# MIZZI ORGANISATION LIMITED

## Annual Report and
## Consolidated Financial Statements
## 31 December 2018

Company Registration Number: C 813

## Directors' report

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

### Principal activities

The group's principal activities, which are unchanged since last year, are mainly the importation and sale of motor vehicles, servicing and repairs of motor vehicles, motor vehicle financing and leasing; domestic appliances and related spare parts; mechanical and electrical contracting, installation and servicing of lifts, air conditioners and related supplies; the management and leasing of a shopping and commercial centre and retailing activities principally the sale of foodstore goods, clothing and similar goods from rented premises; operating a food market and other food and beverage outlets. Group undertakings also derive revenues from sale of property and operating lease income from the renting out of owned property.

During the year under review the Group also started operating a food market and other food and beverage outlets in partnership with other restaurant operators.

The company's principal activities, which are unchanged since last year, are the holding of investments and managing the affairs of the other companies within the Mizzi Organisation.

### Review of the business

In 2018, the company kept expanding its operations in most business sectors. The directors expect that the present level of activity will be sustained for the foreseeable future.

*Mizzi Organisation Limited - The company*

During the current financial year, the company received gross dividends amounting to €2.6 million from its subsidiaries as compared to the €3.9 million received in 2017. Gross dividends received from associates amounted to €2,387,992 as compared to €326,706 received in 2017. During 2018, the company continued strengthening its equity reserves, registering a growth in its net position from €6,575,314 in 2017 to €13,509,628.

*Automotive*

During the year, the automotive division registered a decrease in revenue of 2% over 2017. Overall revenue for the year amounted to €73 million as opposed to €74 million in 2017. This decrease in turnover resulted in lower profit levels from this segment when compared to 2017. In 2017, the directors increased the capital expenditure through refurbishing of one of its showrooms in Ta' Xbiex, while a new Porsche showroom was inaugurated during 2018 in recently acquired prominent premises in Ta' Xbiex. In these two years, refurbishment costs totalling €1.2M were incurred by the Organisation's real estate company which owns and rents out the showrooms to the automotive companies.

*Mechanical and engineering contracting*

During the year, Titan International Limited, the subsidiary primarily dealing in in the contracting and servicing of lifts and air conditioners, registered a decrease in revenue of 13% or €2,739,205, in contrast to an increase in revenue of 25% recorded in 2017. Profit before tax decreased at a similar rate to €782,208.

## **Directors' report** - continued

*Retail*

The retail division's level of business remains at sustained levels and the financial position is satisfactory. Sales remained at the same levels of 2017 at €30 million. However, this whole retail division closed the financial year with a total loss before tax in excess of €1,821,102 compared to a profit before tax of €720,493 in 2017.

With the restoration of the historic Valletta indoor Market being completed at the end of 2017, Arkadia opened the doors of the new food market and other food and beverage outlets in partnership with other restaurant operators at the beginning of 2018. The negative results brought along by the Valletta Market, have outweighed the positive results by the traditional Arkadia business model.

*Real Estate*

During the year under review the Organisation's real estate company, Mizzi Estates Limited, experienced a growth in rental income derived from third parties of around 10%. The company has a number of projects in the pipeline, hence there is a very limited number of properties available for sale, which led to no property being sold during 2018. In contrasts to 2017 where the company registered net gains from changes in fair value of investment property amounting to €5,461,104 in aggregate, there were no such gains or losses during 2018, given the entire property portfolio has only recently been revalued.

Capital expenditure this year amounted to €6.2 million. A substantial amount of this was used to acquire new properties in Ta' Xbiex, which increased the footprint area forming part of the 'Continental Building', and the development of a sizeable site in Bugibba into a block of apartments, with the intention of renting them out by middle of year 2019. The group also carried out the refurbishment of a new automotive showroom as mentioned above. Furthermore, in 2018, the directors undertook additional capital expenditure to commence the development of another site which has long been in the Organisation's portfolio, into an office block.

Property acquisitions were partly funded by the new bank financing of the parent company as well as financing from shareholding companies.

*Other Matters*

Any new projects undertaken by the Group involved measures aimed at reducing material waste and improved water and electricity usage through the use of more energy efficient equipment.

The companies forming part of Mizzi Organisation have continued to support The Spiru Mizzi Foundation, as part of the Corporate Social Responsibility program of the Organisation. The Foundation was set up by the President of Mizzi Organisation, Chev. Maurice Mizzi, in order to support and honour the new generations born and living in Cottonera and the surrounding harbour area.

Headcount levels increased by 12% to almost 800, with Mizzi Organisation Limited and its subsidiaries employing the bulk of the whole Mizzi Organisation's human resources which is in excess of a thousand persons. The increase was a direct result of the new operation of the food market in Valletta.

## **Directors' report** - continued

*Outlook for 2019*

The Group expects the operational results to recover in 2019. Main contributors being the automotive division managing to keep the positive momentum gained in quarter four of 2018, together with improved operational efficiencies. The Group also expects an improved bottom line coming from the Valletta Market, forming part of the Arkadia results. The Group suffered heavy losses in 2018 from this operation and management has addressed this performance and envisages better results in 2019. The engineering arm of the Group is expected to experience a slowdown in operational results due to delays in certain developments where Titan International Ltd was contracted. This is entirely beyond the control of management which was geared up to face these projects at the start of 2019. The real estate arm of the group is expected to improve its top line with the gradual introduction of 31 newly built apartments in Bugibba. Albeit, the bottom line will be affected with increased borrowing costs brought along by incremental borrowings to finalise property developments.

Management feels that the diversification of this group keeps on being a determining factor in producing a steady bottom line and return to shareholders.

*Risks and uncertainties*

In 2018 there has been no change in the Group's and company's financial risk management objectives and policies, details of which, together with further information on the Group's and the Company's risk exposures can be found in Note 3 to the financial statements.

### **Results and dividends**

The consolidated financial results are set out on page 11. The directors do not recommend the payment of a dividend.

The directors propose that the company's balance of retained earnings amounting to €9,029,384 be carried forward to the next financial year.

### **Directors**

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

Angela Calleja - appointed 1 July 2018
Maurice F. Mizzi
Brian R. Mizzi
Christopher Mizzi - appointed 1July 2018
Ian Mizzi - appointed 1July 2018
Kenneth C. Mizzi
Maurice F. Mizzi
Veronique Mizzi - appointed 1July 2018

## **Directors' report** - continued

### Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the group and the parent company as at the end of each reporting period and of the profit or loss for that period.

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

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

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

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

### Auditors

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

On behalf of the board

Maurice F. Mizzi
Director

Brian R. Mizzi
Director

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

6 September 2019

# *Independent auditor's report*

To the Shareholders of Mizzi Organisation Limited

## *Report on the audit of the financial statements*

### *Our opinion*

In our opinion:

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

**What we have audited**

Mizzi Organisation Limited's financial statements, set out on pages 9 to 117, comprise:

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

### *Basis for opinion*

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

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

**Independence**

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

pwc

# *Independent auditor's report* - *continued*

To the Shareholders of Mizzi Organisation Limited

## *Other information*

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

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

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

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

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

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

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

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

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

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

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

# *Independent auditor's report* - *continued*

To the Shareholders of Mizzi Organisation Limited

## *Auditor's responsibilities for the audit of the financial statements*

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

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

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

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

# *Independent auditor's report - continued*

To the Shareholders of Mizzi Organisation Limited

## *Report on other legal and regulatory requirements*

### *Other matters on which we are required to report by exception*

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

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

**PricewaterhouseCoopers**
78, Mill Street
Qormi
Malta

FAxisa

Fabio Axisa
Partner

6 September 2019

## Statements of financial position

| | | At 31 December | | | |
|---|---|---|---|---|---|
| | | **Group** | | **Company** | |
| | Notes | **2018** | 2017 | **2018** | 2017 |
| | | **€** | € | **€** | € |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 5 | **81,976,441** | 80,588,909 | **265,299** | 366,804 |
| Investment property | 6 | **59,948,097** | 51,295,510 | **116,609** | 116,609 |
| Intangible assets | 7 | **131,898** | 60,000 | **-** | - |
| Investments in subsidiaries | 8 | **-** | - | **8,534,815** | 8,534,815 |
| Investments in associates | 9 | **2,979,975** | 3,200,009 | **2,595,025** | 531,025 |
| Loans and advances | 10 | **7,178,943** | 5,812,395 | **22,986,808** | 11,439,753 |
| Financial assets at FVOCI | | | | | |
| (2017: Available-for-sale financial assets) | 11 | **4,649,265** | 5,786,473 | **4,649,265** | 5,786,473 |
| Deferred tax assets | 24 | **272,593** | 284,304 | **272,593** | 284,304 |
| Trade and other receivables | 12 | **11,699,079** | 9,718,076 | **-** | - |
| Total non-current assets | | **168,836,291** | 156,745,676 | **39,420,414** | 27,059,783 |
| **Current assets** | | | | | |
| Inventories | 14 | **24,345,532** | 24,617,560 | **-** | - |
| Trade and other receivables | 12 | **27,957,992** | 26,519,191 | **33,956,134** | 31,615,864 |
| Loans and advances | 10 | **1,630,024** | 823,336 | **10,219,543** | 12,836,440 |
| Current tax assets | | **944,292** | 1,135,245 | **352,727** | 853,900 |
| Financial assets at FVPL | 15 | **1,205,636** | 719,424 | **1,205,636** | 719,424 |
| Cash and cash equivalents | 16 | **3,525,415** | 4,380,289 | **784** | 131,659 |
| | | **59,608,891** | 58,195,045 | **45,734,824** | 46,157,287 |
| Assets classified as held for sale | 17 | **3,548** | 1,587,871 | **-** | - |
| Total current assets | | **59,612,439** | 59,782,916 | **45,734,824** | 46,157,287 |
| **Total assets** | | **228,448,730** | 216,528,592 | **85,155,238** | 73,217,070 |

## Statements of financial position - continued

| | | At 31 December | | | |
|---|---|---|---|---|---|
| | | Group | | Company | |
| | Notes | 2018 | 2017 | 2018 | 2017 |
| | | € | € | € | € |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | 18 | **1,597,018** | 1,597,018 | **1,597,018** | 1,597,018 |
| Capital contribution reserve | 18 | **3,042,999** | - | **3,042,999** | - |
| Revaluation reserves | 19 | **38,524,884** | 38,907,748 | **346,471** | 685,450 |
| Fair value gains and other reserves | 20 | **28,654,454** | 29,229,239 | **-** | - |
| Hedging reserve | 21 | **(506,244)** | (527,992) | **(506,244)** | (527,992) |
| Retained earnings | | **9,324,590** | 11,167,644 | **9,029,384** | 4,820,838 |
| Total equity | | **80,637,701** | 80,373,657 | **13,509,628** | 6,575,314 |
| **Non-current liabilities** | | | | | |
| Borrowings | 23 | **65,898,004** | 56,094,907 | **50,130,959** | 47,116,175 |
| Deferred tax liabilities | 24 | **10,365,447** | 10,787,072 | **13,993** | 13,993 |
| Derivative financial instruments | 25 | **778,837** | 812,296 | **778,837** | 812,296 |
| Total non-current liabilities | | **77,042,288** | 67,694,275 | **50,923,789** | 47,942,464 |
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | **43,289,388** | 46,228,832 | **8,989,792** | 9,466,242 |
| Current tax liabilities | | **480,431** | 649,307 | **-** | - |
| Borrowings | 23 | **26,998,922** | 21,582,521 | **11,732,029** | 9,233,050 |
| Total current liabilities | | **70,768,741** | 68,460,660 | **20,721,821** | 18,699,292 |
| Total liabilities | | **147,811,029** | 136,154,935 | **71,645,610** | 66,641,756 |
| **Total equity and liabilities** | | **228,448,730** | 216,528,592 | **85,155,238** | 73,217,070 |

The notes on pages 18 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 9 to 117 were authorised for issue by the Board on 6 September 2019 and were signed on its behalf by:

Maurice F. Mizzi
Director

Brian R. Mizzi
Director

## Income statements

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | Year ended 31 December | | | |
| | | **2018** | 2017 | **2018** | 2017 |
| | | **€** | € | **€** | € |
| **Revenue** | 26 | **124,529,656** | 122,589,811 | **-** | - |
| Cost of sales | | **(96,698,693)** | (97,838,165) | **-** | - |
| **Gross profit** | | **27,830,963** | 24,751,646 | **-** | - |
| Selling and other direct expenses | | **(16,213,828)** | (12,435,754) | **-** | - |
| Administrative expenses | | **(11,322,012)** | (8,956,135) | **(1,768,049)** | (1,610,756) |
| Net gains from changes in fair value of investment property | 6 | **-** | 5,461,104 | **-** | - |
| Write-down of carrying amount of assets classified as held for sale | 17 | **-** | (16,000) | **-** | - |
| Other operating income | 29 | **2,058,769** | 1,394,856 | **2,263,047** | 2,119,015 |
| **Operating profit** | | **2,353,892** | 10,199,717 | **494,998** | 508,259 |
| Investment and other related income | 30 | **124,770** | 379,235 | **5,142,102** | 4,633,642 |
| Finance income | 31 | **331,665** | 196,189 | **817,419** | 670,075 |
| Finance costs | 32 | **(3,161,313)** | (2,234,348) | **(1,952,015)** | (1,832,975) |
| Share of profit of associates | 9 | **386,754** | 471,598 | **-** | - |
| **Profit before tax** | | **35,768** | 9,012,391 | **4,502,504** | 3,979,001 |
| Tax expense | 33 | **(395,415)** | (1,259,460) | **(471,252)** | (570,442) |
| **(Loss)/profit for the year** | | **(359,647)** | 7,752,931 | **4,031,252** | 3,408,559 |

The notes on pages 18 to 117 are an integral part of these consolidated financial statements.

## Statements of comprehensive income

| | Notes | Group 2018 € | Group 2017 € | Company 2018 € | Company 2017 € |
|---|---|---|---|---|---|
| | | Year ended 31 December | | | |
| **(Loss)/profit for the year** | | **(359,647)** | 7,752,931 | **4,031,252** | 3,408,559 |
| **Other comprehensive income:** | | | | | |
| *Items that will not be reclassified to profit or loss* | | | | | |
| Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals | 19 | **(22,796)** | 9,005 | **-** | - |
| Financial assets at FVOCI: | | | | | |
| - Gains from changes in fair value | 19 | **(161,685)** | - | **(161,685)** | - |
| *Items that may be subsequently reclassified to profit or loss* | | | | | |
| Available-for-sale financial assets: | | | | | |
| - Gains from changes in fair value | 19 | **-** | 39,205 | **-** | 39,205 |
| - Reclassification adjustments for net gains included in profit or loss upon disposal | 19 | **-** | (23,775) | **-** | (23,775) |
| Cash flow hedges, net of deferred tax | 21 | **21,748** | 285,620 | **21,748** | 285,620 |
| Other comprehensive income for the year, net of tax | | **(162,733)** | 310,055 | **(139,937)** | 301,050 |
| **Total comprehensive income for the year** | | **(522,380)** | 8,062,986 | **3,891,315** | 3,709,609 |

The notes on pages 18 to 117 are an integral part of these consolidated financial statements.

## Statements of changes in equity

### Group

| | Notes | Share capital € | Hedge reserve € | Revaluation reserves € | Fair value gains and other reserves € | Retained earnings € | Total € |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | | 1,597,018 | (813,612) | 38,904,402 | 23,915,086 | 8,707,777 | 72,310,671 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | - | - | - | - | 7,752,931 | 7,752,931 |
| **Other comprehensive income:** | | | | | | | |
| Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals | 19 | - | - | 9,005 | - | - | 9,005 |
| Depreciation transfer, net of deferred tax | 19 | - | - | (21,089) | - | 21,089 | - |
| Gains from changes in fair value of available-for-sale financial assets | 19 | - | - | 39,205 | - | - | 39,205 |
| Reclassification adjustments for net gains included in profit or loss upon disposal of available-for-sale financial assets | 19 | - | - | (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 | 20 | - | - | - | 5,314,153 | (5,314,153) | - |
| Cash flow hedges, net of deferred tax | 21 | - | 285,620 | - | - | - | 285,620 |
| Total other comprehensive income | | - | 285,620 | 3,346 | 5,314,153 | (5,293,064) | 310,055 |
| **Total comprehensive income** | | - | 285,620 | 3,346 | 5,314,153 | 2,459,867 | 8,062,986 |
| Balance at 31 December 2017 | | 1,597,018 | (527,992) | 38,907,748 | 29,229,239 | 11,167,644 | 80,373,657 |

## **Statements of changes in equity** - continued

### **Group** - continued

| | Notes | Share capital € | Capital contribution reserve € | Hedge reserve € | Revaluation reserves € | Fair value gains and other reserves € | Retained earnings € | Total € |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2018 - as previously reported | | 1,597,018 | - | (527,992) | 38,907,748 | 29,229,239 | 11,167,644 | 80,373,657 |
| *Impact of changes in accounting policies:* | | | | | | | | |
| Transition adjustment upon adoption of IFRS 15 on 1 January 2018 | | - | - | - | - | - | (39,037) | (39,037) |
| Transition adjustment upon adoption of IFRS 9 on 1 January 2018 | | - | - | - | (177,294) | - | (2,040,244) | (2,217,538) |
| Balance at 1 January 2018 - as restated | | 1,597,018 | - | (527,992) | 38,730,454 | 29,229,239 | 9,088,363 | 78,117,082 |
| **Comprehensive income** | | | | | | | | |
| Loss for the year | | - | - | - | - | - | (359,647) | (359,647) |
| **Other comprehensive income:** | | | | | | | | |
| Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals | 19 | - | - | - | (22,796) | - | - | (22,796) |
| Depreciation transfer, net of deferred tax | 19 | - | - | - | (21,089) | - | 21,089 | - |
| Gains from changes in fair value of financial assets at FVOCI | 19 | - | - | - | (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 | 20 | - | - | - | - | 67,214 | (67,214) | - |
| Transfer of fair value gains on property upon realisation through disposal, net of deferred tax movements determined on the basis applicable to property disposals | | - | - | - | - | (641,999) | 641,999 | - |
| Cash flow hedges, net of deferred tax | 21 | - | - | 21,748 | - | - | - | 21,748 |
| Total other comprehensive income | | - | - | 21,748 | (205,570) | (574,785) | 595,874 | (162,733) |
| **Total comprehensive income** | | - | - | 21,748 | (205,570) | (574,785) | 236,227 | (522,380) |
| **Transaction with owners** | | | | | | | | |
| Capital contributions arising from amounts owed to shareholders which have been waived | 18 | - | 3,042,999 | - | - | - | - | 3,042,999 |
| **Balance at 31 December 2018** | | **1,597,018** | **3,042,999** | **(506,244)** | **38,524,884** | **28,654,454** | **9,324,590** | **80,637,701** |

## **Statements of changes in equity** - continued

### Company

| | Notes | Share capital € | Capital contribution reserve € | Hedging reserve € | Revaluation reserves € | Retained earnings € | Total € |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | | 1,597,018 | - | (813,612) | 670,020 | 1,412,279 | 2,865,705 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | - | - | - | - | 3,408,559 | 3,408,559 |
| **Other comprehensive income:** | | | | | | | |
| Gains from changes in fair value of available-for-sale financial assets, | 19 | - | - | - | 39,205 | - | 39,205 |
| Reclassification adjustments for net gains included in profit or loss upon disposal of available for-sale financial assets | 19 | - | - | - | (23,775) | - | (23,775) |
| Cash flow hedges, net of deferred tax | 21 | - | - | 285,620 | - | - | 285,620 |
| Total other comprehensive income | | - | - | 285,620 | 15,430 | - | 301,050 |
| **Total comprehensive income** | | - | - | 285,620 | 15,430 | 3,408,559 | 3,709,609 |
| Balance at 31 December 2017 | | 1,597,018 | - | (527,992) | 685,450 | 4,820,838 | 6,575,314 |

## **Statements of changes in equity** - continued

### **Company** - continued

| | Notes | Share capital € | Capital contribution reserve € | Hedging reserve € | Revaluation reserves € | Retained earnings € | Total € |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2018 - as previously reported | | 1,597,018 | - | (527,992) | 685,450 | 4,820,838 | 6,575,314 |
| *Impact of changes in accounting policy:* | | | | | | | |
| Transition adjustment upon adoption of IFRS 9 on 1 January 2018 | | - | - | - | (177,294) | 177,294 | - |
| Balance at 1 January 2018 - as restated | | 1,597,018 | - | (527,992) | 508,156 | 4,998,132 | 6,575,314 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | - | - | - | - | 4,031,252 | 4,031,252 |
| **Other comprehensive income:** | | | | | | | |
| Gains from changes in fair value of financial assets at FVOCI | 19 | - | - | - | (161,685) | - | (161,685) |
| Cash flow hedges, net of deferred tax | 21 | - | - | 21,748 | - | - | 21,748 |
| Total other comprehensive income | | - | - | 21,748 | (161,685) | - | (139,937) |
| **Total comprehensive income** | | - | - | 21,748 | (161,685) | 4,031,252 | 3,891,315 |
| **Transactions with owners** | | | | | | | |
| Capital contributions arising from amounts owed to shareholders which have been waived | 18 | - | 3,042,999 | - | - | - | 3,042,999 |
| **Balance at 31 December 2018** | | **1,597,018** | **3,042,999** | **(506,244)** | **346,471** | **9,029,384** | **13,509,628** |

The notes on pages 18 to 117 are an integral part of these consolidated financial statements.

## Statements of cash flows

| | Notes | Group 2018 € | Group 2017 € | Company 2018 € | Company 2017 € |
|---|---|---|---|---|---|
| | | **Year ended 31 December** | | | |
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(used in) operations | 35 | **3,370,710** | 5,734,418 | **879,606** | (1,636,062) |
| Dividends received | | **895,824** | 493,994 | **3,242,368** | 4,519,604 |
| Interest received | | **331,665** | 196,189 | **817,419** | 670,075 |
| Interest paid | | **(3,147,589)** | (2,550,866) | **(1,938,291)** | (1,827,493) |
| Tax (paid)/refunded | | **(817,759)** | (1,278,502) | **29,921** | (583,746) |
| Net cash generated from operating activities | | **632,851** | 2,595,233 | **3,031,023** | 1,142,378 |
| **Cash flows from investing activities** | | | | | |
| Payments for property, plant and equipment | 5 | **(7,827,809)** | (13,120,907) | **(79,624)** | (296,027) |
| Proceeds from disposal of property, plant and equipment | 5 | **954,594** | 1,362,747 | **22,800** | 41,724 |
| 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 | 9 | **(64,000)** | (8,001) | **(64,000)** | (8,001) |
| Purchase of available-for-sale financial assets | 11 | **-** | (204,286) | **-** | (204,286) |
| Proceeds from disposal of financial assets at FVOCI (2017: Available-for-sale financial assets) | 11 | **80,726** | 165,728 | **80,726** | 165,728 |
| Purchase of financial assets at FVPL | 15 | **(498,502)** | (75,974) | **(498,502)** | (75,974) |
| Proceeds from disposal of financial assets at FVPL | 15 | **806,821** | 117,544 | **806,821** | 117,544 |
| Proceeds from disposal of assets classified as held for sale | 17 | **1,584,323** | - | **-** | - |
| Advances to subsidiaries | 10 | **-** | - | **(8,572,010)** | (3,550,000) |
| Repayments of loans to subsidiaries | 10 | **-** | - | **1,815,088** | 1,680,753 |
| Advances to related parties forming part of Mizzi Organisation | 10 | **(3,400,000)** | (1,000,000) | **(3,400,000)** | (1,000,000) |
| Repayments of advances to related parties forming part of Mizzi Organisation | 10 | **1,226,764** | 2,297,449 | **1,226,764** | 2,297,449 |
| Advances to associates | 10 | **-** | (200,000) | **-** | (200,000) |
| Net cash used in investing activities | | **(16,693,499)** | (13,110,203) | **(8,661,937)** | (1,031,090) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from bank borrowings | 23 | **16,236,459** | 1,500,000 | **9,000,000** | - |
| Repayments of bank borrowings | 23 | **(6,165,668)** | (2,963,612) | **(5,916,133)** | (2,696,069) |
| Repayments of borrowings from related parties | 23 | **-** | (35,735) | **-** | - |
| Net cash generated from/(used in) financing activities | | **10,070,791** | (1,499,347) | **3,083,867** | (2,696,069) |
| **Net movements in cash and cash equivalents** | | **(5,989,857)** | (12,014,317) | **(2,547,047)** | (2,584,781) |
| **Cash and cash equivalents at beginning of year** | | **(10,342,851)** | 1,671,466 | **(2,757,283)** | (172,502) |
| **Cash and cash equivalents at end of year** | 16 | **(16,332,708)** | (10,342,851) | **(5,304,330)** | (2,757,283) |

The notes on pages 18 to 117 are an integral part of these consolidated financial statements.

# Notes to the financial statements

## 1. Summary of significant accounting policies

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

### 1.1 Basis of preparation

The consolidated financial statements include the financial statements of Mizzi Organisation Limited (formerly known as Mizzi Holdings Limited) and its subsidiaries. These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386). They have been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category of property, plant and equipment, 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 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 Group to exercise their judgement in the process of applying the company's accounting policies (see Note 4 - Critical accounting estimates and judgements).

As at 31 December 2018, the group's current liabilities exceeded current assets by €6,353,394, after excluding non-cash contract liabilities. The parent company directors take cognisance of the undertakings from related parties forming part of Mizzi Organisation not to request payments of amounts due to them until alternative financing is available, together with the unutilised portion of the committed bank facilities that the group can access to meet liquidity needs. On the basis of these considerations, the directors have a reasonable expectation, at the time of approving these financial statements, that the group has adequate financial resources to continue in operational existence for the foreseeable future and that the group will continue to manage its net current liability position effectively within the context of a normalised liquidity management stance. For this reason, the board continues to adopt the going concern basis in preparing the financial statements and considers that there are no material uncertainties that may exist which cast significant doubt about the ability of the group to continue operating as a going concern.

*Standards, interpretations and amendments to published standards effective in 2018*

In 2018, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU resulted in changes to the group's accounting policies impacting the group's financial performance and position. The group had to change its accounting policies 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 group's accounting policies and did not require retrospective adjustments.

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

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

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

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 company will apply the standard from its mandatory adoption date of 1 January 2019 and will apply the simplified transition approach. Under this approach, the company 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 group 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 group has non-cancellable operating lease commitments in respect of the lease of these immovable properties which amounted to €34,112,125.

Management has estimated that the lease liability for the group's lease arrangements amount to circa €18,558,000, and the right-of-use asset at that date amounts to circa €18,978,000, 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 this arrangement, amounting to around €1,503,000 for the year ending 31 December 2019, will be replaced by an annual amortisation charge on the right-of-use asset amounting to €1,222,000 and a notional interest expense of €562,000. The adoption of IFRS 16 will therefore result in an decrease of circa €281,000 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 group's statement of cash flows. The reduction in lease liability, amounting to €941,000 for the year ending 31 December 2019, will accordingly be reported as a financing cash flow instead of an operating cash flow. The group will be presenting rental payments allocated to interest, amounting to €562,000 for the year ending 31 December 2019, as operating cash flows in accordance with the group's accounting policy.

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

### 1.2 Consolidation

(a) Subsidiaries

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

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

In the company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting i.e. at cost less impairment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

(b) Associates

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

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

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

**1.2 Consolidation** - continued

(b) Associates - continued

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

In the company's separate financial statements, investments in associates are accounted for by the cost method of accounting i.e. at cost less impairment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of associates are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

**1.3 Foreign currencies**

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

The results and financial position of all the subsidiaries 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 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 Property, plant and equipment

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

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

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

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

| | % |
|---|---|
| Buildings | 1 - 2 |
| Improvements to premises | 2 - 33⅓ |
| Plant, machinery and operational equipment | 8⅓ - 33⅓ |
| Furniture, fittings, airconditioning and other equipment | 10 - 33⅓ |
| Motor vehicles | 10 - 33⅓ |

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.

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

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

**1.4 Property, plant and equipment** - continued

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

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

**1.5 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.

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 group 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.

## 1. Summary of significant accounting policies - continued

### 1.5 Investment property - continued

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 group decides to dispose of an investment property without development, the group continues to treat the property as an investment property. Similarly, if the group 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.

### 1.6 Intangible assets

(a) Goodwill

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

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

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

**1.6 Intangible assets** - continued

(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.

**1.7 Financial assets**

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

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

Regular way purchases and sales of financial assets are recognised on settlement date, 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 group has transferred substantially all the risks and rewards of ownership or has not retained control of the asset.

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

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

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

**1.7 Financial assets** - continued

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

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

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

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

*(b) Equity instruments*
The group subsequently measures all equity investments at fair value. Where the group'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 group'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 group 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 group 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 group 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. Summary of significant accounting policies** - continued

### 1.8 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.

The cost of inventories comprises the invoiced value of goods and, in general, includes transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

*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.

### 1.9 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 Group 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.

### 1.10 Amounts receivable from hire purchase debtors

An entity forming part of the Mizzi Organisation Limited acquires and finances trade receivables arising from the sale of goods and services by other companies within the Group. 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.

## 1. Summary of significant accounting policies - continued

### 1.10 Amounts receivable from hire purchase debtors - continued

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 allowance in respect of these receivables. A 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 Group'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.

### 1.11 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.

### 1.12 Assets (or disposal groups) held for sale

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.

### 1.13 Share capital

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

## 1. Summary of significant accounting policies - continued

### 1.14 Financial liabilities

The group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The group's financial liabilities, 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 group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

### 1.15 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.

### 1.16 Borrowings

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

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.

### 1.17 Derivative financial instruments and hedging

The Group 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.

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.

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

**1.17 Derivative financial instruments and hedging** - continued

On the date a derivative contract is entered into, the Group 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 Group 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 Group 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 Group'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 25 to the financial statements.

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

### 1.19 Current and deferred tax

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

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

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

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

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

### 1.20 Provisions

Provisions are recognised when the group 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 group 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.

### 1.21 Revenue recognition

Revenues include all revenues from the ordinary business activities of the Group. 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 Group's business includes various activities as disclosed in Note 26 'Revenue'.

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

**1.21 Revenue recognition** - continued

(a) Sale of goods and services

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

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

A contract asset must be recognised if an entity forming part of the Group 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 Group 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 goods – retail*

The Group 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 Group 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 Group 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 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.

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

**1.21 Revenue recognition** - continued

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

The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the end of the reporting period.

The Group 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 Group 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*

A group 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.

## 1. Summary of significant accounting policies - continued

### 1.21 Revenue recognition - continued

*Financing*

The Group 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 Group 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.

(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.

### 1.22 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).

### 1.23 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 group 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'.

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

**1.23 Government grants** - continued

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

**1.24 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) A group undertaking is the lessee*

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

*(b) A group 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 1.4. 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.

**1.25 Finance leases**

*An undertaking is the lessor*

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

**1.26 Borrowing costs**

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

**1.27 Dividend distribution**

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

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

**1.28 Accounting policies applicable until 31 December 2017**

**1.28.1 Financial assets**

**Classification**
The group classifies its financial assets (other than derivative financial instruments, investments in associates and, only in the company's case, investments in subsidiaries) in the following categories: at fair value through profit or loss, 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 group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise loans and advances, trade and other receivables, amounts receivable from hire purchase debtors and cash and cash equivalents in the statement of financial position (Notes 1.28.2, 1.28.3, 1.10 and 1.11).

(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.

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

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

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

## 1.28 **Accounting policies applicable until 31 December 2017** - continued

### 1.28.1 **Financial assets** - continued

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 group 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 directly in equity.

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

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

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

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

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

**1.28 Accounting policies applicable until 31 December 2017** - continued

**1.28.1 Financial assets** - continued

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

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

**1.28.3 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 group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

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

**1.28 Accounting policies applicable until 31 December 2017** - continued

**1.28.4 Revenue recognition** - continued

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

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

Operating lease rental income – refer to accounting policy 1.24 for 'Operating leases'.

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

The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the end of the reporting period.

The Group 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.

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

**1.28 Accounting policies applicable until 31 December 2017** - continued

**1.28.4 Revenue recognition** - continued

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

(f) Rental income from investment property
Rental income 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, in the company's reported financial statements, consisting in the main of management fees, computer and other service charges receivable from companies forming part of Mizzi Organisation, is recognised on an accrual basis unless collectability 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 Group's financial statements.

*(a) Impact on the financial statements*

As a result of the changes in the Group's accounting policies and as explained in Note 2(b) 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.

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 reported € | Impact of adoption of IFRS 9 € | Impact of adoption of IFRS 15 € | As restated € |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Available-for-sale financial assets | 5,786,473 | (894,797) | - | 4,891,676 |
| **Current assets** | | | | |
| Trade and other receivables | 26,519,191 | (2,217,538) | (39,037) | 24,262,616 |
| Financial assets at FVPL | 719,424 | 894,797 | - | 1,614,221 |
| **Total assets** | 216,528,592 | (2,217,538) | (39,037) | 214,272,017 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Revaluation reserves | 38,907,748 | (177,294) | - | 38,730,454 |
| Retained earnings | 11,167,644 | (2,040,244) | (39,037) | 9,088,363 |
| **Total equity** | 80,373,657 | (2,217,538) | (39,037) | 78,117,082 |

## 2. **Changes in accounting policies** - continued

### Company

**Statement of financial position** (extract)

| | 1 January 2018 | | |
|---|---|---|---|
| | Based on 31 December 2017 figures as previously reported<br>€ | Impact of adoption of IFRS 9<br>€ | As restated<br>€ |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Available-for-sale financial assets | 5,786,473 | (894,797) | 4,891,676 |
| **Current assets** | | | |
| Financial assets at FVPL | 719,424 | 894,797 | 1,614,221 |
| **Total assets** | 73,217,070 | - | 73,217,070 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Revaluation reserves | 685,450 | (177,294) | 508,156 |
| Retained earnings | 4,820,838 | 177,294 | 4,998,132 |
| **Total equity** | 6,575,314 | - | 6,575,314 |

## 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 Group's equity as at 1 January 2018 is as follows:

| | Retained earnings € | Revaluation Reserves € |
|---|---|---|
| As previously reported – based on 31 December 2017 figures | 11,167,644 | 38,907,748 |
| Adjustments to equity upon adoption of IFRS 9 on 1 January 2018: | | |
| Increase in credit loss allowances on trade and other receivables | (2,217,538) | - |
| 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)] | 9,127,400 | 38,730,454 |

*(i) Classification and measurement*

On 1 January 2018 (the date of initial application of IFRS 9), the management has assessed which business models apply to the financial assets held by the group and the company 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 group's and the company's equity, but gave rise to a reclassification from revaluation reserves to retained earnings (as disclosed above).

Furthermore, on the same date, the group and the company 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 Group 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 Group 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 Group'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 Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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

| As at 1 January 2018 | Up to 30 days past due | 31 to 60 days past due | 61 to 90 days past due | 91 to 120 days past due | +120 days past due | Total |
|---|---|---|---|---|---|---|
| Expected loss rate (range) | 0.2% - 1.61% | 0.3% - 1.9% | 0.4% - 2.1% | 0.6% - 21% | 1% - 100% | |
| Gross carrying amount (€) | 6,185,714 | 2,217,982 | 1,212,504 | 893,460 | 4,851,226 | 15,360,886 |
| **Loss allowance (€)** | **65,433** | **18,852** | **11,876** | **10,338** | **1,378,276** | **1,484,775** |

| | € |
|---|---|
| Loss allowance as at 31 December 2017 - utilising IAS 39 principles | 1,461,396 |
| Amounts reflected through restatement of opening retained earnings as at 1 January 2018 | 23,379 |
| Opening impairment loss allowance as at 1 January 2018 - utilising IFRS 9 principles | 1,484,775 |

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 €268,586 during the current financial year.

Hire purchase debtors

Entities within the Group carrying hire purchase debtors 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 Group. 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.

*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.

**2. Changes in accounting policies** - continued

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.

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 would have been a decrease of €679,367 during the current financial year.

*(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:

**2. Changes in accounting policies** - continued

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 Group 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 Group 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 Group utilised the following accounting options:

- Entities forming part of the Group 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 Group 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 Group 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 12 reflecting an analysis of contract assets at 1 January 2018 following the adoption of IFRS 15.

The total impact on the Group'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)] | 9,127,400 |
| Adjustments to retained earnings upon adoption of IFRS 15 on 1 January 2018: | |
| Decrease in contract assets | (39,037) |
| Retained earnings as restated | 9,088,363 |

## 2. Changes in accounting policies - continued

Up to 31 December 2017, under IAS 11, 'Construction contracts', a group 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 group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The group's overall risk management, covering risk exposures for all group undertakings, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The company's board of directors provides principles for overall group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The Group 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 group's purchases are denominated in US dollar, Japanese yen and sterling, accordingly the group 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 Group's figures.

The group'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 group'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 Group's significant instruments which are subject to fixed interest rates primarily consist of amounts receivable from hire purchase debtors (Note 13) and certain bank loans as disclosed in Note 23. In this respect, the group and the company are potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

3. **Financial risk management** - continued

**3.1 Financial risk factors** - continued

The group's interest rate risk principally arises from bank borrowings (Note 23), including bills of exchange factored out to bank, issued at variable rates and balances with related parties subject to floating interest rates (Notes 10 and 38), which expose the group to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. In prior years, the parent company entered into a cash flow hedging agreement in respect of variability of future floating interest payments of a 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 25.

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

*(iii) Price risk*

The Group is exposed to equity securities price risk in view of investments held by the Group which have been classified in the statement of financial position as financial assets at FVOCI and financial assets at FVPL (as at 31 December 2017, the Group also had investments classified as available-for-sale financial assets). The group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the group diversifies its portfolio in terms of listing status and business sectors of investees. A significant portion of the group's investments are quoted on the Malta Stock Exchange (refer to Notes 11 and 15) and are accordingly incorporated in the MSE equity index. The impact of a reasonable possible shift in the MSE equity index on the group's income statement and revaluation reserve is not deemed significant in the context of the group's figures reported. Similarly, the impact of a reasonable possible shift in the foreign exchanges equity indexes, is not deemed significant in the context of the group's figures. The analysis is based on the assumption that the equity indexes 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 and foreign recognised exchanges moved according to the historical correlation with the respective index. Another portion of the group's investments are in unlisted private companies (refer to Note 11).

(a) Credit risk

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Financial assets measured at amortised cost: | | | | |
| Loans and advances (Note 10) | **8,808,967** | 6,635,731 | **33,206,351** | 24,276,193 |
| Trade and other receivables (Note 12) | **35,035,925** | 32,403,879 | **33,660,414** | 31,528,683 |
| Cash and cash equivalents (Note 16) | **3,525,415** | 4,380,289 | **784** | 131,659 |
| | **47,370,307** | 43,419,899 | **66,867,549** | 55,936,535 |

3. **Financial risk management** - continued

**3.1 Financial risk factors** - continued

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The group does not hold any significant collateral as security in this respect. 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 Group 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 Group's receivables include loans receivable from associates and other amounts owed by associates and other related parties (Notes 9 and 12). The Group 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 Group liquidity management. The Group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The Group takes cognisance of the related party relationship with these entities and management does not expect any significant losses from non-performance or default.

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 group's debtors comprise trade receivables arising from its core operations and amounts receivable from hire purchase debtors in respect of financing provided by a group undertaking. The group assesses the credit quality of its customers, taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of products, services and financing transactions are effected with customers with an appropriate credit history. The group 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 group's debtors, taking into account historical experience in collection of accounts receivable.

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

## 3. **Financial risk management** - continued

### 3.1 **Financial risk factors** - continued

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 Group 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 group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The group'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 Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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

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

| **31 December 2018** | Up to 30 days past due | 31 to 60 days past due | 61 to 90 days past due | 91 to 120 days past due | +120 days past due | Total |
|---|---|---|---|---|---|---|
| Expected loss rate | 0.2% - 1.61% | 0.3% - 1.9% | 0.4% - 2.1% | 0.6% - 21% | 1% - 100% | |
| Gross carrying amount (€) | 9,066,257 | 2,068,021 | 1,499,462 | 331,057 | 3,994,667 | 16,959,464 |
| Loss allowance (€) | **15,270** | **3,819** | **4,299** | **2,118** | **1,503,419** | **1,528,925** |

| **1 January 2018** | Up to 30 days past due | 31 to 60 days past due | 61 to 90 days past due | 91 to 120 days past due | +120 days past due | Total |
|---|---|---|---|---|---|---|
| Expected loss rate | 0.2% - 1.61% | 0.3% - 1.9% | 0.4% - 2.1% | 0.6% - 21% | 1% - 100% | |
| Gross carrying amount (€) | 6,185,714 | 2,217,982 | 1,212,504 | 893,460 | 4,851,226 | 15,360,886 |
| Loss allowance (€) | **65,433** | **18,852** | **11,876** | **10,338** | **1,378,276** | **1,484,775** |

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.

The Group established an allowance for impairment that represented its estimate of expected credit losses in respect of trade receivables. The individually credit impaired trade receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Hence, 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 Group does not hold any significant collateral as security in respect of the credit impaired assets. The movements in credit loss allowances of these receivables are disclosed in Note 27.

3. **Financial risk management** - continued

**3.1 Financial risk factors** - continued

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

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

*Ageing analysis of trade receivables*

As at 31 December 2018, trade receivables of €3,229,894 (2017: €2,388,080) were past due but not credit impaired. Such past due debtors comprise mainly debts allocated to the over 180 days past due. 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 Group's past due trade debts, management has not identified any major concerns with respect to concentration of credit risk as outlined above.

Categorisation of trade receivables as past due is determined by the Group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers. At 31 December 2018 and 2017, the 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 Group's trade receivables figures.

*Impairment of hire purchase debtors*

An entity within the Group that carries hire purchase debtors, 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 that are not credit impaired on initial recognition are classified in 'Stage 1' and their credit risk is continuously monitored by the Group. 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.

## 3. Financial risk management - continued

### 3.1 Financial risk factors - continued

The assessment to determine the extent of increase in credit risk attributable to hire purchase debtors 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.

*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.

**3. Financial risk management** - continued

**3.1 Financial risk factors** - continued

The loss allowance for hire purchase receivables 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** |

| **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** |

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 Group established an allowance for impairment that represented its estimate of expected credit losses in respect of hire purchase debtors. 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 Group does not hold any significant collateral as security in respect of the credit impaired assets. The movements in credit loss allowances of these receivables are disclosed in Note 27.

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 Group, 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 group 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 Group 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 group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise borrowings (Note 23) and trade and other payables (Note 22). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the group's obligations.

The group's liquidity risk is actively managed by ensuring that net cash inflows from the group's trading operations are monitored in relation to cash outflows and arising from the group's borrowings, principally bonds, covering principal and interest payments as reflected in the table below. The key objective of the group's liquidity management process is that of channelling a regular stream of net cash flows to fund bond and other interest and capital repayment obligations, and strengthening the group's reserves with the residual amounts.

## 3. Financial risk management - continued

### 3.1 Financial risk factors - continued

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. This is also performed at a central treasury function which controls the overall liquidity requirements of Mizzi Organisation within certain parameters. As at 31 December 2018, the group's current liabilities exceeded current assets by €6,955,688, after excluding payments received on account and advances from customers for contract work. The parent company directors have taken cognisance of the group's financial performance and results registered to date during the financial year ending 31 December 2018, which have generated an adequate cash surplus to enable the group to manage its liquidity position and its net current liability position within controlled parameters. In respect of the net current liability position, the unutilised portion of the committed bank facilities that the group can access to meet liquidity needs have also been taken into account by the directors. The monitoring process also considers the fact that the group has significant amounts payable to related parties in respect of property and financing transactions that have taken place in the current and prior years. The group'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 group's committed bank borrowing facilities and other intra-Organisation financing that it can access to meet liquidity needs. In this respect management does not consider liquidity risk to the group as significant taking into account the liquidity management process referred to above.

The tables below analyse the group's and the company's principal financial liabilities into relevant maturity groupings based on the remaining term at the end of the reporting period to the contractual maturity date. The amounts disclosed in the 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** |
|---|---|---|---|---|---|
| | **€** | **€** | **€** | **€** | **€** |
| **Group** | | | | | |
| **At 31 December 2018** | | | | | |
| Bank borrowings | **28,339,193** | **11,068,043** | **35,949,153** | **26,104,483** | **101,460,872** |
| Loan from related party | **600,000** | **-** | **-** | **-** | **600,000** |
| Redeemable preference shares | **-** | **-** | **-** | **713,353** | **713,353** |
| Trade and other payables | **39,088,774** | **-** | **-** | **6,988** | **39,095,762** |
| **At 31 December 2017** | | | | | |
| Bank borrowings | 22,837,706 | 8,524,966 | 25,054,045 | 35,823,671 | 92,240,388 |
| Loan from related party | 600,000 | - | - | - | 600,000 |
| Redeemable preference shares | - | - | - | 713,353 | 713,353 |
| Trade and other payables | 43,489,081 | - | - | 6,988 | 43,496,069 |

## 3. Financial risk management - continued

### 3.1 Financial risk factors - continued

| | Less than 1 year € | Between 1 and 2 years € | Between 2 and 5 years € | Over 5 years € | Total € |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **At 31 December 2018** | | | | | |
| Bank borrowings | **12,951,436** | **8,130,042** | **30,268,652** | **17,168,465** | **68,518,595** |
| Loans from subsidiary | **425,000** | **-** | **-** | **-** | **425,000** |
| Trade and other payables | **8,982,804** | **-** | **-** | **6,988** | **8,989,792** |
| **At 31 December 2017** | | | | | |
| Bank borrowings | 10,322,964 | 7,348,310 | 21,486,616 | 24,142,649 | 63,300,539 |
| Loans from subsidiary | 425,000 | - | - | - | 425,000 |
| Trade and other payables | 9,459,254 | - | - | 6,988 | 9,466,242 |

The table below analyses the group's and the company'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 one 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** |

| | Less than one 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 |

### 3.2 Capital risk management

The group's capital is managed at the level of Mizzi Organisation by reference to the aggregate level of equity and borrowings or debt as disclosed in the respective consolidated financial statements of Consolidated Holdings Limited and Mizzi Organisation Limited, together with the financial statements of 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 company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure, to reduce the cost of capital. In order to maintain or adjust the capital structure, the parent company may issue new shares or adjust the amount of dividends paid to shareholders.

## 3. Financial risk management - continued

### 3.2 Capital risk management - continued

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

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

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 Mizzi Organisation Limited, as reflected in the consolidated statement of financial position, is maintained by reference to its respective financial obligations and commitments arising from operational requirements. In view of the nature of the group's activities and the extent of borrowings or debt, the capital level at the end of the reporting period determined by reference to the consolidated financial statements is deemed adequate by the directors. The company's equity as disclosed in the stand-alone financial statements is attributable to corporate expenditure incurred to support the overall operations of the Mizzi Organisation and accordingly the stand-alone figures do not reflect the group's capital management policy.

### 3.3 Fair values of financial instruments

The group 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 either directly i.e. as prices, or indirectly i.e. derived from prices (level 2).
- Inputs for the asset that are not based on observable market data i.e. unobservable inputs (level 3).

#### 3.3.1 Financial instruments carried at fair value

The group's and the company's interest rate swap agreement (refer to Note 25), is fair valued on the basis of a valuation technique based on discounted cash flow 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.

## 3. Financial risk management - continued

### 3.3 Fair values of financial instruments - continued

The fair value of financial assets at FVOCI and FVPL (and available-for-sale financial assets as at 31 December 2017), consisting of equity securities traded in active markets is based on quoted market prices at the end of the 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 group is the current bid price. The fair value of financial assets at FVOCI (2017: available-for-sale financial assets) 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 group 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 Group'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 financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances to related parties and other balances with related parties which are short-term or repayable on demand is equivalent to their carrying amounts.

The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments. The carrying amount of the group's non-current advances to related parties fairly approximates the estimated fair value of these assets based on discounted cash flows. The fair value of the group's and the company's non-current floating and fixed interest rate bank borrowings and the group's fixed interest redeemable preference shares at the end of the reporting period 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 financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in term of the requirements of IAS 1.

As referred to in Notes 5 and 6 to the financial statements, the group'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

### Group

| | Land and buildings and improvements to premises € | Furniture, Fittings and, office equipment € | Plant, machinery and operational equipment € | Motor vehicles € | Assets in the course of construction and payments on account € | Total € |
|---|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | | |
| Cost or valuation | 64,013,113 | 14,778,592 | 8,641,912 | 11,110,071 | 4,913,858 | 103,457,546 |
| Accumulated depreciation and impairment losses | (9,421,455) | (12,589,953) | (7,829,279) | (5,919,995) | - | (35,760,682) |
| Net book amount | 54,591,658 | 2,188,639 | 812,633 | 5,190,076 | 4,913,858 | 67,696,864 |
| **Year ended 31 December 2017** | | | | | | |
| Opening net book amount | 54,591,658 | 2,188,639 | 812,633 | 5,190,076 | 4,913,858 | 67,696,864 |
| Additions | 248,285 | 1,110,491 | 190,254 | 2,995,469 | 12,521,698 | 17,066,197 |
| Disposals | - | (484,240) | (32,689) | (2,072,460) | - | (2,589,389) |
| Depreciation charge | (473,652) | (753,376) | (283,123) | (1,541,278) | - | (3,051,429) |
| Depreciation released on disposals | - | 185,046 | - | 1,281,620 | - | 1,466,666 |
| Closing net book amount | 54,366,291 | 2,246,560 | 687,075 | 5,853,427 | 17,435,556 | 80,588,909 |
| **At 31 December 2017** | | | | | | |
| Cost or valuation | 64,261,398 | 15,404,843 | 8,799,477 | 12,033,080 | 17,435,556 | 117,934,354 |
| Accumulated depreciation and impairment losses | (9,895,107) | (13,158,283) | (8,112,402) | (6,179,653) | - | (37,345,445) |
| Net book amount | 54,366,291 | 2,246,560 | 687,075 | 5,853,427 | 17,435,556 | 80,588,909 |

## 5. Property, plant and equipment - continued

### Group

| | Land and buildings and improvements to premises € | Furniture, fittings, and office equipment € | Plant, machinery and operational equipment € | Motor vehicles € | Assets in the course of construction and payments on account € | Total € |
|---|---|---|---|---|---|---|
| **At 1 January 2018** | | | | | | |
| Cost or valuation | 64,261,398 | 15,404,843 | 8,799,477 | 12,033,080 | 17,435,556 | 117,934,354 |
| Accumulated depreciation and impairment losses | (9,895,107) | (13,158,283) | (8,112,402) | (6,179,653) | - | (37,345,445) |
| Net book amount | 54,366,291 | 2,246,560 | 687,075 | 5,853,427 | 17,435,556 | 80,588,909 |
| **Year ended 31 December 2018** | | | | | | |
| Opening net book amount | 54,366,291 | 2,246,560 | 687,075 | 5,853,427 | 17,435,556 | 80,588,909 |
| Additions | 703,056 | 877,198 | 464,488 | 3,069,249 | 583,049 | 5,697,040 |
| Reclassification from investment property (Note 6) | 810,609 | - | - | - | - | 810,609 |
| Reclassifications | 10,338,761 | 3,321,656 | 4,358,188 | - | (18,018,605) | - |
| Disposals | - | (8,843) | (2,422) | (1,688,145) | - | (1,699,410) |
| Depreciation charge | (741,567) | (966,457) | (684,871) | (1,583,080) | - | (3,975,975) |
| Depreciation released on disposals | - | 6,560 | 2,422 | 546,286 | - | 555,268 |
| Closing net book amount | **65,477,150** | **5,476,674** | **4,824,880** | **6,197,737** | - | **81,976,441** |
| **At 31 December 2018** | | | | | | |
| Cost or valuation | 76,113,824 | 19,594,854 | 13,619,731 | 13,414,184 | - | 122,742,593 |
| Accumulated depreciation and impairment losses | (10,636,674) | (14,118,180) | (8,794,851) | (7,216,447) | - | (40,766,152) |
| Net book amount | **65,477,150** | **5,476,674** | **4,824,880** | **6,197,737** | - | **81,976,441** |

### *Fair valuation of property*

The principal elements of the group's land and buildings, within property, plant and equipment, were revalued on 31 December 2016 by independent professionally qualified valuers. The book value of these properties has 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 19).

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

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

The group land and buildings, within property, plant and equipment, consists of operational premises that are owned and managed by group undertakings. The group'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 group undertakings (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 group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the current and preceding financial years.

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

Property classified within property, plant and equipment having a carrying amount of €810,000 (2017: nil) and other property classified within investment property with a carrying amount of €14,170,000 (2017: €6,125,000) for the group and €116,000 (2017: €116,000) for the company, 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 value was deemed to fairly approximate its carrying amount.

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 group 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.

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

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

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

*Valuation techniques*

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.

## 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 | Annual rent per square metre (€) | 30 - 180 (100) |
| | | | Capitalisation rate (%) | 5.0 - 9.0 (7.2) |
| Redevelopment into residential/commercial premises | **22,263** | Adjusted sales comparison approach | Residential: 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 | Annual rent per square metre (€) | 30 - 180 (100) |
| | | | Capitalisation rate (%) | 5.0 - 9.0 (7.2) |
| Redevelopment into residential/commercial premises | **22,000** | Adjusted sales comparison approach | Residential: 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.

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

The group's 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 | **24,175** | 24,050 |
| Redevelopment into residential/commercial premises | **3,000** | 2,800 |
| Extended commercial premises | **27,800** | 27,450 |
| | **54,975** | 54,300 |

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

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| Cost | **25,390,564** | 14,856,097 |
| Accumulated depreciation and impairment losses | **(6,504,167)** | (5,764,433) |
| Net book amount | **18,886,397** | 9,091,664 |

Bank borrowings in the name of group undertakings and related parties forming part of Mizzi Organisation are secured on the group's land and buildings - refer to Notes 23 and 37 (a).

***Other disclosures***

During the preceding financial year, the group capitalised borrowings costs amounting to €322,000 utilising a capitalisation rate of 3%. This amount is included in 'Additions' to the category in the course 'Assets in the course of construction and payments on accounts' 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 Group'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 | **8,716,120** | 7,426,721 | 6,844,454 |
| Accumulated depreciation | **(3,744,131)** | (2,909,214) | (2,671,952) |
| Net book amount | **4,971,989** | 4,517,507 | 4,172,502 |

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 | **4,517,507** | 4,172,502 |
| Additions | **1,402,615** | 1,695,141 |
| Disposals | **(113,216)** | (1,112,874) |
| Depreciation charge | **(903,179)** | (996,024) |
| Depreciation released on disposals | **68,262** | 758,762 |
| Closing net book amount | **4,971,989** | 4,517,507 |

## 5. Property, plant and equipment - continued

### Company

| | Furniture, fittings and office equipment | Motor vehicles | Total |
|---|---|---|---|
| | € | € | € |
| **At 1 January 2017** | | | |
| Cost | 1,257,885 | 701,833 | 1,959,718 |
| Accumulated depreciation | (1,194,027) | (512,870) | (1,706,897) |
| Net book amount | 63,858 | 188,963 | 252,821 |
| **Year ended 31 December 2017** | | | |
| Opening net book amount | 63,858 | 188,963 | 252,821 |
| Additions | 70,155 | 225,872 | 296,027 |
| Disposals | - | (180,554) | (180,554) |
| Depreciation charge | (51,758) | (122,738) | (174,496) |
| Depreciation released upon disposals | - | 173,006 | 173,006 |
| Closing net book amount | 82,255 | 284,549 | 366,804 |
| **At 31 December 2017** | | | |
| Cost | 1,328,040 | 747,151 | 2,075,191 |
| Accumulated depreciation | (1,245,785) | (462,602) | (1,708,387) |
| Net book amount | 82,255 | 284,549 | 366,804 |
| **Year ended 31 December 2018** | | | |
| Opening net book amount | 82,255 | 284,549 | 366,804 |
| Additions | 79,624 | - | 79,624 |
| Disposals | - | (104,020) | (104,020) |
| Depreciation charge | (29,630) | (105,749) | (135,379) |
| Depreciation released upon disposals | - | 58,270 | 58,270 |
| Closing net book amount | **132,249** | **133,050** | **265,299** |
| **At 31 December 2018** | | | |
| Cost | 1,407,664 | 643,131 | 2,050,795 |
| Accumulated depreciation | (1,275,415) | (510,081) | (1,785,496) |
| Net book amount | **132,249** | **133,050** | **265,299** |

## 6. Investment property

| Group | 2018 € | 2017 € |
|---|---|---|
| **Year ended 31 December** | | |
| Opening carrying amount | **51,295,510** | 43,449,903 |
| Additions of newly acquired property | **7,424,183** | 1,018,441 |
| Additions resulting from subsequent expenditure | **2,039,013** | 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 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.

The group'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 group'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 | **26,589,746** | 17,126,550 |
| Accumulated depreciation | **(3,097,474)** | (2,282,446) |
| Net book amount | **23,492,272** | 14,844,104 |

6. **Investment property** - continued

As at 31 December 2018, bank borrowings in the name of group undertakings and related parties forming part of Mizzi Organisation are secured on the group's investment property with a fair value of €36,425,854 (2017: €31,140,000) - refer to Notes 23 and 37(a).

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 |

**Company**

| | **2018 €** | 2017 € |
|---|---|---|
| **Years ended 31 December** | | |
| Opening and closing carrying amounts | **116,609** | 116,609 |

If the investment property was stated on the historical cost basis the amounts at the end of the reporting period would be as disclosed in the table above. This property has not been revalued since initial recognition. The directors have assessed the fair value at the end of the financial reporting period, which fair value was determined to fairly approximate the carrying amount.

## 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 2018** | | |
| 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 2018** | | |
| 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 subsidiaries

| | Company 2018 € | 2017 € |
|---|---|---|
| **Year ended 31 December** | | |
| Opening carrying amount | **8,534,815** | 8,539,020 |
| Movements | **-** | (4,205) |
| Closing carrying amount | **8,534,815** | 8,534,815 |
| **At 31 December** | | |
| Cost | **8,912,654** | 8,912,654 |
| Provision for impairment | **(377,839)** | (377,839) |
| Carrying amount | **8,534,815** | 8,534,815 |

## 8. **Investments in subsidiaries** - continued

The subsidiaries at 31 December 2018 and 2017, whose results and financial position affected the figures of the group, are shown below:

*(a) Held directly by Mizzi Organisation Limited*

| | **Registered Office** | **Class of shares held** | **Percentage of shares held 2018 %** | **2017 %** |
|---|---|---|---|---|
| Mizzi Brothers Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Muscats Motors Limited | Muscats Garage Rue D' Argens Gzira Malta | Ordinary shares | **100** | 100 |
| Mizzi Estates Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Mizzi Organisation Finance p.l.c. | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Industrial Motors Limited | Antonio Bosio Street Msida Malta | Ordinary shares | **100** | 100 |
| United Acceptance Finance Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| St. Paul's Court Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Titan International Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Continental Cars Limited | Continental Garage Testaferrata Street Msida Malta | Ordinary shares | **100** | 100 |

## 8. Investments in subsidiaries - continued

| | Registered office | Class of shares held | Percentage of shares held 2018 % | 2017 % |
|---|---|---|---|---|
| Nissan Motor Sales Limited | Industrial House<br>National Road<br>Blata l-Bajda<br>Malta | Ordinary shares | **100** | 100 |
| Arkadia Marketing Limited | Mizzi Organisation<br>Corporate Office<br>Testaferrata Street<br>Ta' Xbiex<br>Malta | Ordinary shares | **100** | 100 |
| | | 5% Non-cumulative redeemable preference shares | **100** | 100 |
| Festa Limited | Industrial House<br>National Road<br>Blata l-Bajda<br>Malta | Ordinary shares | **100** | 100 |
| Hubbalit Developments Limited | Testaferrata Street<br>Ta' Xbiex<br>Malta | Ordinary shares | **100** | 100 |
| Mizzi Limited | The Lyric<br>Antonio Bosio Street<br>Msida<br>Malta | Ordinary shares | **100** | 100 |
| Continental Cars (Imports) Limited | Continental Garage<br>Testaferrata Street<br>Msida<br>Malta | Ordinary shares | **100** | 100 |
| Mizzi Organisation International s.r.o. (in dissolution) | Palisady 29<br>Bratislava 811 06<br>Slovakia | Ordinary shares | **100** | 100 |
| Mizzi Motors Limited | 200, Rue D'Argens<br>Gzira<br>Malta | Ordinary shares | **100** | 100 |
| CIE Recruitment International Limited | Mizzi Organisation<br>Corporate Office<br>Testaferrata Street<br>Ta' Xbiex<br>Malta | Ordinary shares | **60** | 60 |

## 8. Investments in subsidiaries - continued

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

*(b) Held through Festa Limited*

| | Registered office | Class of shares held | Percentage of shares held 2018 % | 2017 % |
|---|---|---|---|---|
| Malta Farmhouses Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |

*(c) Held through Arkadia Marketing Limited*

| | Registered office | Class of shares held | Percentage of shares held 2018 % | 2017 % |
|---|---|---|---|---|
| Arkadia Catering Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | - |

*(d) Held through Nissan Motor Sales Limited, Continental Cars Limited and Muscats Motors Limited, in equal proportions of $33^1/_3$% each:*

| | Registered office | Class of shares held | Percentage of shares held 2018 % | 2017 % |
|---|---|---|---|---|
| All About Car Parts Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Mizzi Automotive Services Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |

## 9. Investments in associates

### Group

| | 2018 | 2017 |
|---|---|---|
| | € | € |
| **Year ended 31 December** | | |
| Opening carrying amount | **3,200,009** | 2,975,503 |
| Additions | **64,000** | 8,001 |
| Share of profits | **386,754** | 456,986 |
| Dividends received | **(670,788)** | (212,908) |
| Derecognition of carrying amount upon liquidation of associates | **-** | (27,573) |
| Closing carrying amount | **2,979,975** | 3,200,009 |

| | 2018 | 2017 |
|---|---|---|
| | € | € |
| **At 31 December** | | |
| Cost | **674,907** | 610,907 |
| Provisions for impairment | **(10,000)** | (10,000) |
| Share of profits and reserves | **2,315,068** | 2,599,102 |
| Carrying amount | **2,979,975** | 3,200,009 |

The group's share of profits 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 group'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 ("FUIM), 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 group's and the company's financial statements upon liquidation of FUIM. 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'.

The associates as at 31 December 2018 and 2017, whose results and financial position affected the figures of the group, are shown below:

| | **Registered Office** | **Class of shares held** | **Percentage of shares held** | |
|---|---|---|---|---|
| | | | **2018** | 2017 |
| | | | **%** | % |
| Aquibix Limited | St. Michael's Farmhouse<br>Triq l-Arznu, Maghtab<br>Naxxar<br>Malta | Ordinary shares | **50** | 50 |

## 9. Investments in associates - continued

| | Registered office | Class of shares held | Percentage of shares held 2018 % | 2017 % |
|---|---|---|---|---|
| FirstUnited Insurance Brokers Limited | 25, Villa Eden Princess Elizabeth Street Ta' Xbiex Malta | Ordinary shares | **31¼** | 31¼ |
| Primax Limited | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **50** | 50 |
| Institute of English Language Studies Limited | IELS Matthew Pulis Street, Sliema Malta | Ordinary shares | **50** | 50 |
| The Players Group Limited | 8/1, Magazines Junction Floriana Malta | Ordinary shares | **25** | 25 |
| Dial-a-Cab Limited (in dissolution) | Capital Business Centre Taz-Zwejt Street, San Gwann Malta | Ordinary shares | **50** | 50 |
| Finopz Limited | Palladium House 1-4 Argyll Street London W1F 7LD United Kingdom | Ordinary shares | **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.

*Disclosure requirements emanating from IFRS 12 'Disclosure of interest 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. All the associates' principal place of business is based in Malta.

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

## 9. Investments in associates - continued

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

**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 group's respective share of the net assets reflected above is in substance equivalent to the group's carrying amount of its investment in the associates. Furthermore, there are no significant contingent liabilities relating to the group'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. 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.

## 9. **Investments in associates** - continued

### Summarised statements of comprehensive income

| | IELS | | TPG | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| **Revenue** | **6,453,316** | 7,166,751 | **-** | - |
| Depreciation | **(602,278)** | (570,008) | **-** | - |
| Interest expense | **(76,440)** | (86,313) | **-** | - |
| **Profit before tax** | **278,107** | 489,471 | **684,659** | 716,124 |
| Tax expense | **(56,728)** | (180,991) | **-** | - |
| **Profit for the year - total comprehensive income** | **221,379** | 308,480 | **684,659** | 716,124 |
| Dividends received from associate | **-** | - | **702,416** | 662,659 |

The other associates of the group are not deemed material, individually and in aggregate, to the group as a reporting entity taking cognisance of the group's financial position and aggregate assets. Accordingly, the disclosure requirements in respect of these other associates 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 group.

The results of the other principal associates and their assets and liabilities are as follows:

| | Assets | Liabilities | Revenues | Profit |
|---|---|---|---|---|
| | € | € | € | € |
| **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 |

| | Assets | Liabilities | Revenues | Profit |
|---|---|---|---|---|
| | € | € | € | € |
| **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 |

## 9. Investments in associates - continued

**Company**

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| **Year ended 31 December** | | |
| Opening carrying amount | **531,025** | 549,320 |
| Additions | **2,064,000** | 8,001 |
| Derecognition of carrying amount upon liquidation of associate | - | (26,296) |
| Closing carrying amount | **2,595,025** | 531,025 |

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| **At 31 December** | | |
| Cost | **2,605,025** | 541,025 |
| Provision for impairment | **(10,000)** | (10,000) |
| Closing carrying amount | **2,595,025** | 531,025 |

## 10. Loans and advances

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| **Non-current** | | | | |
| Loans to subsidiaries | - | - | **15,807,865** | 5,827,358 |
| Loans to related parties forming part of Mizzi Organisation | **6,603,005** | 5,036,457 | **6,603,005** | 5,036,457 |
| Loans to associate | **575,938** | 575,938 | **575,938** | 575,938 |
| | **7,178,943** | 5,612,395 | **22,986,808** | 11,439,753 |
| **Current** | | | | |
| Loans to subsidiaries | - | - | **8,589,519** | 11,813,104 |
| Loans to related parties forming part of Mizzi Organisation | **1,430,024** | 823,336 | **1,430,024** | 823,336 |
| Loans to associate | **200,000** | 200,000 | **200,000** | 200,000 |
| | **1,630,024** | 1,023,336 | **10,219,543** | 12,836,440 |

**10. Loans and advances** - continued

The group's and the company's loans to related parties of Mizzi Organisation are unsecured, subject to a weighted average interest rate of 3.21% and repayable as follows:

| | 2018 | 2017 |
|---|---|---|
| | € | € |
| Within 1 year | **1,286,572** | 823,336 |
| Between 1 and 2 years | **1,209,097** | 850,649 |
| Between 2 and 5 years | **3,827,963** | 4,185,808 |
| Over 5 years | **1,709,397** | - |
| | **8,033,029** | 5,859,793 |

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 Group 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 associate's financial commitments in respect of a business venture. 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.

Current loans and advances are unsecured, repayable on demand and subject to interest at 3.6% per annum.

The company's loans to subsidiaries are unsecured, repayable on demand and subject to a weighted average interest rate of 3.25% (2017: 3.25%) and repayable as follows:

| | 2018 | 2017 |
|---|---|---|
| | € | € |
| Within 1 year | **8,589,519** | 11,813,104 |
| Between 1 and 2 years | **4,942,674** | 2,868,278 |
| Between 2 and 5 years | **8,209,479** | 2,361,694 |
| Over 5 years | **2,655,712** | 597,385 |
| | **24,397,384** | 17,640,461 |

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

### Equity investments

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| **Year ended 31 December** | | | | |
| Opening carrying amount - as previously reported | **5,786,473** | 5,708,710 | **5,786,473** | 5,708,710 |
| Reclassification to financial assets at FVPL - upon adoption of IFRS 9 on 1 January 2018 (Note 15) | **(894,797)** | - | **(894,797)** | - |
| Opening carrying amount - as restated | **4,891,676** | 5,708,710 | **4,891,676** | 5,708,710 |
| Additions at cost | **-** | 204,286 | **-** | 204,286 |
| Net (losses)/gains from changes in fair value (Note 19) | **(161,685)** | 39,205 | **(161,685)** | 39,205 |
| Disposals | **(80,726)** | (165,728) | **(80,726)** | (165,728) |
| Closing carrying amount | **4,649,265** | 5,786,473 | **4,649,265** | 5,786,473 |
| **At 31 December** | | | | |
| Cost | **4,935,729** | 5,733,959 | **4,935,729** | 5,733,959 |
| Fair value gains | **346,471** | 685,449 | **346,471** | 685,449 |
| Provisions for impairment | **(632,935)** | (632,935) | **(632,935)** | (632,935) |
| Carrying amount | **4,649,265** | 5,786,473 | **4,649,265** | 5,786,473 |

Upon adoption of IFRS 9, the group and the company irrevocably elected to present in profit or loss changes in the fair value of certain equity investments previously classified as available-for-sale financial assets, 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 group and the company 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 reserve from the available-for-sale financial assets reserve on 1 January 2018.

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

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 | **233** | |
| | **4,649,265** | - |

*These investments were classified as available-for-sale during the preceding financial year and accordingly such investments were held as at the end of the preceding financial year even though not reflected in the table above.

The group's and company's equity investments consist of:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Investments listed on the Malta Stock Exchange | **2,355,994** | 3,412,466 | **2,355,994** | 3,412,466 |
| Investment in local unlisted credit institution | **1,750,000** | 1,750,000 | **1,750,000** | 1,750,000 |
| Other investments in unlisted local private companies | **543,271** | 624,007 | **543,271** | 624,007 |
| | **4,649,265** | 5,786,473 | **4,649,265** | 5,786,473 |

The group's and company'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.

## 12. Trade and other receivables

| | Group 2018 € | Group 2017 € | Company 2018 € | Company 2017 € |
|---|---|---|---|---|
| **Current** | | | | |
| Trade receivables | **11,873,272** | 10,974,059 | **-** | - |
| Amounts receivable from hire purchase debtors (Note 13) | **2,239,706** | 4,560,306 | **-** | - |
| Contract assets | | | | |
| Gross amounts due from customers for contract work | **3,557,267** | 2,925,431 | **-** | - |
| Amounts owed by subsidiaries | **-** | - | **31,965,504** | 30,482,606 |
| Amounts owed by related parties forming part of Mizzi Organisation | **2,412,809** | 2,274,314 | **734,165** | 566,182 |
| Amounts owed by associates | **1,252,246** | 1,039,837 | **353,258** | 266,812 |
| Amounts owed by other related parties | **216,422** | 203,104 | **46,876** | 101,621 |
| Advance payments to suppliers | **519,441** | 135,127 | **-** | - |
| Other receivables | **1,560,878** | 901,858 | **560,611** | 111,462 |
| Indirect taxation | **2,237,187** | 2,437,672 | **-** | - |
| Prepayments | **2,088,764** | 1,067,483 | **295,720** | 87,181 |
| | **27,957,992** | 26,519,191 | **33,956,134** | 31,615,864 |
| **Non-current** | | | | |
| Amounts receivable from hire purchase debtors (Note 13) | **11,403,884** | 9,389,843 | **-** | - |
| Prepayments | **295,195** | 328,233 | **-** | - |
| | **11,699,079** | 9,718,076 | **-** | - |

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

| | Group 2018 € | Group 2017 € | Company 2018 € | Company 2017 € |
|---|---|---|---|---|
| Trade receivables | **1,510,565** | 1,061,396 | **-** | - |
| Gross amounts due from customers for contract work | **18,360** | 400,000 | **-** | - |
| Amounts owed by subsidiaries | **-** | - | **520,861** | 520,861 |
| Amounts owed by associates | **287,500** | 287,500 | **287,500** | 287,500 |
| Other receivables | **37,976** | 2,103 | **2,103** | 2,103 |
| | **1,854,401** | 1,750,999 | **810,464** | 810,464 |

**12. Trade and other receivables** - continued

Credit loss allowances in respect of amounts receivable from hire purchase debtors are disclosed separately in Note 13.

Non-current amounts receivable from hire purchase debtors 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 term of the related agreements up to ten years after the end of the reporting period.

Gross amounts due from customers for contract work disclosed above include amounts owed by related parties forming part of Mizzi Organisation for an amount of €407,026 (2017: €701,199).

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 22 respectively.

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

- Revenue amounting to €39,033 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', a group 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.

## 12. **Trade and other receivables** - continued

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

| | | Impact of adoption of IFRS 15 | |
|---|---|---|---|
| | As at 1 January 2018 - based on 31 December 2017 - as previously reported* | Remeasurement | As at 1 January 2018 - as restated |
| | € | € | € |
| **Current** | | | |
| Trade receivables | 10,974,059 | - | **10,974,059** |
| Amounts receivable from hire purchase debtors (Note 11) | 4,560,306 | - | **4,560,306** |
| Contract assets | | | |
| Gross amounts due from customers for contract work | 2,925,431 | (39,037) | **2,886,394** |
| Amounts owed by related parties forming part of Mizzi Organisation | 2,274,314 | - | **2,274,314** |
| Amounts owed by associates | 1,039,837 | - | **1,039,837** |
| Amounts owed by other related parties | 203,104 | - | **203,104** |
| Advance payments to suppliers | 135,127 | - | **135,127** |
| Other receivables | 901,858 | - | **901,858** |
| Indirect taxation | 2,437,672 | - | **2,437,672** |
| Prepayments and accrued income | 1,067,483 | - | **1,067,483** |
| Total current | 26,519,191 | (39,037) | **26,480,154** |

* 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.

## 13. Amounts receivable from hire purchase debtors

| | Group 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 the group, which are acquired and financed by United Acceptances Finance Limited, an entity within the group. 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 allowance 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: €9,562,129). 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 group'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 23). Receivables covered by bills of exchange factored out to banks without an option to repurchase them as they fall due are derecognised by the group. 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.

## 14. Inventories

| | Group 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 | **13,700,397** | 14,681,141 |
| Other goods purchased for resale | **6,910,262** | 6,007,121 |
| Goods in transit | **2,382,665** | 2,739,276 |
| Contract and other work in progress | **430,887** | 423,347 |
| Payments on account in respect of motor vehicles and spare parts | **472,482** | 317,836 |
| | **23,896,693** | 24,168,721 |
| Total inventories | **24,345,532** | 24,617,560 |

During previous financial years, the group 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 27 to the financial statements. During the year ended 31 December 2018, net inventory write-downs amounted to €559,443 (2017: €396,017). These amounts have been included in 'Cost of sales' in profit or loss.

## 15. Financial assets at fair value through profit or loss

### Equity investments

| | Group and Company 2018 € | 2017 € |
|---|---|---|
| **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 11) | **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 30) | **(100,266)** | 116,559 |
| Disposals | **(806,821)** | (117,544) |
| Closing carrying amount | **1,205,636** | 719,424 |

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

| | | |
|---|---|---|
| **At 31 December** | | |
| Cost | **1,039,534** | 550,263 |
| Fair value losses | **166,102** | 169,161 |
| Closing carrying amount | **1,205,636** | 719,424 |

Upon adoption of IFRS 9 on 1 January 2018, the Group 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 Group'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 Group's equity investments are fair valued annually and fair value is determined by reference to quoted market prices.

## 16. Cash and cash equivalents

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Cash at bank and in hand | **3,525,415** | 4,380,289 | **784** | 131,659 |
| Bank overdrafts (Note 23) | **(17,382,481)** | (13,649,060) | **(5,305,114)** | (2,888,942) |
| Bills of exchange factored out to bank (Note 23) | **(2,475,642)** | (1,074,080) | **-** | - |
| | **(16,332,708)** | (10,342,851) | **(5,304,330)** | (2,757,283) |

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 group's overall cash management.

## 17. Assets classified as held for sale

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

This line item mainly comprised of 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.

## 18. Share capital and Capital contribution reserve

***Share capital***

| | Company | |
|---|---|---|
| | **2018** | 2017 |
| | **€** | € |
| **Authorised** | | |
| 1,000,000 ordinary shares of €2.329373 each | **2,329,373** | 2,329,373 |
| **Issued and fully paid** | | |
| 685,600 ordinary shares of €2.329373 each | **1,597,018** | 1,597,018 |

***Capital contribution reserve***

During the current year, the parent company's shareholders have waived amounts due to them by the company amounting to €3,042,999 (refer to Note 22) which have accordingly been converted to a capital contribution reserve.

## 19. Revaluation reserves

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Surplus arising on fair valuation of: | | | | |
| Land and buildings of subsidiaries | **38,178,413** | 38,222,298 | **-** | - |
| Financial assets at FVOCI (2017: Available-for-sale financial assets | **346,471** | 685,450 | **346,471** | 685,450 |
| | **38,524,884** | 38,907,748 | **346,471** | 685,450 |

**19. Revaluation reserves** - continued

The movements in each category are analysed as follows:

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| | **€** | € |
| **Land and buildings of subsidiaries** | | |
| At beginning of year | **38,222,298** | 38,234,382 |
| Transfer upon realisation through asset use | **(32,444)** | (32,444) |
| Movement in deferred tax liability determined on the basis applicable to property disposals (Note 24) | **(22,796)** | 9,005 |
| Deferred income taxes on realisation through asset use (Note 24) | **11,355** | 11,355 |
| At end of year | **38,178,413** | 38,222,298 |

| | Group and Company | |
|---|---|---|
| | **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, 11 and 15 | **(177,294)** | - |
| At beginning of year as restated | **508,156** | 670,020 |
| Net gains from changes in fair value (Note 11) | **(161,685)** | 39,205 |
| Reclassification adjustments for net gains included in profit or loss upon disposal (Note 30) | **-** | (23,775) |
| At end of year | **346,471** | 685,450 |

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 subsidiaries for an amount of €5,788,902 (2017: €5,777,461). 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 group'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.

## 20. Fair value gains and other reserves

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| | **€** | € |
| Fair value gains reserve in respect of investment property | **28,477,354** | 29,052,139 |
| Translation reserve | **(31,425)** | (31,425) |
| Other capital reserves | **208,525** | 208,525 |
| | **28,654,454** | 29,229,239 |

The movements in each category are analysed as follows:

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| | **€** | € |
| **Fair value gains reserve in respect of property** | | |
| At beginning of year | **29,052,139** | 23,737,986 |
| Fair value gains arising during the year (Notes 6 and 17) | **-** | 5,445,104 |
| Transfer of fair value gains on property upon realisation disposal, net of deferred tax movement determined on the basis applicable to property disposals | **(641,999)** | - |
| Deferred income taxes on fair value gains arising during the year (Note 24) | **-** | (544,510) |
| Movement in deferred tax liability determined on the basis applicable to property disposals | **67,214** | 413,559 |
| At end of year | **28,477,354** | 29,052,139 |
| **Translation reserve** | | |
| At beginning and end of year | **(31,425)** | (31,425) |
| **Other capital reserves** | | |
| At beginning and end of year | **208,525** | 208,525 |

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 subsidiaries 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 group'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 directors 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.

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

## 20. Fair value gains and other reserves - continued

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 group that has a functional currency which is different from the group's presentation currency, in accordance with the group's accounting policy.

## 21. Hedging reserve

### Group and Company

The fair value changes attributable to cash flow hedges 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 value | **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.

## 22. Trade and other payables

| | Group 2018 € | Group 2017 € | Company 2018 € | Company 2017 € |
|---|---|---|---|---|
| **Current** | | | | |
| Trade payables | **13,673,712** | 16,350,850 | - | - |
| Payables in respect of capital expenditure | **2,945,368** | 5,076,137 | - | - |
| Contract liabilities | | | | |
| Payments received on account | **3,473,124** | 1,830,022 | - | - |
| Gross amounts owed to customers for contract work | **997,493** | 1,045,039 | - | - |
| 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 subsidiaries | - | - | **1,726,432** | 515,082 |
| Amounts owed to associates | **604,979** | 591,427 | **29,015** | 81,557 |
| Amounts owed to related parties forming part of Mizzi Organisation | **11,282,700** | 9,834,050 | **6,038,128** | 5,646,988 |
| Amounts owed to other related parties | **25,018** | 2,168,753 | **24,679** | 2,167,249 |
| Other payables | **663,356** | 471,004 | **461,443** | 334,712 |
| Indirect taxation and social security | **917,812** | 924,808 | **309,978** | 355,021 |
| Accruals (2017: accruals and deferred income) | **8,193,968** | 7,708,724 | **400,117** | 365,633 |
| | **43,289,388** | 46,228,832 | **8,989,792** | 9,466,242 |

As at 31 December 2018, amounts owed to customers for contract work included amounts due to other related parties €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.

As at 31 December 2017, the group's and the company's amounts owed to other related parties included €2,163,030 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 18).

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.

## 22. Trade and other payables - continued

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

| | Impact of adoption of IFRS 15 | | |
|---|---|---|---|
| | As at 1 January 2018 - based on 31 December 2017 - as previously reported | Reclassifications | As at 1 January 2018 - as restated |
| | € | € | € |
| **Current** | | | |
| Trade payables | 16,350,850 | - | **16,350,850** |
| Amounts payable in respect of capital expenditures | 5,076,137 | - | **5,076,137** |
| Contract liabilities | | | |
| Payments received in advance from customers | 1,830,022 | 64,134 | **1,894,156** |
| Gross amounts owed to customers for contract work | 1,045,039 | - | **1,045,039** |
| Attributable to customer loyalty programme | - | 281,392 | **281,392** |
| Face value of bonds payable to bond holders | 228,018 | - | **228,018** |
| Amounts owed to subsidiaries | 9,834,050 | - | **9,834,050** |
| Amounts owed to associates | 591,427 | - | **591,427** |
| Amounts owed to other related parties | 2,168,753 | - | **2,168,753** |
| Other payables | 471,004 | - | **471,004** |
| Indirect taxation and social security | 924,808 | - | **924,808** |
| Accruals and deferred income | 7,708,724 | (345,526) | **7,363,198** |
| Total current trade and other payables | 46,228,832 | - | **46,228,832** |

*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 €2,809,973.

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

## 23. Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| **Current** | | | | |
| Bank overdrafts | **17,382,481** | 13,649,060 | **5,305,114** | 2,888,942 |
| Bills of exchange factored out to bank | **2,475,642** | 1,074,080 | **-** | - |
| Bank loans | **6,540,799** | 6,259,381 | **6,001,915** | 5,919,108 |
| Loans from subsidiary | **-** | - | **425,000** | 425,000 |
| Loan from other related party | **600,000** | 600,000 | **-** | - |
| | **26,998,922** | 21,582,521 | **11,732,029** | 9,233,050 |
| **Non-current** | | | | |
| Bills of exchange factored out to bank | **4,042,111** | 105,651 | **-** | - |
| Bank loans | **61,142,540** | 55,275,903 | **50,130,959** | 47,116,175 |
| Redeemable preference shares | **713,353** | 713,353 | **-** | - |
| | **65,898,004** | 56,094,907 | **50,130,959** | 47,116,175 |
| **Total borrowings** | **92,896,926** | 77,677,428 | **61,862,988** | 56,349,225 |

### Group

The group's banking facilities as at 31 December 2018 amounted to €111,065,479 (2017: €91,576,055). These facilities are mainly secured by:

(a) a general hypothec on the parent company's assets for €122,795,000 (2017: €81,482,000);
(b) special hypothecary guarantees over property of group undertakings and related parties forming part of Mizzi Organisation for the amount of €118,482,000 (2017: 99,482,000);
(c) general hypothecary guarantees from group undertakings and related parties forming part of Mizzi Organisation for the amount of €145,396,000 (2017: €126,596,000);
(d) guarantees by group undertakings and related parties forming part of Mizzi Organisation for amounts ranging from €146,000 to €66,540,000 (2017: €146,000 to €54,304,000; and
(e) 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.

## 23. **Borrowings** - continued

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 group is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| Total borrowings: | | |
| At fixed rate | **35,132,747** | 34,887,267 |
| At floating rate | **56,450,826** | 41,476,807 |
| | **91,583,573** | 76,364,074 |

Borrowings at floating rates, with a notional amount of €21.1 million (2017: €23.9 million), with interest rate is computed using a margin over the three-month Euribor, are hedged through a received floating, pay fixed interest rate swap agreement (refer to Note 25).

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

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| Face value of bank loans as at 31 December | **67,938,263** | 61,803,931 |
| Gross amount of bank borrowings issue costs | **(301,543)** | (301,543) |
| Amortisation of gross amount of bank borrowings issue costs: | | |
| Accumulated amortisation at the beginning of the year | **32,895** | 27,413 |
| Amortisation charge for the current year (Note 32) | **13,724** | 5,482 |
| Accumulated amortisation at the end of the year | **46,619** | 32,895 |
| Unamortised bank borrowings issue costs | **(254,924)** | (268,648) |
| Amortised cost and closing amount of bank loans as at 31 December | **67,683,339** | 61,535,283 |

## 23. **Borrowings** - continued

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

| | **2018** | 2017 |
|---|---|---|
| | **%** | % |
| Bank overdrafts | **2.5** | 2.7 |
| Bills of exchange factored out to bank | **2.8** | 2.5 |
| Bank loans | **2.8** | 2.9 |

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

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| Between 1 and 2 years | **9,156,791** | 6,550,394 |
| Between 2 and 5 years | **31,945,297** | 20,309,911 |
| Over 5 years | **24,082,564** | 28,415,598 |
| | **65,184,652** | 55,275,903 |

At 31 December 2016, the group had other short-term advances of €35,735 from a related party, which were repayable on demand, interest free and secured by the undertaking's property for the amount of €431,000. During the preceding financial year, the same related party further advanced an amount of €600,000 to another group undertaking. Such advances are unsecured, interest-free and repayable on demand.

The redeemable preference shares amounting to €713,353, are mandatorily redeemable on or before 31 December 2064 which redemption date is to be determined by the issuer, and pay dividends at 3% annually on a non-cumulative basis. These liabilities will not be settled within twelve months after the end of the reporting period in accordance with the terms of the arrangement in place. In the opinion of the directors of the entity, these redeemable preference shares meet the criteria established by IAS 32: *'Financial Instruments - Presentation'*, for classification as financial liabilities rather than equity.

**Company**
The company's banking facilities as at 31 December 2018 amounted to €74,387,829 (2017: €60,698,945). These facilities are mainly secured by:

(a) a general hypothec on the company's assets for €96,682,000 (2017: €81,482,000);
(b) special hypothecary guarantees over property of group undertakings and related parties forming part of Mizzi Organisation for the amount of €96,682,000 (2017: €81,482,000);
(c) general hypothecary guarantees from group undertakings and related parties forming part of Mizzi Organisation for the amount of €96,482,000 (2017: €81,482,000); and
(d) guarantees by group undertakings and related parties forming part of Mizzi Organisation for amounts ranging from €24,441,000 to €66,540,000 (2017: 22,438,000 to €54,304,000).

**23. Borrowings** - continued

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

| | 2018 € | 2017 € |
|---|---|---|
| Total borrowings: | | |
| At fixed rate | **23,582,281** | 26,387,267 |
| At floating rate | **37,855,707** | 29,536,958 |
| | **61,437,988** | 55,924,225 |

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 received floating, pay fixed interest rate swap agreement (refer to Note 25).

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

| | 2018 € | 2017 € |
|---|---|---|
| Face value of bank loans as at 31 December | **56,387,798** | 53,303,931 |
| Gross amount of bank borrowings issue costs | **(301,543)** | (301,543) |
| Amortisation of gross amount of bank borrowings issue costs: | | |
| Accumulated amortisation at the beginning of the year | **32,895** | 27,413 |
| Amortisation charge for the current year (Note 32) | **13,724** | 5,482 |
| Accumulated amortisation at the end of the year | **46,619** | 32,895 |
| Unamortised bank borrowings issue costs | **(254,924)** | (268,648) |
| Amortised cost and closing amount of bank loans as at 31 December | **56,132,874** | 53,035,283 |

The company's bank borrowings are entirely subject to variable rates of interest limited 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** | 2.5 |
| Bank loans | **2.9** | 2.9 |

## 23. Borrowings - continued

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

| | 2018 € | 2017 € |
|---|---|---|
| Between 1 and 2 years | **6,627,634** | 6,001,915 |
| Between 2 and 5 years | **27,279,279** | 18,539,173 |
| Over 5 years | **16,224,046** | 22,575,087 |
| | **50,130,959** | 47,116,175 |

The loans from subsidiary amounting to €425,000 (2017: €425,000) are unsecured, repayable on demand and subject to interest at 3.15% per annum.

## 24. Deferred taxation

### Group

Deferred income taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2017: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. primarily 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 | **10,502,768** | 10,192,431 |
| Movement in deferred tax liability determined on the basis applicable to property disposals: | | |
| Investment property and other assets - recognised in profit or loss (Note 33) | **(89,309)** | (413,559) |
| Property, plant and equipment and other assets - recognised in other comprehensive income (Note 19) | **22,796** | (9,005) |
| Deferred income taxes on fair value gains on investment property arising during the year (Note 33) | **-** | 544,510 |
| Realisation through asset use (Notes 19 and 33) | **(11,355)** | (11,355) |
| Deferred income taxes on temporary differences arising on depreciation of property, plant and equipment (Note 33) | **(179,064)** | (14,588) |
| Deferred income taxes on temporary differences arising on loss allowances in respect of trade and other receivables (Note 33) | **61,387** | 85,613 |
| Deferred income taxes attributable to unabsorbed capital allowances (Note 33) | **(226,080)** | (25,075) |
| Deferred income tax on temporary difference arising from fair valuation of derivative instruments (Note 21) | **11,711** | 153,796 |
| At end of year | **10,092,854** | 10,502,768 |

## 24. Deferred taxation - continued

All the amounts disclosed in the table above, which have been referenced to Note 33, are recognised in profit or loss. The other amounts, referenced to Note 19 and Note 21, 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 | **10,438,294** | 10,516,162 |
| Temporary differences arising on depreciation of property, plant and equipment | **178,430** | 357,494 |
| Temporary differences arising on credit loss allowances in respect of impairment of trade and other receivables | **-** | (61,387) |
| Unutilised tax credits attributable to unabsorbed capital allowances | **(251,277)** | (25,197) |
| | **10,365,447** | 10,787,072 |
| **Deferred tax assets** | | |
| Temporary differences arising on derivative instruments | **(272,593)** | (284,304) |

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

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

| | **Unrecognised** | | **Recognised** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | € | € | € | € |
| Unutilised tax credits arising from: | | | | |
| Unabsorbed tax losses | **-** | 162,103 | **-** | - |
| Unabsorbed capital allowances | **3,539,183** | 2,937,162 | **717,934** | 71,991 |
| Unabsorbed capital losses | **752,141** | 740,928 | **-** | - |
| Deductible temporary differences arising on: | | | | |
| Depreciation of property, plant and equipment | **234,058** | - | **-** | - |
| Credit loss allowances in respect of trade and other receivables | **4,030,413** | 4,426,361 | **-** | 175,391 |
| Credit loss allowances in respect of trade and other receivables and financial assets at FVOCI | **661,602** | 643,401 | **-** | - |
| Derivative instruments | **-** | - | **778,837** | 812,296 |
| Taxable temporary differences arising on property, plant and equipment | **-** | (1,124) | **(509,800)** | (1,021,410) |

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 13).

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

## 24. **Deferred taxation** - continued

### Company

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| At beginning of year | **(270,311)** | (424,107) |
| Tax effect of re-measurement of derivatives (Note 21) | **11,711** | 153,796 |
| At end of year | **(258,600)** | (270,311) |

The amount disclosed in the table above, which has been referenced to Note 21, has been recognised directly in equity in other comprehensive income.

The balance at 31 December represents:

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| **Deferred tax liabilities** | | |
| Deferred taxation arising on transfer of property from related party | **13,993** | 13,993 |
| **Deferred tax assets** | | |
| Temporary differences arising on derivative instruments | **(272,593)** | (284,304) |

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

The deferred income tax provision arising on transfer of property from a related party has been recognised in prior financial years in view of the transfer of property from a company forming part of the Mizzi Organisation.

At 31 December 2018, the company had unutilised tax credits arising from unabsorbed capital allowances and capital losses amounting to €1,541,622 (2017: €1,443,731) and €635,093 (2017: €623,880) respectively. Capital losses have no expiry date but may be utilised solely to offset future capital gains. Unabsorbed capital allowances are forfeited upon cessation of the trade. At the end of the reporting period, the company also had deductible temporary differences arising on depreciation of property, plant and equipment, provisions for impairment of investments and provisions for impairment of receivables, amounting to €1,818,197 (2017: €1,834,617). The related deferred tax assets have not been recognised in these financial statements due to the uncertainty of the realisation of the tax benefits.

## 25. Derivative financial instruments

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

During the preceding financial year, the parent company 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 financial instruments during the year is recognised in the cash flow hedge reserve (refer to Note 21). 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).

## 26. Revenue

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

| | Group 2018 € | Group 2017 € |
|---|---|---|
| **By category** | | |
| Sale of motor vehicles, spare parts and provision of ancillary services | **68,240,506** | 69,041,950 |
| 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** | 18,770,185 |
| Operating lease rental income: | | |
| - motor vehicles | **1,645,607** | 1,662,589 |
| - property | **1,916,480** | 1,079,427 |
| 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 |
| Recruitment and personnel outsourcing | **-** | 31,665 |
| | **124,529,656** | 122,589,811 |

The group's revenue that is recognised over time amounts to €9,500,899 (2017: €12,018,870) which arises from the activities in the power, heating and ventilation equipment sectors.

Unfulfilled performance obligations, which are the services that the group 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 22 to the financial statements.

## 27. Expenses by nature

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Cost of goods sold | **90,806,812** | 92,705,105 | **-** | - |
| Employee benefit expense (Note 28) | **17,098,947** | 13,868,572 | **1,028,459** | 913,104 |
| Depreciation of property, plant and equipment (Note 5): | | | | |
| - owned assets | **2,915,847** | 2,014,912 | **135,379** | 174,496 |
| - owned assets (motor vehicles) leased out under operating leases | **1,057,370** | 1,036,517 | | - |
| Amortisation of intangible assets | **21,322** | - | **-** | - |
| Property operating lease rentals payable | **1,958,341** | 1,450,342 | **29,333** | 34,668 |
| Movement in credit loss allowances in respect of: | | | | |
| - hire purchase receivables (included in 'Administrative expenses') | **(102,578)** | 48,976 | **-** | - |
| - trade and other receivables (included in 'Administrative expenses') | **53,430** | (310,692) | **-** | - |
| Amounts written off in respect of: | | | | |
| - hire purchase receivables (included in 'Administrative expenses') | **7,533** | 25,799 | **-** | - |
| - trade and other receivables (included in 'Administrative expenses') | **11,857** | 420,437 | **-** | - |
| Marketing, business promotion and related expenses | **1,834,641** | 1,853,224 | | |
| Other expenses | **8,571,011** | 6,116,862 | **574,878** | 488,488 |
| **Total cost of sales; selling and other direct expenses; and administrative expenses** | **124,234,533** | 119,230,054 | **1,768,049** | 1,610,756 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Exchange differences | **(32,211)** | (43,450) | **-** | - |
| Government grants recognised (included in 'Other operating income') | **-** | (7,194) | **-** | - |
| (Profit)/loss on disposal of property, plant and equipment | **(335,650)** | (240,024) | **22,950** | (34,176) |

## 27. Expenses by nature - continued

Auditor's fees

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

| | Group 2018 € | Group 2017 € |
|---|---|---|
| Annual statutory audit | **109,721** | 106,845 |
| Tax advisory and compliance services | **17,135** | 46,097 |
| Other non-audit services | **94,294** | 58,303 |
| | **221,150** | 211,245 |

The auditor's remuneration for the company attributable to the year ended 31 December 2018 amounted to €11,500 (2017: €11,500).

## 28. Employee benefit expense

| | Group 2018 € | Group 2017 € | Company 2018 € | Company 2017 € |
|---|---|---|---|---|
| Wages and salaries | **16,053,894** | 12,995,949 | **977,432** | 866,099 |
| Social security costs | **1,045,053** | 872,623 | **51,027** | 47,005 |
| | **17,098,947** | 13,868,572 | **1,028,459** | 913,104 |

Average number of persons employed during the year:

| | Group 2018 | Group 2017 | Company 2018 | Company 2017 |
|---|---|---|---|---|
| Direct | **630** | 549 | **-** | - |
| Administration | **164** | 161 | **27** | 25 |
| | **794** | 710 | **27** | 25 |

## 29. Other operating income

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Government grants | **-** | 7,194 | **-** | - |
| Management fees and similar recharges | **565,982** | 508,470 | **2,254,728** | 2,073,196 |
| Income which is incidental to group's key operations, including profit on disposal of specific assets which were surplus to the Organisation's requirements | **1,492,787** | 879,192 | **8,319** | 45,819 |
| | **2,058,769** | 1,394,856 | **2,263,047** | 2,119,015 |

## 30. Investment and other related income

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Gross dividends receivable from investments in subsidiaries | **-** | - | **2,629,340** | 3,911,814 |
| Gross dividends receivable from investments in associates | **-** | - | **2,387,992** | 326,706 |
| Gross dividends receivable from financial assets at FVOCI (2017: available-for-sale financial assets) | **177,764** | 225,876 | **177,764** | 225,876 |
| Gross dividends receivable from financial assets at FVPL | **44,057** | 13,025 | **44,057** | 13,025 |
| Net gains on disposal of available-for-sale financial assets (Note 19) | **-** | 23,775 | **-** | 23,775 |
| Net fair value (losses)/gains on financial assets at fair value through profit or loss | **(100,266)** | 116,559 | **(100,266)** | 116,559 |
| Gain on disposal of associate upon liquidation | **-** | - | **-** | 15,887 |
| Other investment income | **3,215** | - | **3,215** | - |
| | **124,770** | 379,235 | **5,142,102** | 4,633,642 |

## 31. Finance income

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Interest receivable from subsidiaries | **-** | - | **568,750** | 497,433 |
| Interest receivable from related parties forming part of Mizzi Organisation | **241,465** | 172,642 | **241,465** | 172,642 |
| Interest receivable from associate | **7,204** | - | **7,204** | - |
| Bank and other interest receivable | **82,996** | 23,547 | **-** | - |
| | **331,665** | 196,189 | **817,419** | 670,075 |

## 32. Finance costs

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Interest payable to subsidiaries | **-** | - | **14,979** | 115,694 |
| Interest payable to related parties forming part of Mizzi Organisation | **2,532** | 56,919 | **2,532** | 3,800 |
| Bank interest and charges | **3,058,700** | 2,124,213 | **1,901,608** | 1,707,999 |
| Amortisation of difference between initial net proceeds from and face value of bank loans (Note 23) | **13,724** | 5,482 | **13,724** | 5,482 |
| Other interest payable | **86,357** | 47,734 | **19,172** | - |
| | **3,161,313** | 2,234,348 | **1,952,015** | 1,832,975 |

## 33. Tax expense

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | | € | **€** | € |
| Current taxation: | | | | |
| Current tax expense | **837,515** | 1,063,795 | **468,314** | 570,442 |
| Adjustment recognised in financial period for current tax of prior periods | **2,321** | 30,119 | **2,938** | - |
| Deferred taxation: | | | | |
| Deferred tax charge (Note 24) | **(444,421)** | 165,546 | **-** | - |
| | **395,415** | 1,259,460 | **471,252** | 570,442 |

## 33. **Tax expense** - continued

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Profit before tax | **35,768** | 9,012,391 | **4,502,504** | 3,979,001 |
| Tax on profit at 35% | **12,519** | 3,154,337 | **1,575,876** | 1,392,650 |
| 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 | **155,667** | 181,898 | **23,789** | 14,800 |
| Unabsorbed capital allowances claimed during the year | **491,354** | 89,726 | **34,262** | 37,896 |
| Utilisation of unabsorbed tax losses and capital allowances brought forward from previous years | **(132,417)** | (115,011) | **-** | - |
| Income exempt from tax or charged at reduced rates | **9,377** | (79,408) | **(1,179,490)** | (878,500) |
| Share of results of associates | **(135,364)** | (165,059) | **-** | - |
| Determination of deferred taxation on fair value gain 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) | **-** | - |
| Expenses not deductible for tax purposes | **136,520** | 75,977 | **2,363** | 1,677 |
| Under provision of tax in previous years | **2,366** | 30,119 | **2,938** | - |
| Unabsorbed tax losses arising during the year | **-** | 56,736 | **-** | - |
| Rental income charged at 15% final tax | **(89,460)** | (83,584) | **-** | - |
| Application of provisions of tax legislation to sale of property | **6,000** | (2,936) | **-** | - |
| Amortisation of borrowing issue costs not allowable for tax purposes | **11,514** | 1,919 | **11,514** | 1,919 |
| **Tax charge in the accounts** | **395,415** | 1,259,460 | **471,252** | 570,442 |

The tax impact relating to components of other comprehensive income is presented in the tables within Notes 19, 20 and 21 to the financial statements.

## 34. Directors' emoluments

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| | **€** | € |
| Salaries and other emoluments | **419,949** | 381,626 |

During the year, the company has recharged out directors' emoluments amounting to €478,859 (2017: €417,719) and €287,020 (2017: €250,351) to subsidiaries and other related parties forming part of Mizzi Organisation respectively.

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.

## 35. Cash generated from/(used in) operations

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| Operating profit | **2,353,892** | 10,199,717 | **494,998** | 508,259 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment (Note 5) | **3,975,975** | 3,051,429 | **135,379** | 174,496 |
| Loss/(profit) on disposal of property, plant and equipment | **189,548** | (240,024) | **22,950** | (34,176) |
| Amortisation of intangible assets | **21,322** | - | - | - |
| Net gains from changes in fair value of investment property | - | (5,445,104) | - | - |
| Movement in credit loss allowances in respect of trade and other receivables | **399,850** | (261,716) | - | - |
| Amounts written off in respect of trade and other receivables | - | 446,236 | - | - |
| Changes in working capital: | | | | |
| Inventories | **272,028** | (1,601,500) | - | - |
| Trade and other receivables | **(6,076,229)** | (6,813,489) | **(2,340,270)** | (2,615,187) |
| Trade and other payables | **2,234,324** | 6,398,869 | **2,566,549** | 330,546 |
| Cash generated from/(used in) operations | **3,370,710** | 5,734,418 | **879,606** | (1,636,062) |

*Net debt reconciliation*

The principal movements in the Group's net debt related to cash flow movements are disclosed as part of the financing activities in the statement of cash flows on page 17.

## 36. Commitments

### Group

*Capital commitments*

Commitments for capital expenditure in relation to property development (Notes 5, 6 and 14) not provided for in these financial statements are as follows:

| | 2018 € | 2017 € |
|---|---|---|
| Authorised but not contracted | **4,200,000** | 7,300,000 |
| Contracted but not provided for | **5,800,000** | 1,600,000 |
| | **10,000,000** | 8,900,000 |

*Operating lease commitments – where a group 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** | 1,948,164 |
| Later than five years | **462,795** | 21,600 |
| | **4,424,486** | 2,930,100 |

Group undertakings 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 | **1,397,785** | 1,223,357 |
| Later than one year and not later than five years | **3,094,802** | 2,703,180 |
| Later than five years | **137,700** | 129,672 |
| | **4,630,287** | 4,056,209 |

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

**36. Commitments** - continued

*Operating lease commitments – where a group undertaking is the lessee*

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

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| Not later than one year | **793,399** | 892,872 |
| Later than one year and not later than five years | **3,966,651** | 4,228,978 |
| Later than five years | **29,352,075** | 30,131,817 |
| | **34,112,125** | 35,253,667 |

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

- a 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).

**Company**

*Operating lease commitments – where the company is the lessee*

The company has a property leasing arrangement with a subsidiary whereby operating lease rentals amounting to €40,000 (2017: €35,000) are payable annually for the right to use assets owned by the subsidiary in the course of the company's operations.

**37. Contingencies**

(a) The company, together with certain other subsidiaries and related parties forming part of Mizzi Organisation, is jointly and severally liable in respect of guarantees given to secure the banking facilities of group undertakings and related parties forming part of Mizzi Organisation up to a limit of €60,111,000 (2017: €56,111,000) together with interest and charges thereon. These guarantees are supported by a general hypothecary guarantee for the amount of €32,356,000 (2017: €32,356,,000) over the company's assets.

The subsidiaries, together with related parties forming part of Mizzi Organisation, are jointly and severally liable in respect of guarantees given to secure the banking facilities of group undertakings and related parties forming part of Mizzi Organisation for amounts ranging from €25,441,000 to €69,080,000 (2017: €23,438,000 to €54,080,000), together with interest and charges thereon. These guarantees are supported by general hypothecary guarantees by the group undertakings for the amounts ranging from €1,165,000 to €68,645,000 (2017: €17,465,000 to €53,647,000) and by special hypothecary guarantees over property by group undertakings for the amounts ranging from €30,165,000 to €103,005,000 (2017: €30,165,000 to €89,005,000).

## 37. Contingencies - continued

(b) At 31 December 2018, the company has given guarantees totalling €3,876,832 (2017: €5,469,527) in the name of subsidiaries and related parties forming part of Mizzi Organisation in favour of third parties.

(c) At 31 December 2018, subsidiaries had contingent liabilities amounting to €2,156,711 (2017: €2,524,441) in respect of guarantees issued by the bank on their behalf in favour of third parties in the ordinary course of business.

(d) No provision has been made in these consolidated financial statements 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 group 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.

(e) The company has undertaken to provide financial support to a number of subsidiaries so as to enable these entities to meet their liabilities as they fall due. The net loss of these subsidiaries for the year ended 31 December 2018 amounted to €1,294,793 (2017: €214,211) but as at 31 December 2018 their total liabilities exceeded their total assets by €2,308,809 (2017: €1,034,016). The net profit of other subsidiaries referred to above for the year ended 31 December 2018 amounted to €1,267,902 (2017: €7,886,987), but as at 31 December 2018 their current liabilities exceeded their current assets by €51,296,626 (2017: €46,773,271).

## 38. Related party transactions

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

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

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

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

## 38. Related party transactions - continued

### Group

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

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| **Sales of goods and services** | | | | |
| Sales of goods held for resale and provision of services: | | | | |
| - Associates | **150,965** | 120,049 | **-** | - |
| - Related parties forming part of Mizzi Organisation | **690,278** | 3,637,458 | **-** | - |
| - Other related parties | **27,630** | 110,921 | **-** | - |
| Management fees receivable: | | | | |
| - Subsidiaries | **-** | - | **1,372,750** | 1,237,726 |
| - Related parties forming part of Mizzi Organisation | **380,210** | 356,037 | **380,210** | 356,037 |
| Property operating lease rental income receivable: | | | | |
| - Subsidiaries | **-** | - | **10,667** | 5,334 |
| - Associates | **24,711** | 23,711 | **-** | - |
| - Related parties forming part of Mizzi Organisation | **-** | 5,968 | **-** | - |
| - Other related parties | **-** | 716 | **-** | - |
| | **1,273,794** | 4,254,860 | **1,763,627** | 1,599,097 |

## 38. Related party transactions - continued

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **€** | € | **€** | € |
| **Purchases of goods and services** | | | | |
| Purchases of goods held for resale and services | | | | |
| - Subsidiaries | **-** | - | **37,023** | 46,119 |
| - Associates | **746,358** | 736,498 | **-** | - |
| - Related parties forming part of Mizzi Organisation | **425,865** | 396,047 | **11,694** | 2,276 |
| - Other related parties | **57,660** | - | **-** | - |
| Property operating lease rentals payable | | | | |
| - Subsidiaries | **-** | - | **40,000** | 40,000 |
| Purchases of property, plant and equipment | | | | |
| - Subsidiaries | **-** | - | **-** | 225,892 |
| - Associate | **50,000** | - | **50,000** | - |
| | **1,279,883** | 1,132,545 | **138,717** | 314,287 |

Year-end balances with related parties, arising principally from the transactions referred to previously, are disclosed in Notes 12 and 22 to these financial statements.

Expenditure amounting to €191,186 (2017: €331,896) and €5,645 (2017: €4,096) has been recharged by the parent company and subsidiaries respectively to related parties forming part of Mizzi Organisation. The company has also recharged expenditure to related parties as follows:

| | **2018** | 2017 |
|---|---|---|
| | **€** | € |
| - Subsidiaries | **914,017** | 997,474 |
| - Associates | **16,204** | 14,372 |
| - Other related parties | **21,272** | 45,157 |

During the financial year ended 31 December 2018, related parties forming part of Mizzi Organisation recharged expenditure to subsidiaries amounting to €221,999 (2017: €437).

Key management personnel comprise the directors of the company and of the other group undertakings. Key management personnel compensation, in addition to directors' remuneration as disclosed in Note 34, amounted to €Nil (2017: €16,350).

Amounts owed by related parties forming part of Mizzi Organisation as at 31 December 2018 of €205,139 are subject to interest at 3.6% (2017: €72,064 at 3.6%). Amounts owed to related parties of €6,710,655 (2017: €7,147,440) are subject to interest of 3.2% (2017: 3.2%). Interest receivable from related parties and interest payable to related parties are disclosed in Notes 31 and 32 respectively.

**38. Related party transactions** - continued

**Company**

As at 31 December 2018, amounts owed by subsidiaries of €7,634,793 (2017: €1,217,659) are subject to interest at 3.6% (2017: 3.6%) and €468,958 (2017: €160,872 at 3.15%) is subject to interest at 3.15%.

Amounts owed by related parties as at 31 December 2018 include amounts due from shareholders of €44,769 (2017: €61,964). These amounts are unsecured, interest free and have no fixed date of repayment.

**39. Statutory information**

Mizzi Organisation Limited is a limited liability company and is incorporated in Malta.