respect of these contracts are disclosed in the table above and in Note 21 respectively.

Upon adoption of the requirements of IFRS 15 on 1 January 2018, the following reclassifications and remeasurements have been effected:

- Revenue amounting to €39,037 relating to long-term contract works previously recognised within profit or loss during the financial year ended 31 December 2017, has been deferred to the current financial year for recognition within profit or loss during the year upon adoption of IFRS 15. The respective gross amounts due from customers for contract work was accordingly remeasured.

Up to 31 December 2017, under IAS 11, 'Construction contracts', an Organisation undertaking involved in the activities of power, heating and ventilation equipment, accounted for long-term contract revenue generated from the related supply of material and labour hours as one performance obligation. Upon the adoption of IFRS 15, the undertaking considered the supply of material and the provision of labour hours as two distinct performance obligations. The adjustment noted above arose as a result of this revised accounting treatment.

11. Trade and other receivables - continued

The following tables reflect an analysis of contract assets at 1 January 2018 following the adoption of IFRS 15:

	As at 1 January 2018 - based on 31 December 2017 – as previously stated	Impact of adoption of IFRS 15 Remeasurement	As at 1 January 2018 - as restated
	€	€	€
Current			
Trade receivables	21,556,702	-	21,556,702
Amounts receivable from hire purchase debtors (Note 11)	4,560,306	-	4,560,306
Contract assets			
Gross amounts due from customers for contract work	2,224,232	(39,037)	2,185,195
Amounts owed by associates	1,048,160	-	1,048,160
Amounts owed by other related parties	251,804	-	251,804
Advance payments to suppliers	135,127	-	135,127
Other receivables	1,673,600	-	1,673,600
Indirect taxation	3,276,091	-	3,276,091
Prepayments	2,492,019	-	2,492,019
Total current trade and other receivables	37,218,041	-	37,179,004

* The amounts in this column are before the adjustments from the adoption of IFRS 9.

All movements in contract assets during the current financial year related to business variations.

12. Amounts receivable from hire purchase debtors

	2018 €	2017 €
Current		
Debtors on whom bills of exchange were drawn	8,097,322	8,402,745
Credit loss allowances	(5,857,616)	(3,842,439)
	2,239,706	4,560,306
Non-current		
Debtors on whom bills of exchange were drawn	11,450,530	9,421,981
Credit loss allowances	(46,646)	(32,138)
	11,403,884	9,389,843
 Total amounts receivable from hire purchase debtors	13,643,590	13,950,149

Amounts receivable from hire purchase debtors relate to trade receivables arising from the sale of goods and services by companies forming part of the Mizzi Organisation, which are acquired and financed by United Acceptances Finance Limited, an entity within the Organisation. These receivables are transferred to the company upon origination, once hire purchase terms are granted, at their face value with no right of recourse whatsoever. Accordingly credit loss allowances in respect of amounts receivable from hire purchase debtors, disclosed in the table above, are recognised in profit or loss.

During the current financial year, the entity has financed receivables with a face value amounting to €10,173,151 (2017: €9,553,129). Amounts receivable from hire purchase debtors are subject to an effective interest rate of 5.5% (2017: 5.5%).

Receivables covered by bills of exchange factored out to bank with an option to repurchase them as they fall due are not derecognised from the Organisation's statement of financial position. The amounts advanced under this facility are treated as collateralised borrowings (disclosed as distinct liabilities) amounting to the face value of the bills factored out (Note 22). Receivables covered by bills of exchange factored out to bankers without an option to repurchase them as they fall due are derecognised by the Organisation. The entity would retain credit risk in these receivables through the bank's right of recourse which would be limited to 15% of the value of the bills factored in the preceding six months. During the current and preceding financial years no receivables have been factored out in this manner.

13. Inventories

	2018 €	2017 €
Property being developed with a view to sale		
At 1 January	448,839	478,883
Transfers to cost of sales	-	(30,044)
At 31 December	448,839	448,839
Goods held for resale		
Motor vehicles, spare parts and related supplies	14,030,895	14,916,334
Other goods purchased for resale	9,202,672	7,941,530
Raw materials and manufactured finished goods	2,455,728	2,304,712
Containers (carried at net realisable value)	365,003	273,851
Goods in transit	3,206,288	3,437,591
Contract and other work in progress	430,887	423,347
Payments on account in respect of motor vehicles and spare parts	472,482	317,838
	30,163,955	29,615,203
Total inventories	30,612,794	30,064,042

During previous financial years, the Organisation completed and transferred to the purchasers residential units constructed. The cost allocated to these apartments was recognised within cost of sales in profit or loss.

The cost of inventories recognised as expense is appropriately disclosed in Note 26 of the financial statements. During the year ended 31 December 2018, net inventory write-downs amounted to €1,239,233 (2017: €978,329). These amounts have been included within 'Cost of sales' in profit or loss.

14. Financial assets at fair value through profit or loss

	2018 €	2017 €
Equity investments		
Year ended 31 December		
Opening carrying amount – as previously reported	719,424	644,435
Reclassification from available-for-sale financial assets – upon adoption of IFRS 9 on 1 January 2018 (Note 10)	894,797	-
Opening carrying amount – as restated	1,614,221	644,435
Additions at cost	498,502	75,974
Net (losses)/gains from changes in fair value (Note 29)	(100,266)	116,559
Disposals	(806,821)	(117,544)
Closing carrying amount	1,205,636	719,424
At 31 December		
Cost	1,039,534	550,263
Fair value gains	166,102	169,161
Closing carrying amount	1,205,636	719,424

14. Financial assets at fair value through profit or loss - continued

Upon adoption of IFRS 9 on 1 January 2018, the Organisation has irrevocably elected to present in profit or loss changes in the fair value of certain equity investments previously classified as available-for-sale, because such investments are expected to be sold in the short to medium term. As a result, assets with a fair value of €894,797 were reclassified from available-for-sale financial assets to financial assets at FVPL, and cumulative fair value gains of €177,294 were reclassified from the available-for-sale financial assets revaluation reserve to retained earnings on 1 January 2018.

The Organisation's equity investments consist of:

	2018 €	2017 €
Investments listed on the Malta Stock Exchange	898,946	-
Investments listed on foreign stock exchanges	306,690	719,424
	1,205,636	719,424

The Organisation's equity investments are fair valued annually and fair value is determined by reference to quoted market prices.

15. 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	5,553,846	5,952,802
Bank overdrafts (Note 22)	(19,869,281)	(17,575,703)
Bills of exchange factored out to bank (Note 22)	(2,475,642)	(1,074,080)
	(16,791,077)	(12,696,981)

The current portion of the factoring facility in respect of bills of exchange factored out to bank is treated as a cash equivalent since this facility forms an integral part of the Organisation's overall cash management.

16. Assets classified as held for sale

	2018 €	2017 €
Property classified as held for sale		
Opening carrying amounts	1,587,871	1,603,871
Write-downs of carrying amount	-	(16,000)
Disposals	(1,584,323)	-
	3,548	1,587,871
Closing carrying amounts	3,548	1,587,871

This line item mainly comprised property assets as a result of the reclassification to assets classified as held for sale from investment property during preceding financial years, reflecting the transfer of property in view of management's decision to dispose of this property.

17. Share capital and Capital contribution reserve

Share capital

	2018 €	2017 €
Authorised		
1,571,998 ordinary shares of €2.329373 each	3,661,770	3,661,770
	3,661,770	3,661,770
Issued and fully paid		
1,059,700 ordinary shares of €2.329373 each	2,468,437	2,468,437
	2,468,437	2,468,437

The total authorised, issued and fully paid up share capital for the combined financial statements has been assumed to be principally the aggregate of all of the authorised, issued and fully paid up share capital of each of Consolidated Holdings Limited, Mizzi Organisation Limited, The General Soft Drinks Company Limited and GSD Marketing Limited.

Capital contribution reserve

During the current year, the Organisation's shareholders have waived amounts due to them by Mizzi Organisation Limited amounting to €3,042,999 (refer to Note 21) which have accordingly been converted to a capital contribution reserve.

18. Revaluation reserves

	2018 €	2017 €
Surplus arising on fair valuation of:		
Land and buildings of entities forming part of the Mizzi Organisation	46,466,975	46,548,046
Land and buildings of associates	9,711,642	9,827,956
Financial assets at FVOCI (2017: Available-for-sale financial assets)	346,471	685,450
	56,525,088	57,061,452

The movements in each category are analysed as follows:

	2018 €	2017 €
Land and buildings of entities forming part of the Mizzi Organisation		
At beginning of year	46,548,046	46,853,063
Transfer upon realisation through asset use	(52,137)	(52,137)
Movement in deferred tax liability determined on the basis applicable to property disposals (Note 23)	(47,182)	(271,128)
Deferred income taxes on realisation through asset use (Note 23)	18,248	18,248
At end of year	46,466,975	46,548,046

	2018 €	2017 €
Land and buildings of associates		
At beginning of year	9,827,956	9,944,266
Transfer upon realisation through asset use - share of depreciation transfer, net of deferred tax	(116,314)	(116,310)
At end of year	9,711,642	9,827,956

	2018 €	2017 €
Financial assets at FVOCI (2017: Available-for-sale financial assets)		
At beginning of year – as previously reported	685,450	670,020
Transition adjustment upon adoption of IFRS 9 on 1 January 2018 – refer to Notes 2, 10 and 14	(177,294)	-
At beginning of year – as restated	508,156	670,020
Net (losses)/gains from changes in fair value (Note 9)	(161,685)	39,205
Reclassification adjustments for net gains included in profit or loss upon disposal (Note 29)	-	(23,775)
At end of year	346,471	685,450

18. Revaluation reserves - continued

The tax impact included in the revaluation reserves as at 31 December 2018, relates to deferred taxation arising on the surplus on fair valuation of land and buildings of entities forming part of the Mizzi Organisation for an amount of €7,317,356 (2017: €7,288,422). The movements in the tax impact relating to this component of other comprehensive income during the current and the preceding financial year is presented in the respective table above.

Gains and losses arising from changes in fair value of financial assets at FVOCI (2017: available-for-sale financial assets) are recognised directly in equity in other comprehensive income through the revaluation reserve in accordance with the Organisation's accounting policy. As from 1 January 2018, when the equity investments are disposed of, the cumulative gain or loss recognised in OCI remains in equity. Until 31 December 2017, the related accumulated fair value adjustments of disposed investments, including the amount of the adjustment on initial application of IAS 39, were reclassified to profit or loss as a reclassification adjustment and reflected as gains or losses from available-for-sale financial assets.

The revaluation reserves are non-distributable.

19. Fair value gains and other reserves

	2018 €	2017 €
Fair value gains reserve in respect of property	26,162,181	26,736,966
Share of associate's incentives and benefits reserve	1,034,695	1,034,695
Other capital reserves	322,115	322,115
Share of associate's capital reserve	-	186,076
Translation reserve	(31,425)	(31,425)
	27,487,566	28,248,427

The movements in each category are analysed as follows:

	2018 €	2017 €
Fair value gains reserve in respect of property		
At beginning of year	26,736,966	21,422,813
Fair value gains arising during the year (Note 6, 16)	-	5,445,104
Transfer of fair value gains on property upon realisation through disposal, net of deferred tax movements determined on the basis applicable to property disposals	(664,094)	-
Deferred income taxes on fair value gains arising during the year	-	(544,510)
Movement in deferred tax liability determined on the basis applicable to property disposals	89,309	413,559
At end of year	26,162,181	26,736,966
Share of associate's incentives and benefits reserve		
At beginning and end of the year	1,034,695	1,034,695
Other capital reserves		
At beginning and end of the year	322,115	322,115

19. Fair value gains and other reserves - continued

	2018 €	2017 €
Share of associate's capital reserve		
At beginning of year	186,076	190,568
Redemption of capitalised ground rents (Note 8)	(186,076)	(4,492)
	-	186,076
Translation reserve		
At beginning and end of the year	(31,425)	(31,425)

The tax impact included in fair value gains and other reserves as at 31 December 2018, relates to deferred taxation arising on the fair value gains reserve in respect of property of entities forming part of the Mizzi Organisation for an amount of €4,649,392 (2017: €4,738,701). The movements in the tax impact relating to this component of other comprehensive income during the current and the preceding financial year is presented in the respective table above.

Gains from changes in fair value of investment property, net of deferred tax movements, which are unrealised at the end of the reporting periods, would be recognised in profit or loss in accordance with the Organisation's accounting policy for investment property. These amounts are transferred from retained earnings to the fair value gains reserve since these gains are not considered by the directors of the respective entities to be available for distribution. Any write-downs of the carrying amount of non-current assets held for sale, which were previously classified as investment property and fair valued in prior years before transferred upon a change in intended use, are treated in the same way as outlined above.

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

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

The amounts recognised in the translation reserve relate to exchange differences resulting from translating the results and financial position of an entity forming part of the Mizzi Organisation that has a functional currency which is different from the Organisation's presentation currency, in accordance with the Organisation's accounting policy.

20. Hedging reserve

The fair value changes attributable to cash flow hedge instruments are recorded in the hedging reserve, in a separate category of equity, as shown below:

	Interest rate swaps	
	2018	2017
	€	€
At 1 January		
Gross amounts of losses	(812,296)	(1,251,712)
Deferred income tax	284,304	438,100
	(527,992)	(813,612)
Movements during the year ended 31 December		
Net gains from changes in fair values	285,779	83,736
Deferred income tax	(100,023)	(29,308)
	185,756	54,428
Reclassified to profit or loss as a reclassification adjustment	(319,238)	355,680
Deferred income tax	111,733	(124,488)
	(207,505)	231,192
At 31 December		
Gross amounts of losses	(778,837)	(812,296)
Deferred income tax	272,593	284,304
	(506,244)	(527,992)

The tax impacts relating to this component of other comprehensive income are presented in the above tables.

The net fair value losses as at 31 December 2018 and 2017 on open interest rate swap agreements which hedge anticipated future interest rate fluctuations on borrowings will be reclassified from the hedging reserve to profit or loss as a reclassification adjustment when the forecast transactions occur, at various dates up to one year from the end of the reporting period.

21. Trade and other payables

	2018 €	2017 €
Current		
Trade payables	20,296,229	20,375,891
Amounts payable in respect of capital expenditure	4,341,080	7,433,174
Contract liabilities		
Payments received in advance from customers	3,473,124	1,830,022
Gross amounts owed to customers for contract work	590,468	343,840
Attributable to customer loyalty programme	325,303	-
Face value of bonds and interest thereon payable to bond holders	186,555	228,018
Amounts owed to associates	722,455	871,411
Amounts owed to other related parties	25,018	2,014,168
Other payables	1,289,757	1,158,059
Indirect taxation and social security	1,788,684	1,712,753
Deferred Government grants related to assets	892	892
Accruals (2017: accruals and deferred income)	11,137,561	10,332,092
	44,177,126	46,300,320
Non-current		
Deferred Government grants related to assets	8,926	9,818

As at 31 December 2018, amounts owed to customers for contract work included amounts due to other related parties of €13,474 (2017: €13,487).

Amounts payable to bondholders disclosed in the table above represent amounts unclaimed by the respective bondholders, relating to the face value of the bonds redeemed in 2016 and interest thereon.

Deferred Government grants represent state aid in respect of the energy grant scheme. The amount of the liability is reflected in profit or loss on a straight-line basis over the expected lives of the related assets and is presented within 'Other operating income'.

As at 31 December 2017, the Organisation's amounts owed to other related parties mainly consist of amounts owed to shareholders. During the current year, such amounts increased to €3,063,030 and on 31 December 2018 an amount of €3,042,999 has been waived and converted to capital contribution reserve (refer to Note 17).

Upon adoption of the requirements of IFRS 15 on 1 January 2018, the following reclassifications have been effected:

- Contract liabilities in relation to customer loyalty programme amounting to €281,392 were previously presented as 'accruals and deferred income' as at 31 December 2017. No remeasurement was deemed necessary in this respect.
- Contract liabilities amounting to €64,134 relating to sales vouchers, presented within accruals and deferred income as at 31 December 2017 prior to the adoption of IFRS 15, have been reclassified as 'payments received in advance from customers'. No remeasurement was deemed necessary in this respect.

21. Trade and other payables - continued

The following tables reflect an analysis of contract liabilities at 1 January 2018 following the adoption of IFRS 15:

	As at 1 January 2018 - based on 31 December 2017 – as previously stated	Reclassifications	As at 1 January 2018 - as restated
	€	€	€
<i>Impact of adoption of IFRS 15</i>			
Current			
Trade payables	20,375,891	-	20,375,891
Amounts payable in respect of capital expenditures	7,433,174	-	7,433,174
Contract liabilities			
Payments received in advance from customers	1,830,022	64,134	1,894,156
Gross amounts owed to customers for contract work	343,840	-	343,840
Attributable to customer loyalty programme	-	281,392	281,392
Face value of bonds payable to bond holders	228,018	-	228,018
Amounts owed to associates	871,411	-	871,411
Amounts owed to other related parties	2,014,168	-	2,014,168
Other payables	1,158,059	-	1,158,059
Indirect taxation and social security	1,712,753	-	1,712,753
Deferred Government grants related to assets	892	-	892
Accruals and deferred income	10,332,092	(345,526)	9,986,566
Total current trade and other payables	46,300,320	-	46,300,320

Contract liabilities at 1 January 2018 – recognised in revenue during 2018

Revenue recognised in profit or loss during the financial year ended 31 December 2018 that was included in the balances of contract liabilities as at 1 January 2018 (as restated) amounted to €2,177,046.

All movements in contract liabilities during the current financial year related to business variations.

22. Borrowings

	2018 €	2017 €
Current		
Bank overdrafts	19,869,281	17,575,703
Bills of exchange factored out to bank	2,475,642	1,074,080
Bank loans	7,276,529	6,594,522
Loans from associate	1,013,829	2,332,353
Loans from related party	600,000	600,000
	31,235,281	28,176,658
Non-current		
Bills of exchange factored out to bank	4,042,111	105,652
Bank loans	66,700,013	60,922,747
	70,742,124	61,028,399
Total borrowings	101,977,405	89,205,057

22. Borrowings - continued

The Organisation's banking facilities as at 31 December 2018 amounted to €124,390,150 (2017: €104,907,525). These facilities are mainly secured by:

- (a) joint and several guarantees by various entities forming part of the Mizzi Organisation, supported by general hypothecary guarantees over the assets of the entities involved and special hypothecary guarantees over properties held;
- (b) general hypothecs on the assets of certain entities within the Organisation supported by special hypothecs over assets and properties held together with special privileges on property;
- (c) pledge over bills of exchange drawn.

These banking facilities include an amount of €1,050,000 (2017: €450,000) in respect of the recourse element of 15% of the face value of bills of exchange factored out to the bank with an option to repurchase them as they fall due up to a limit of €7,000,000 (2017: €3,000,000). At 31 December 2018, the total value of outstanding bills, which had been factored out under this facility, amounted to €6,517,753 (2017: €1,179,731). This banking facility may also be utilised to factor out bills of exchange without an option to repurchase them as they fall due. The facility amount covers the recourse element of 15% of the value of bills factored out in this manner.

The long-term portion of the factoring facility in respect of bills of exchange factored out provides financing for working capital on a long-term basis and accordingly has been classified as a non-current liability.

The interest rate exposure of the bank borrowings of the Organisation is as follows:

	2018	2017
	€	€
Total borrowings:		
At fixed rates	35,132,747	34,887,267
At floating rates	65,230,829	51,385,436
	100,363,576	86,272,703

Borrowings at floating rates, with a notional amount of €21.1 million (2017: €23.9 million), with interest rates computed using a margin over the three-month Euribor, are hedged through a receive floating, pay fixed interest rate swap agreement (refer to Note 24).

22. Borrowings - continued

The proceeds from bank borrowings are measured at the amount of net proceeds adjusted for the amortisation of the difference between net proceeds and the face value of the bank borrowings using the effective interest method as follows:

	2018 €	2017 €
Face value of bank loans	74,231,466	67,785,917
Gross amount of bank borrowings issue costs	(301,543)	(301,543)
Amortisation of gross amount of bank borrowings issue costs:		
Accumulated amortisation at beginning of year	32,895	27,413
Amortisation charge for the current year (Note 31)	13,724	5,482
Accumulated amortisation at end of year	46,619	32,895
Unamortised bank borrowings issue costs	(254,924)	(268,648)
Amortised cost and closing carrying amount of bank loans as at 31 December	73,976,542	67,517,269

The Organisation's bank borrowings which are subject to floating rates of interest are linked to Euribor.

The weighted average effective interest rates for bank borrowings at the end of the reporting period are as follows:

	2018 %	2017 %
Bank overdrafts	2.5	2.6
Bills of exchange factored out to bank	2.8	2.5
Bank loans	2.8	2.9

Maturity of Organisation's non-current bank borrowings:

	2018 €	2017 €
Between 1 and 2 years	9,601,128	7,072,893
Between 2 and 5 years	33,334,577	21,719,090
Over 5 years	27,806,419	32,236,415
	70,742,124	61,028,398

The short-term loans from a related party amounting to €600,000 (2017: €600,000) are unsecured, interest free and repayable on demand.

The short-term loans from associate amounting to €1,013,829 (2017: €2,332,353) are repayable on demand, unsecured and subject to a fixed interest rate of 3% (2017: 3%).

23. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2017: 35%), with the exception of deferred taxation on the fair valuation of property which is computed on the basis applicable to property disposals i.e. tax effect of 8% – 10% (2017: 8% – 10%) of the transfer value.

The movement on the deferred tax account is as follows:

	2018 €	2017 €
At beginning of year	12,013,727	11,462,162
Movement in deferred tax liability determined on the basis applicable to property disposals:		
- Investment property and other assets - recognised in profit or loss (Note 32)	(89,309)	(413,559)
- Property, plant and equipment and other assets - recognised in other comprehensive income (Note 18)	47,182	271,128
Deferred income taxes on net fair value gains on investment property and other assets arising during the year (Note 32)	-	544,510
Realisation through asset use (Note 32)	(18,248)	(18,248)
Deferred income taxes on temporary differences arising on depreciation of property, plant and equipment (Note 32)	(173,346)	195,864
Deferred income taxes on temporary differences arising on credit loss allowances in respect of trade and other receivables (Note 32)	61,387	85,613
Deferred income taxes attributable to unabsorbed capital allowances (Note 32)	169,211	(267,539)
Deferred income taxes on temporary differences arising on fair valuation of derivative instruments	11,711	153,796
	12,022,315	12,013,727

All the amounts disclosed in the table above, which have been referenced to Note 32 are recognised in profit or loss. The other amounts, referenced to Note 18, have been recognised directly in equity in other comprehensive income.

The balance at 31 December represents:

	2018 €	2017 €
Deferred tax liabilities		
Temporary differences arising on fair valuation of property	11,966,748	12,027,123
Temporary differences arising on depreciation of property, plant and equipment	579,439	752,785
Temporary differences arising on credit loss allowances respect of trade and other receivables	-	(61,387)
Unutilised tax credits attributable to unabsorbed capital allowances	(251,279)	(420,490)
	12,294,908	12,298,031
Deferred tax assets		
Temporary differences arising on fair valuation of derivative instruments	(272,593)	(284,304)

23. Deferred taxation - continued

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

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

	Unrecognised		Recognised	
	At 31	At 31	At 31	At 31
	December	December	December	December
	2018	2017	2018	2017
	€	€	€	€
Unutilised tax credits arising from:				
Unabsorbed capital allowances	3,739,924	3,150,788	717,940	1,201,400
Unabsorbed tax losses	-	162,103	-	-
Unabsorbed capital losses	752,141	740,928	-	-
Investment tax credits	13,064,600	15,073,256	-	-
Deductible temporary differences arising on:				
Depreciation of property, plant and equipment	561,344	350,345	-	-
Credit loss allowances in respect of trade and other receivables	7,805,587	8,150,540	-	175,391
Credit loss allowances of investments in associates and investments at FVOCI (2017: available-for-sale financial assets)	805,374	787,173	-	-
Fair valuation of derivative instruments	-	-	778,837	812,296
Taxable temporary differences arising on depreciation of property, plant and equipment				
	-	-	(1,655,540)	(2,150,814)

Under the Business Promotion Regulations 2001, an entity forming part of Mizzi Organisation (The General Soft Drinks Company Limited) is entitled to investment tax credits on “qualifying” capital expenditure, the full amount of which would be available for set-off against the undertaking’s tax liability.

The temporary differences arising on provisions for impairment of trade and other receivables include those arising on provisions for impairment of amounts receivable from hire purchase debtors (see Note 12).

The unrecognised deferred tax assets at the end of the reporting periods have not been reflected in these financial statements due to the uncertainty of the realisation of the related tax benefits. Whereas tax losses have no expiry date, unabsorbed capital allowances and unutilised investment tax credits are forfeited upon cessation of the trade. Capital losses have no expiry but may be utilised solely to offset future capital gains.

24. Derivative financial instruments

	Fair value liabilities	
	2018	2017
	€	€
At 31 December		
Interest rate derivative		
- interest-rate swap	778,837	812,296

During the preceding financial year, Mizzi Organisation Limited entered into receive floating, pay fixed interest rate swap derivative financial instruments to mitigate the variability of future floating interest payments based on the applicable three-month Euribor rate on the specific borrowings. The fair value movement attributable to the derivative contract during the respective year is recognised in the cash flow hedge reserve (refer to Note 19). Realised gains and losses on the derivative are subsequently transferred to profit or loss and presented within finance costs. The notional amount of the outstanding interest rate swap contracts as at 31 December 2018 was €21.1 million (2017: €23.9 million).

25. Revenue

The Organisation's revenue, which is entirely derived from the local market, is analysed by category of business as follows:

	2018	2017
	€	€
By category of business		
Sale of motor vehicles, spare parts and provision of ancillary services	67,717,191	68,901,833
Bottling of soft drinks, mineral water and sale of other beverages	44,722,016	40,212,175
Sale of foodstore goods, clothing and other goods from shopping complex and rented premises	34,150,755	30,912,396
Activities in the power, heating and ventilation equipment sectors	17,110,038	15,547,719
Hotel operations	6,414,089	2,729,070
Operating lease rental income:		
- property	1,856,480	1,079,427
- motor vehicles	1,580,081	1,601,586
Recruitment and personnel outsourcing	-	31,665
Income from hire purchase financing	1,406,593	1,037,098
Sale of ground rents and other property developed with a view to sale	59,677	54,501
	175,016,920	162,107,470

The Organisation's revenue that is recognised over time amounts to €9,500,899 (2017: €8,796,404) which arises from the activities in the power, heating and ventilation equipment sectors.

Unfulfilled performance obligations, which are the services that the Organisation is obliged to provide to customers during the remaining fixed term contract, as at 31 December 2018 relate to the amounts disclosed under 'contract liabilities' in Note 21 to the financial statements.

26. Expenses by nature

	2018 €	2017 €
Cost of goods purchased for resale	98,606,083	96,837,067
Raw materials and other consumables used	13,630,570	13,242,292
Changes in inventory of manufactured finished goods	(28,962)	(492,792)
Cost attributable to property sold	-	30,044
Hotel food and beverage costs	343,437	165,676
Hotel operating supplies, services and related expenses	1,548,255	555,239
Depreciation of property, plant and equipment (Note 4)		
- owned assets	6,047,679	5,339,127
- owned assets (motor vehicles) leased out under operating leases	1,057,370	1,036,517
Amortisation of intangible assets	21,322	-
Employee benefit expense (Note 27)	27,851,464	23,127,415
Marketing, business promotion and related expenses	3,290,118	3,088,822
Property operating lease rentals payable	2,245,587	1,626,787
Movement in credit loss allowances in respect of the following receivables:		
- hire purchase (included in 'Administrative expenses')	(102,578)	48,976
- trade and other (included in 'Selling and other direct expenses')	(23,506)	(307,212)
- trade and other (included in 'Administrative expenses')	23,969	(346,568)
Amounts written off in respect of the following receivables:		
- hire purchase (Included in 'Administrative expenses')	7,533	25,799
- trade and other (included in 'Administrative expenses')	11,857	420,437
Other expenses	14,175,965	11,154,369
Total cost of sales; selling and other direct expenses; and administrative expenses	168,706,163	155,551,995

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

	2018 €	2017 €
Exchange differences	1,541	(84,722)
Profit on disposal of property, plant and equipment	(335,650)	(240,024)

27. Employee benefit expense

	2018 €	2017 €
Wages and salaries	25,522,801	21,372,083
Outsourced wages and salaries	707,891	385,647
Social security costs	1,620,772	1,379,685
	27,851,464	23,137,415

Average number of persons employed during the year:

	2018	2017
Direct	866	773
Administration	290	276
	1,156	1,049

28. Other operating income

	2018 €	2017 €
Income which is incidental to the Organisation's key operations, including profit on disposal of specific assets which were surplus to the Organisation's requirements	1,678,044	1,184,300
Government grants	892	8,086
	1,678,936	1,192,386

29. Investment and other related income

	2018 €	2017 €
Gross dividends receivable from financial assets at FVOCI (2017: available-for-sale financial assets)	177,764	225,876
Gross dividends receivable from financial assets at FVPL	44,057	13,025
Other gross dividends receivable	1,387	1,387
Net gain on disposal of available-for-sale financial assets	-	23,775
Net fair value (losses)/gains on financial assets at FVPL	(100,266)	116,559
Other income	3,215	-
	126,157	380,622

30. Finance income

	2018 €	2017 €
Bank interest receivable	81,378	23,409
Other interest receivable	1,719	140
Interest receivable from associate	7,204	-
	90,301	23,549

31. Finance costs

	2018 €	2017 €
Bank interest and charges	3,342,868	2,315,522
Amortisation of difference between initial net proceeds from and face value of bank loans (Note 22)	13,724	5,482
Interest payable to associate	74,350	59,568
Other finance costs	31,355	109,474
	3,462,297	2,490,046

32. Tax expense

	2018 €	2017 €
Current taxation:		
Current tax expense	1,073,392	1,331,300
Adjustment recognised in financial period for current tax of prior periods	8,514	30,119
Deferred taxation (Note 23)	(50,305)	126,641
	1,031,601	1,488,060

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

	2018 €	2017 €
Profit before tax	6,460,313	12,598,868
Tax on profit at 35%	2,261,110	4,409,604
Tax effect of:		
Unrecognised temporary differences and other movements, mainly attributable to property, plant and equipment and credit loss allowances in respect of trade and other receivables	561,532	32,035
Incentives in respect of investment tax credits	(1,173,353)	(746,227)
Unabsorbed capital allowances claimed during the year	491,354	330,703
Unabsorbed tax losses incurred during the year	-	56,736
Utilisation of unabsorbed tax losses and capital allowances brought forward from previous years	(547,156)	(115,011)
Income not subject to tax or charged at reduced rates	(81,923)	(203,312)
Share of results of associates	(600,761)	(522,122)
Determination of deferred taxation on fair value gains of investment property and other properties on the basis applicable to property disposals	26,056	(1,786,191)
Maintenance allowance claimed on rented property	(98,717)	(99,063)
Application of provisions of tax legislation to sale of property	6,000	(2,936)
Expenses not deductible for tax purposes	167,431	101,770
Under provision of tax in previous years	8,514	30,119
Amortisation of borrowing issue costs not allowable for tax purposes	11,514	1,919
Tax charge in the accounts	1,031,601	1,488,024

The tax impact relating to components of other comprehensive income is presented in the tables within Notes 18 and 19 to the financial statements.

33. Directors' emoluments

	2018	2017
	€	€
Salaries and other emoluments	1,005,795	848,222
Fees	14,500	14,500
	1,020,295	862,722

The directors are also entitled to fringe benefits, such as the use of a motor vehicle and other similar benefits, which have been attributed a monetary amount for personal tax purposes.

34. Dividends

	2018	2017
	€	€
Final dividends paid on ordinary shares: Net	2,100,000	2,000,000
Dividends per share	1.98	1.89

35. Statement of cash flows

Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2018	2017
	€	€
Operating profit	7,989,693	13,192,965
Adjustments for:		
Depreciation of property, plant and equipment (Note 4)	7,105,049	6,375,644
Amortisation of intangible assets (Note 6)	21,322	-
Profit on disposal of property, plant and equipment	(189,548)	(240,024)
Movement in credit loss allowances in respect of trade and other receivables	(102,115)	(604,804)
Amounts written off in respect of trade and other receivables	19,390	446,236
Net gains from changes in fair value of investment property and other property (Notes 5 and 15)	-	(5,445,104)
Changes in working capital:		
Inventories	(548,752)	(3,164,625)
Trade and other receivables	(8,871,949)	(7,896,727)
Trade and other payables	4,011,007	6,477,129
Cash generated from operations	9,434,097	9,140,690

Net debt reconciliation

The principal movements in the Organisation'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 10.

36. Commitments

Capital commitments

Commitments for capital expenditure in relation to property development (Notes 5, 6 and 13) not provided for in these financial statements are as follows:

	2018	2017
	€	€
Authorised but not contracted	4,530,000	8,050,000
Contracted but not provided for	5,796,000	1,600,000
	10,326,000	9,650,000

Operating lease commitments – where an undertaking is the lessor

The future minimum lease payments receivable under non-cancellable property operating leases are as follows:

	2018	2017
	€	€
Not later than one year	1,248,310	960,336
Later than one year and not later than five years	2,713,381	1,969,764
Later than five years	462,795	-
	4,424,486	2,930,100

36. Commitments - continued

Entities forming part of the Organisation are party to non-cancellable operating lease arrangements relating to property, entered into on commercial terms. The non-cancellable term of the principal lease agreements expire within a 5 year period from the end of the financial reporting period.

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

	2018	2017
	€	€
Not later than one year	1,345,276	1,165,043
Later than one year and not later than five years	3,060,354	2,612,219
Later than five years	137,700	128,655
	4,543,330	3,905,917

An entity's principal business is the leasing out of motor vehicles on commercial terms under operating lease agreements with terms of 5 to 6 years.

Operating lease commitments – where an undertaking is the lessee

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

	2018	2017
	€	€
Not later than one year	871,184	970,657
Later than one year and not later than five years	4,277,790	4,540,117
Later than five years	32,979,260	33,836,787
	38,128,234	39,347,561

The future minimum base payments under non-cancellable property operating leases principally comprise the following:

- a 65 year emphyteutical grant for land in Marsa entered into in 2005, with minimum lease payments amounting to €4 million (2017: €4.1 million);
- another 65 year emphyteutical grant for a particular property in Valletta entered into in 2016, with minimum lease payments amounting to €31 million (2017: €31.4 million);
- other property operating leases, primarily for retail outlets, which expire within a period ranging from 4 to 12 years, with minimum lease payments amounting to €3.1 million (2017: €3.6 million).

37. Contingencies

- (a) At 31 December 2018, the Organisation had contingent liabilities amounting to €2,251,664 (2017: €2,644,246) in respect of guarantees issued by the bank on behalf of entities forming part of the Mizzi Organisation in favour of third parties in the ordinary course of business.

37. Contingencies - continued

- (b) No provision has been made in these combined accounts for disputed income tax amounting to €403,715 (2017: €403,715) arising from assessments raised in terms of Section 44 of the Income Tax Act, Cap. 123. Objections have been filed on the said assessments. The directors of the respective entities are confident that no material future liability will arise beyond the amounts which are acknowledged as properly due, which amounts have been fully provided for.

Objections have been filed by the Organisation with the Commissioner of Inland Revenue over assessments raised relating to basis years from 1985 to 1996 amounting to €28,541 (2017: €28,541), in respect of which no provision has been made in these accounts.

38. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating policy decisions.

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

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

In the opinion of the directors of the entities forming part of the Organisation, 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 Organisation. The aggregate invoiced amounts in respect of a number of transaction types carried out with related parties are not considered material and accordingly they do not have a significant effect on these combined financial statements.

In the ordinary course of their operations, Organisation entities sell goods held for resale and provide services to associates, key management personnel and other related parties mentioned above, for trading purposes. The Organisation's related party transactions also include financing transactions, principally advances, with associates and other related parties together with property and motor vehicle operating lease rental income receivable from associates. These transactions carried out with related parties do not have a material effect on the operating results and financial position of the Organisation and accordingly have not been disclosed for the purposes of giving a true and fair view.

The transactions referred to above were carried out on commercial terms. Year-end balances with related parties are disclosed in Notes 9, 11, 21 and 22 to these combined financial statements.

Key management personnel compensation, consisting of directors' remuneration, is disclosed in Note 33.