MIZZI ORGANISATION LIMITED

Annual Report and
Consolidated Financial Statements
31 December 2019

Company Registration Number: C 813

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

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; the importation and sale of 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; the operation of a food market and other food and beverage outlets in partnership with other restaurant operators. Group undertakings also derive revenues from sale of property and operating lease income from the renting out of owned property.

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 business

During the current financial year, the company received gross dividends amounting to €2.6 million from its subsidiaries, an amount equivalent to that received in 2018. Gross dividends received from associates amounted to €834,032 as compared to €2,387,992 received in 2018. During 2019, the company continued strengthening its equity reserves, registering a growth in its net assets position from €13,509,628 in 2018 to €16,853,326. During the current financial year, the shares in a subsidiary of the company, namely Legacy Contractors Limited, have been transferred to Consolidated Holdings Limited, which company also forms part of the Mizzi Organisation.

The group's review of business is summarised below.

Automotive

During 2019, the automotive division registered a marginal increase in revenue with an overall revenue of €71.6 million as opposed lo €71.3 million in 2018. Profit levels from this segment also remained constant with those of 2018. In 2019, the directors carried on with the capital investment through refurbishing the Audi showroom in Ta' Xbiex, following the inauguration of the new Porsche showroom during 2018. This brought up the total refurbishment costs to €1.6 million. These were incurred by the Organisation's real estate company which owns and rents out the showrooms to the automotive companies. Mizzi Organisation Limited kept on tying in capital in the Automotive's Finance Arm (United Acceptances Finance Limited), to ensure proper financing facilities for its client base. Even though provisioning has become very aggressive, eating away most of the bottom line of this operation when adopting the provisions of IFRS 9, this company has become a very important player in the Automotive sector. Controls have been tightened from an anti-money laundering perspective, to make sure the company is aligned with related directives.

Mechanical and engineering contracting

During the current financial year, Titan International Limited, the subsidiary primarily dealing in the contracting, sales and servicing of lifts and air conditioners amongst others, registered a marginal decrease in revenue from €18,369,015 in 2018 to €18,002,344 in 2019. Profit before tax decreased from €782,208 to €489,148 as a result of the lower revenue as well as an increase in selling and distribution expenses. Competition in this area has become aggressive, with our main competitors investing in more accessible premises.

Directors' report - continued

Retail

The retail division's level of business retained its negative trends. Aggressive competition in both the retail and supermarket sector, meant that sales decreased from €34 million in 2018 to €31.5 million in 2019. As a result, the whole retail division closed the financial year with a total loss before tax of €3.4 million compared to a loss before tax of €1.8 million in 2018. This was primarily attributable to start-up losses incurred from the new Valletta Market operation.

The company opened the doors of the restored Valletta indoor Market in 2018. While the operation did not deliver the desired results in the first two years of operation, towards the end of 2019 management revisited the food market setup with a view of consolidating relationships with existing tenants and also started negotiating new partnerships in the form of lease agreements with fresh restaurant operators.

As far as the traditional Arkadia business model is concerned, management started to implement new measures to combat increased competition towards the end of the financial year. These included investment in a new supermarket online gateway as well as restructuring of the retail areas held by third party tenants. The company is on the lookout to expand its foodstore portfolio and has plans to refurbish its flagship outlets in Malta and Gozo.

Real estate

During 2019, the Organisation's real estate company, Mizzi Estates Limited, experienced a growth in rental income derived from third parties of over 8%. The company has carried on with its strategy of developing property in prime areas, while disposing of any non-core properties within its large portfolio. During the current financial year, the company completed another landmark project comprising two blocks of a total 31 apartments in Bugibba. On the other hand, two properties in Birkirkara were disposed, whilst work is underway to continue this divestment plan of non-core properties.

Capital expenditure this year amounted to €3.1 million. A substantial amount of this was used towards the above-mentioned project in Bugibba. The group also carried out the refurbishment of another automotive showroom, while 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. The latter is envisaged to be finalised in 2021, and continue growing the rental portfolio of the Group, shifting its dependency on rentals to Group Companies.

Projects were partly funded by bank financing of the parent company.

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 Company also divested itself from other non-core investments, as a plan to de-leverage the group as much as possible and focus on it's core competencies.

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. Chev Mizzi kept on supporting and financing his ideology of increasing education in the Southern part of the Island.

Headcount levels of the group stayed constant with those of 2018 at almost 800 personnel, 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.

Directors' report - continued

Outlook for 2020

With effect from March 2020 onwards, the outbreak of COVID-19 impacted negatively a number of operations of companies within the Mizzi Organisation. Whilst some sectors and certain companies were hit worse than others, Group management invested substantial efforts to safeguard as many jobs as possible and ensure survival of all the respective companies within the Group and the Organisation as a whole. Turnover and financial results attributable to the automotive, retail and food & beverage sectors within the Organisation were particularly impacted, since retail and catering businesses and outlets were forced to close down whilst car showrooms were empty for nearly 4 months during 2020. The mechanical and engineering division of the Organisation continued to operate on external contract sites for the first half of the year, however once these contracts were commissioned, the contracts division experienced a slow-down. Rental income from third parties has been relatively stable, mainly due to the fact that commercial lessees were not impacted by COVID, and also our residential tenants where only slightly impacted. The Organisation's real estate arm continued it's divestment plan for non-core properties, and this experienced a slow-down, however, pre-COVID committed property sales also went ahead and finalised as planned during or after the peak of the pandemic. The other sectors of the Mizzi Organisation which do not form part of the Mizzi Organisation Limited Group are the beverage and the hotel sectors. Being heavily reliant on the tourism industry, the Organisation's beverage sector was also heavily impacted as the hospitality industry was brought to a standstill. On a positive note, the hotel owned and manged by the Organisation managed to remain operative up to a certain extent, having been awarded contracts to provide alternative accommodation to front liners assisting patients infected by the virus.

All companies forming part of the Organisation embarked on a cost-cutting exercise in areas such as payroll costs, direct departmental costs together with selling and administrative expenses. Particular emphasis has also been placed on the credit control function so as to ensure cash receipts from customers and debtors are flowing in regularly and in a sustained manner in order to meet cash outflows. Revised favourable credit term arrangements were negotiated with a number of suppliers, though substantially no concessions were granted to the Organisation by its property lessors.

On a group wide basis, the Mizzi Organisation took a number of initiatives to ensure effective management of available liquidity to fund the requirements of all operations impacted by COVID-19. The Organisation managed to secure favourable arrangements with banks in relation to the postponement of bank loan repayments and with suppliers in relation to the postponement of major capital expenditure payments. A number of Organisation companies have taken advantage of available Government aid, such as the deferral of VAT and tax payments, wage supplement schemes and quarantine leave supplements. The Organisation also encouraged utilisation of vacation leave to decrease accruals in this regard.

In view of the current situation brought about by the COVID-19 pandemic, the Organisation has prepared detailed financial and cash flow projections covering all its business lines for the financial years ended 31 December 2020 and 2021, based on historical financial information registered to date during 2020 and forecasts, factoring in the disorder created by the COVID-19 pandemic. These projections have been compiled as part of the preparation of a revised business plan. The projections are based on pessimistic assumptions for the base case scenario, reflecting the anticipated dismal performance during 2020 of specific Organisation business lines referred to above, with a gradual recovery in performance for the automotive, hotel, retail and catering businesses throughout 2021. The projected 2021 financial results for the core businesses within the Organisation are assumed to be significantly lower when compared to 2019 financial results. The projections also contemplate a stressed case scenario with sever business conditions throughout 2021. The cash flow projections take into account the financial support secured by the Organisation under the COVID-19 guarantee scheme managed by the Malta Development Bank. The sanction letters in the name of Mizzi Organisation Limited for the secured additional facilities of €12 million, together with sanction letters in the name of another company forming part of the Mizzi Organisation for the secured additional facilities amounting to a further €3.5 million, have been approved and issued by the respective banks. These funds will assist the group and the Organisation in honouring committed capital expenditure and commitments with trade creditors.

Directors' report - continued

The forecast for 2020 contemplates the projected existence of a significant liquidity buffer at the end of the year notwithstanding the expected adverse financial results, whilst positive cash flow generation is anticipated for 2021. The directors are further encouraged that as at the date of approval of these financial statements, all the business units of the Group are back in business and fully operational within the restrictions and guidelines issued by the Health Authorities. Furthermore, as business started to pick up gradually during the recent months, it was noted that actual performance across all business segments has been better than that forecasted within the 2020 projection.

Assuming stressed conditions are experienced throughout 2021, such that the projected financial results from the automotive business, the hotel, the retail and catering businesses are subdued in line with 2020 performance, whilst simultaneously projected property sales do not materialise, the Organisation would still be in a position to fund its group wide operations taking cognisance of liquidity available.

The Boards of Directors of Mizzi Organisation Limited and of the companies constituting the Mizzi Organisation feel confident that with the measures taken, the secured financing arrangements and the diversity of the Organisation's business lines, the companies within the Organisation shall overcome the disruptions brought about by this pandemic. The directors consider the Organisation and all Organisation companies to be a going concern. Hence the going concern assumption in the preparation of these financial statements is considered appropriate and there are no material uncertainties which may cast significant doubt about the ability of the Organisation and its companies to continue operating as a going concern.

Financial risk management

In 2019, 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 12. The directors do not recommend the payment of a dividend.

The directors propose that the company's balance of retained earnings amounting to €12,426,854 (2018: €9,029,384) be carried forward to the next financial year.

Directors

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

Angele Calleja
Maurice F. Mizzi
Brian R. Mizzi
Christopher Mizzi
Ian Mizzi
Kenneth C. Mizzi
Veronica Mizzi

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 2019 are included in the Annual Report and Consolidated Financial Statements 2019, 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

28 October 2020

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 2019, 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 10 to 106, comprise:

- the consolidated and parent company statements of financial position as at 31 December 2019;
- 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.

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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and parent company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers, suppliers and the disruption to its business and the overall economy.
- 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.

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

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

F Axisa

Fabio Axisa
Partner

28 October 2020

Statements of financial position

		Group			Company	
	Notes	**At 31 December 2019 €**	At 31 December 2018 €	At 1 January 2018 €	**At 31 December 2019 €**	At 31 December 2018 €
ASSETS						
Non-current assets						
Property, plant and equipment	5	**82,265,530**	81,976,441	80,588,909	**293,854**	265,299
Right-of-use assets	6	**20,195,757**	-	-	**-**	-
Investment property	7	**67,904,930**	59,948,097	51,295,510	**5,366,609**	116,609
Intangible assets	8	**110,576**	131,898	60,000	**-**	-
Investments in subsidiaries	9	**-**	-	-	**8,448,854**	8,534,815
Investments in associates	10	**3,477,465**	2,979,975	3,200,009	**3,292,927**	2,595,025
Loans and advances	11	**7,935,979**	7,178,943	5,812,395	**26,451,181**	22,986,808
Financial assets at FVOCI	12	**4,626,167**	4,649,265	5,786,473	**4,626,167**	4,649,265
Deferred tax assets	26	**289,111**	272,594	284,304	**289,111**	272,594
Trade and other receivables	13	**14,512,105**	11,699,079	9,718,076	**-**	-
Total non-current assets		**201,317,620**	168,836,292	156,745,676	**48,768,703**	39,420,415
Current assets						
Inventories	15	**27,142,036**	24,299,046	24,517,812	**-**	-
Trade and other receivables	13	**28,354,783**	28,183,870	26,612,961	**36,413,685**	33,956,134
Loans and advances	11	**1,472,020**	1,630,024	823,336	**10,733,235**	10,219,543
Current tax assets		**1,114,709**	931,703	1,125,510	**267,682**	352,727
Financial assets at FVPL	16	**221,520**	1,205,636	719,424	**221,520**	1,205,636
Cash and cash equivalents	17	**5,294,349**	3,321,070	4,240,216	**2,760,376**	784
		63,599,417	59,571,349	58,039,259	**50,396,498**	45,734,824
Assets classified as held for sale	18	**2,580**	3,548	1,587,871	**-**	-
Total current assets		**63,601,997**	59,574,897	59,627,130	**50,396,498**	45,734,824
Total assets		**264,919,617**	228,411,189	216,372,806	**99,165,201**	85,155,239

Statements of financial position - continued

	Notes	Group At 31 December 2019 €	Group At 31 December 2018 €	Group At 1 January 2018 €	Company At 31 December 2019 €	Company At 31 December 2018 €
EQUITY AND LIABILITIES						
Capital and reserves						
Share capital	19	**1,597,018**	1,597,018	1,597,018	**1,597,018**	1,597,018
Capital contribution reserve	19	**3,042,999**	3,042,999	-	**3,042,999**	3,042,999
Revaluation reserves	20	**38,455,633**	38,524,884	38,907,748	**323,373**	346,471
Fair value gains and other reserves	21	**28,044,258**	28,654,454	29,229,239	**-**	-
Hedging reserve	22	**(536,917)**	(506,243)	(527,992)	**(536,917)**	(506,243)
Retained earnings		**9,222,996**	9,281,093	11,010,351	**12,426,854**	9,029,384
Total equity		**79,825,987**	80,594,205	80,216,364	**16,853,327**	13,509,629
Non-current liabilities						
Borrowings	25	**63,413,444**	65,898,004	56,094,907	**48,696,680**	50,130,959
Lease liabilities	23	**19,096,251**	-	-	**-**	-
Deferred tax liabilities	26	**10,406,745**	10,365,447	10,787,072	**13,993**	13,993
Derivative financial instruments	27	**826,028**	778,837	812,296	**826,028**	778,837
Total non-current liabilities		**93,742,468**	77,042,288	67,694,275	**49,536,701**	50,923,789
Current liabilities						
Trade and other payables	24	**64,930,762**	43,295,343	46,230,339	**24,922,011**	8,989,792
Current tax liabilities		**60,183**	480,431	649,307	**-**	-
Borrowings	25	**25,137,160**	26,998,922	21,582,521	**7,853,162**	11,732,029
Lease liabilities	23	**1,223,057**	-	-	**-**	-
Total current liabilities		**91,351,162**	70,774,696	68,462,167	**32,775,173**	20,721,821
Total liabilities		**185,093,630**	147,816,984	136,156,442	**82,311,874**	71,645,610
Total equity and liabilities		**264,919,617**	228,411,189	216,372,806	**99,165,201**	85,155,239

The notes on pages 19 to 106 are an integral part of these consolidated financial statements.

The financial statements on pages 10 to 106 were authorised for issue by the Board on 28 October 2020 and were signed on its behalf by:

Maurice F. Mizzi
Director

Brian R. Mizzi
Director

Income statements

	Notes	Group 2019 €	Group 2018 €	Company 2019 €	Company 2018 €
		Year ended 31 December			
Revenue	28	**122,607,961**	124,506,449	**-**	-
Cost of sales	29	**(95,554,241)**	(96,622,825)	**-**	-
Gross profit		**27,053,720**	27,883,624	**-**	-
Selling and other direct expenses	29	**(14,491,960)**	(16,213,154)	**-**	-
Administrative expenses	29	**(13,170,210)**	(11,310,415)	**(1,787,493)**	(1,768,049)
Gains from changes in fair value of investment property		**453,538**	-	**-**	-
Other operating income	31	**2,815,896**	2,065,769	**2,216,595**	2,263,047
Operating profit		**2,660,984**	2,425,824	**429,102**	494,998
Investment and other related income	32	**180,802**	124,770	**4,410,267**	5,142,102
Finance income	33	**324,636**	331,665	**1,006,863**	817,419
Finance costs	34	**(3,725,207)**	(3,161,127)	**(1,754,406)**	(1,952,015)
Share of profit of associates	10	**820,756**	386,754	**-**	-
Profit before tax		**261,971**	107,886	**4,091,826**	4,502,504
Tax expense	35	**(906,237)**	(368,217)	**(694,356)**	(471,252)
(Loss)/profit for the year		**(644,266)**	(260,331)	**3,397,470**	4,031,252

The notes on pages 19 to 106 are an integral part of these consolidated financial statements.

Statements of comprehensive income

	Notes	Group 2019 €	Group 2018 €	Company 2019 €	Company 2018 €
		Year ended 31 December			
(Loss)/profit for the year		**(644,266)**	(260,331)	**3,397,470**	4,031,252
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	20	**(25,064)**	(22,796)	**-**	-
Financial assets at FVOCI:					
- Gains from changes in fair value	20	**(23,098)**	(161,685)	**(23,098)**	(161,685)
Items that may be subsequently reclassified to profit or loss					
Cash flow hedges, net of deferred tax	22	**(30,674)**	21,749	**(30,674)**	21,749
Other comprehensive income for the year, net of tax		**(78,836)**	(162,732)	**(53,772)**	(139,936)
Total comprehensive income for the year		**(723,102)**	(423,063)	**3,343,698**	3,891,316

The notes on pages 19 to 106 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group

	Notes	Share capital €	Capital contribution reserve €	Hedging reserve €	Revaluation reserves €	Fair value gains and other reserves €	Retained earnings €	Total €
Balance at 1 January 2018 - as restated		1,597,018	-	(527,992)	38,730,454	29,229,239	8,945,550	77,974,269
Comprehensive income								
Loss for the year		-	-	-	-	-	(260,331)	(260,331)
Other comprehensive income:								
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	20	-	-	-	(22,796)	-	-	(22,796)
Depreciation transfer, net of deferred tax	20	-	-	-	(21,089)	-	21,089	-
Gains from changes in fair value of financial assets at FVOCI	20	-	-	-	(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	21	-	-	-	-	67,214	(67,214)	-
Realised fair value gains on property upon disposal, net of deferred tax movements determined on the basis applicable to property disposals	21	-	-	-	-	(641,999)	641,999	-
Cash flow hedges, net of deferred tax	22	-	-	21,749	-	-	-	21,749
Total other comprehensive income		-	-	21,749	(205,570)	(574,785)	595,874	(162,732)
Total comprehensive income		-	-	21,749	(205,570)	(574,785)	335,543	(423,063)
Transaction with owners								
Capital contributions arising from amounts owed to shareholders which have been waived	19	-	3,042,999	-	-	-	-	3,042,999
Balance at 31 December 2018		1,597,018	3,042,999	(506,243)	38,524,884	28,654,454	9,281,093	80,594,205

Statements of changes in equity - continued

Group - continued

	Notes	Share capital €	Capital contribution reserve €	Hedging reserve €	Revaluation reserves €	Fair value gains and other reserves €	Retained earnings €	Total €
Balance at 1 January 2019 - as previously reported		1,597,018	3,042,999	(506,243)	38,524,884	28,654,454	9,281,093	80,594,205
Impact of changes in accounting policies of associate:								
Transition adjustment upon adoption of IFRS 9	10	-	-	-	-	-	(45,116)	(45,116)
Balance at 1 January 2019 - as restated		1,597,018	3,042,999	(506,243)	38,524,884	28,654,454	9,235,977	80,549,089
Comprehensive income								
Loss for the year		-	-	-	-	-	(644,266)	(644,266)
Other comprehensive income:								
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	20	-	-	-	(25,064)	-	-	(25,064)
Depreciation transfer, net of deferred tax	20	-	-	-	(21,089)	-	21,089	-
Gains from changes in fair value of financial assets at FVOCI	20	-	-	-	(23,098)	-	-	(23,098)
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	21	-	-	-	-	408,184	(408,184)	-
Transfer of movement in deferred tax liability on fair value gains on investment property determined on the basis applicable to property disposals	21	-	-	-	-	(195,860)	195,860	-
Realised fair value gains on property upon disposal, net of deferred tax movement determined on the basis applicable to property disposals	21	-	-	-	-	(822,520)	822,520	-
Cash flow hedges, net of deferred tax	22	-	-	(30,674)	-	-	-	(30,674)
Total other comprehensive income		-	-	(30,674)	(69,251)	(610,196)	631,285	(78,836)
Total comprehensive income		-	-	(30,674)	(69,251)	(610,196)	(12,981)	(723,102)
Balance at 31 December 2019		**1,597,018**	**3,042,999**	**(536,917)**	**38,455,633**	**28,044,258**	**9,222,996**	**79,825,987**

Statements of changes in equity - continued

Company

	Notes	Share capital €	Capital contribution reserve €	Hedging reserve €	Revaluation reserves €	Retained earnings €	Total €
Balance at 1 January 2018		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	20	-	-	-	(161,685)	-	(161,685)
Cash flow hedges, net of deferred tax	22	-	-	21,749	-	-	21,749
Total other comprehensive income		-	-	21,749	(161,685)	-	(139,936)
Total comprehensive income		-	-	21,749	(161,685)	4,031,252	3,891,316
Transactions with owners							
Capital contributions arising from amounts owed to shareholders which have been waived	19	-	3,042,999	-	-	-	3,042,999
Balance at 31 December 2018		1,597,018	3,042,999	(506,243)	346,471	9,029,384	13,509,629

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 2019		1,597,018	3,042,999	(506,243)	346,471	9,029,384	13,509,629
Comprehensive income							
Profit for the year		-	-	-	-	3,397,470	3,397,470
Other comprehensive income:							
Gains from changes in fair value of financial assets at FVOCI	20	-	-	-	(23,098)	-	(23,098)
Cash flow hedges, net of deferred tax	22	-	-	(30,674)	-	-	(30,674)
Total other comprehensive income		-	-	(30,674)	(23,098)	-	(53,772)
Total comprehensive income		-	-	(30,674)	(23,098)	3,397,470	3,343,698
Balance at 31 December 2019		**1,597,018**	**3,042,999**	**(536,917)**	**323,373**	**12,426,854**	**16,853,327**

The notes on pages 19 to 106 are an integral part of these consolidated financial statements.

Statements of cash flows

	Notes	Group 2019 €	Group 2018 €	Company 2019 €	Company 2018 €
		Year ended 31 December			
Cash flows from operating activities					
Cash generated from operations	37	**18,975,490**	2,691,325	**8,893,653**	879,606
Dividends received		**305,273**	895,824	**3,558,687**	3,242,368
Interest received		**324,636**	331,665	**1,006,863**	817,419
Interest paid		**(3,126,324)**	(3,128,231)	**(1,721,510)**	(1,938,291)
Tax (paid)/refunded		**(1,443,457)**	(787,707)	**(609,311)**	29,921
Net cash generated from operating activities		**15,035,618**	2,876	**11,128,382**	3,031,023
Cash flows from investing activities					
Payments for property, plant and equipment	5	**(6,833,850)**	(7,827,809)	**(165,918)**	(79,624)
Proceeds from disposal of property, plant and equipment	5	**1,435,312**	1,479,792	**33,440**	22,800
Payments for investment property	7	**(3,314,409)**	(9,463,196)	**(50,000)**	-
Proceeds from disposal of investment property	7	**1,090,000**	-	**-**	-
Payments for intangible assets	8	**-**	(93,220)	**-**	-
Payments for in associates	10	**(800,000)**	(64,000)	**(800,000)**	(64,000)
Proceeds from disposal of associates	10	**900,563**	-	**900,563**	-
Proceeds from disposal of financial assets at FVOCI	12	**-**	80,726	**-**	80,726
Purchase of financial assets at FVPL	16	**(78,635)**	(498,502)	**(78,635)**	(498,502)
Proceeds from disposal of financial assets at FVPL	16	**1,115,867**	806,821	**1,115,867**	806,821
Proceeds from disposal of assets classified as held for sale		**144,000**	1,644,000	**-**	-
Advances to subsidiaries	11	**-**	-	**(4,960,000)**	(8,572,010)
Repayments of loans to subsidiaries	11	**-**	-	**1,605,967**	1,815,088
Advances to related parties forming part of Mizzi Organisation	11	**(1,950,000)**	(3,400,000)	**(1,950,000)**	(3,400,000)
Repayments of advances to related parties forming part of Mizzi Organisation	11	**1,650,968**	1,226,764	**1,650,968**	1,226,764
Advances to associate	11	**(300,000)**	-	**(300,000)**	-
Net cash used in investing activities		**(6,940,184)**	(16,108,624)	**(2,997,748)**	(8,661,937)
Cash flows from financing activities					
Proceeds from bank borrowings	25	**5,150,000**	16,236,459	**5,150,000**	9,000,000
Repayments of bank borrowings	25	**(6,625,743)**	(6,184,840)	**(6,044,819)**	(5,916,133)
Principal element of lease liabilities	23	**(1,742,937)**	-	**-**	-
Net cash (used in)/generated from financing activities		**(3,218,680)**	10,051,619	**(894,819)**	3,083,867
Net movements in cash and cash equivalents		**4,876,754**	(6,054,129)	**7,235,815**	(2,547,047)
Cash and cash equivalents at beginning of year		**(16,537,053)**	(10,482,924)	**(5,304,330)**	(2,757,283)
Cash and cash equivalents at end of year	17	**(11,660,299)**	(16,537,053)	**1,931,485**	(5,304,330)

The notes on pages 19 to 106 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 2019 and 2018, the Group's current liabilities exceeded current assets by €22,717,474 (2018: €6,438,114), after excluding non-cash contract liabilities. The parent company directors take cognisance of the related party relationship with other companies forming part of Mizzi Organisation and other related parties and the formal commitment that these companies will 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 (refer also to Note 41). 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.

Corporate restructuring

During the current financial year, the shares in Legacy Contractors Limited a subsidiary of Mizzi Organisation Limited, have been transferred to Consolidated Holdings Limited, a related party forming part of Mizzi Organisation, for a consideration of €85,961, as part of a corporate restructuring within the Mizzi Organisation.

All the entities constituting the Mizzi Organisation are ultimately fully owned and controlled by the same members of the Mizzi family. Accordingly, the transaction referred to above involve an entity under common control, whereby the involved entity is controlled by the same parties before and after the transaction, and that control is not transitory. The key feature of a transaction among entities under common control is that there is no change in the ultimate ownership of the entities involved as a result of the transaction. Control is exercised by a group of individuals that are all part of the same close family group when they have the collective power to govern the financial and operating policies of the respective entities which are involved in the transactions.

For the purposes of preparing these consolidated financial statements, Mizzi Organisation Limited has applied the predecessor method of accounting to reflect the transaction referred to above involving an entity under common control.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Accordingly, Mizzi Organisation Limited:

a) recorded the disposal transactions as if they had already taken place at the beginning of the earliest period presented within the financial statements, i.e. 1 January 2018;
b) eliminated the assets and liabilities attributable to the entities disposed of using predecessor book values derived from the financial statements of the entities disposed of with the elimination being already reflected at the beginning of the earliest period presented;
c) eliminated the financial results registered by the entities disposed of during the years ended 31 December 2019 and 2018; and
d) reflected the difference between the consideration and the aggregate book value of the assets and liabilities attributable to the entities disposed of as adjustments to equity.

The impacts of the application of the predecessor accounting treatment described highlighted above on the consolidated financial position of Mizzi Organisation Limited are reflected in the table below:

	31 December 2018 €	1 January 2018 €
Inventories	(46,486)	(99,748)
Trade and other receivables	225,878	93,770
Current tax assets	(12,589)	(9,735)
Cash and cash equivalents	(204,345)	(140,073)
Trade and other payables	(5,955)	(1,507)
Net assets	(43,497)	(157,293)
Represented by elimination of:		
Retained earnings	(43,497)	(157,293)

The effects of the application of the predecessor accounting treatment highlighted above on the consolidated financial results for the year ended 31 December 2018 are reflected in the table below:

	31 December 2018 €
Revenue	23,207
Cost of sales	(75,868)
Gross profit	(52,661)
Selling and other direct expenses	(7,174)
Administrative expenses	(12,097)
Operating loss	(71,932)
Finance costs	(186)
Loss before tax	(72,118)
Taxation	22,802
Loss for the year	(49,316)

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards effective in 2019

In 2019, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2019. 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 IFRS 16, 'leases', but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The new accounting policies are disclosed in Note 1.24 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.

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 2019. 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.

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.

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

(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.

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 Groups 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.

1. Summary of significant accounting policies - continued

1.3 Foreign currencies - continued

(c) Group companies - continued

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.

1.4 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.

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment - continued

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

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

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

1.5 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
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 p 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
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 3 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 3 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 3.

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. 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, 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 27 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 28 ‘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’.

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

1. Summary of significant accounting policies - continued

1.24 Leases

The Group is the lessee

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. 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 consideration.

As explained in Note 1.1 above, the group has changed its accounting policy for leases where the Group is the lessee. The impact of the change is described in Note 2.

Until 31 December 2018, leases of assets in which a significant portion of the risks and rewards of ownership were effectively retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

With effect from 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group , the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the group, where there is no third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

1. Summary of significant accounting policies - continued

1.24 Leases - continued

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The Group 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 Note 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 recognised in profit or loss on a straight-line basis over the lease term. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of the adoption of the new leasing standard.

1.25 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.

1.26 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.

2. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 'Leases', on the Group's consolidated financial statements.

As indicated in Note 1.1 above, the Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 1.24.

(a) The Group's leasing activities

Group undertakings lease various properties from third parties. Rental contracts are typically made for a fixed period ranging from 4 to 12 years but may have extension options to renew the base after the original period as described below. A group undertaking also has a 65 year emphyteutical grant for a particular property in Valetta entered into in 2016. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and leased assets are not used as security for borrowing purposes.

Extension and termination options are included in the majority of the group's motor vehicles leases. These terms are used to maximise operational flexibility in respect of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. In respect of the majority of lease arrangements, the extension periods have been included in determining lease term for the respective arrangement.

(b) Adjustments recognised upon adoption of IFRS 16 in the statement of financial position on 1 January 2019

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the respective lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities by the Group on 1 January 2019 was 3%.

The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets, increase by €17,543,689
- lease liabilities, increase by €17,310,917
- prepayments, decrease by €232,772

The total recognised right-of-use assets of the Group relate to properties:

	As at 1 January 2019 €
Properties - Total right-of-use assets	**17,543,689**

2. Changes in accounting policies - continued

Measurement of lease liabilities

	As at 1 January 2019 €
Operating lease commitments disclosed as at 31 December 2018	34,112,125
Add: adjustments as a result of different treatment of extensions	(344,560)
Discounted using the incremental borrowing rate at the date of initial application	(16,456,648)
Lease liabilities recognised as at 1 January 2019	17,310,917
Of which are classified as:	
Current lease liabilities	950,459
Non-current lease liabilities	16,360,458
	17,310,917

Practical expedients applied

In applying IFRS 16 for the first time, group under takings have used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(c) Amounts recognised in profit and loss

The income statement reflects the following amounts relating to leases:

	2019 €
Depreciation charge of right-of-use assets	
Properties	**1,533,273**
Interest expense (included in finance costs)	**565,988**

Operating lease charges to be reflected within profit and loss, utilising the accounting principles of IAS 17 ‘Leases’ had IFRS 16 not been adopted, during the period from 1 January 2019 to 31 December 2019 would have amounted to €1,742,937. Hence, EBITDA for the year ended 31 December 2019 has been impacted favourably by this amount in view of the adoption of the requirements of IFRS 16.

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 parent 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 interest 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 14) and certain bank loans as disclosed in Note 25. 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 and other borrowings (Note 25), including bills of exchange factored out to bank, issued at variable rates and balances with related parties subject to floating interest rates (Notes 11 and 40), 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 2019, the notional amount of the outstanding interest rate swap contract was €18.3 million (2018: €21.1 million) – refer to Note 27.

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. 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 12 and 16) 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 12).

(b) 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**	
	2019	2018	**2019**	2018
	€	€	**€**	€
Financial assets measured at amortised cost:				
Loans and advances (Note 11)	**9,407,999**	8,808,967	**37,184,416**	33,206,351
Trade and other receivables (Note 13)	**38,999,629**	34,748,687	**36,105,430**	33,660,414
Cash and cash equivalents (Note 17)	**5,294,349**	3,321,070	**2,760,376**	784
	53,701,977	46,878,724	**76,050,222**	66,867,549

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 advance payments to suppliers, 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 related parties and other amounts owed by related parties

The Group's receivables include loans advanced to subsidiaries, related parties forming part of Mizzi Organisation, associate (refer to Note 11) and other amounts owed by subsidiaries, related parties forming part of Mizzi Organisation, associates and other related parties (refer to Note 13). 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 receivable 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 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

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.

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 2019 and 2018 was determined as follows:

As at 31 December 2019	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% - 1.6%	0.3% - 1.9%	0.4% - 2.1%	0.6% - 21%	1% - 100%	
Gross carrying amount (€)	7,544,676	1,425,791	1,041,112	670,410	6,078,340	16,760,329
Loss allowance (€)	**119,981**	**9,870**	**4,540**	**2,794**	**1,522,912**	**1,660,097**

As at 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% - 1.6%	0.3% - 1.9%	0.4% - 2.1%	0.6% - 21%	1% - 100%	
Gross carrying amount (€)	9,005,083	2,068,021	1,499,462	331,057	3,994,667	16,898,290
Loss allowance (€)	15,270	3,819	4,299	2,118	1,466,444	1,491,950

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

3. **Financial risk management** - continued

3.1 Financial risk factors - continued

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 29.

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 2019, trade receivables of €4,313,706 (2018: €3,229,894) 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 2019 and 2018, 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.

3. Financial risk management - continued

3.1 Financial risk factors - continued

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 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 180 days (2018: 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 2019 and 2018 was determined as follows:

Hire purchase debtors

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Probability of default (PD)	5.1 - 5.5%	15%	100%	
Loss given default (LGD)	100%	100%	100%	
Gross carrying amount (EAD) - €	15,712,739	4,606,500	5,361,878	25,681,117
Loss allowance (€)	**842,522**	**690,975**	**5,361,878**	**6,895,375**

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Probability of default (PD)	7.5 - 8%	15%	100%	
Loss given default (LGD)	100%	100%	100%	
Gross carrying amount (EAD) - €	12,353,392	2,702,044	5,560,150	20,615,586
Loss allowance (€)	1,006,539	405,307	5,560,150	6,971,996

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 29.

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 2019, amounts receivable from hire purchase debtors of €3,915,525 (2018: €2,296,737) 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:

	2019	2018
	€	€
Up to 3 months	**3,057,645**	2,296,737
4 to 5 months	**857,880**	-
	3,915,525	2,296,737

(c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise lease liabilities (Note 23),borrowings (Note 25) and trade and other payables (Note 24). 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.

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 2019 and 2018, the Group's current liabilities exceeded current assets by €23,098,886 (2018: €6,729,182), after excluding non-cash contract liabilities. The parent company directors have taken cognisance of the undertakings from related parties forming part of Mizzi Organisation and other related parties 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. 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.

3. Financial risk management - continued

3.1 Financial risk factors - continued

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 2019					
Lease liabilities	**1,896,669**	**1,875,047**	**4,434,192**	**29,059,975**	**37,265,883**
Bank borrowings	**26,277,281**	**12,719,472**	**40,400,999**	**15,816,579**	**95,214,331**
Loan from related party	**600,000**	**-**	**-**	**-**	**600,000**
Redeemable preference shares	**-**	**-**	**-**	**713,353**	**713,353**
Trade and other payables	**59,809,821**	**-**	**-**	**-**	**59,809,821**
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	38,331,947	-	-	-	38,331,947

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 2019					
Bank borrowings	**9,078,931**	**9,510,027**	**34,959,549**	**8,589,184**	**62,137,691**
Loans from subsidiary	**400,000**	**-**	**-**	**-**	**400,000**
Trade and other payables	**24,614,916**	**-**	**-**	**-**	**24,614,916**
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	8,679,814	-	-	-	8,679,814

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 2019					
Interest rate swap	**267,035**	**170,903**	**222,938**	**93,532**	**754,408**
At 31 December 2018					
Interest rate swap	300,746	210,926	212,941	(8,805)	715,808

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:

	2019	2018
	€	€
Total borrowings	**96,867,144**	101,977,405
Less: cash and cash equivalents	**(12,482,058)**	(5,553,846)
Net debt	**84,385,086**	96,423,559
Total equity	**162,555,883**	147,876,117
Total capital	**246,940,969**	244,299,676
Net debt/total capital	**34%**	39%

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 27), 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, 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 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 €2,554,416 (2018: €3,561,630) 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 €2,293,271 (2018: €2,293,271) 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 2019 and 2018 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 carrying amounts of the other financial liabilities as at 31 December 2019, comprising lease liabilities, are reasonable estimates of their fair value as there have not been significant changes in the Group's internal borrowing rate since the date of transition to IFRS 16.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 7 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 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 7)	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	76,113,824	19,594,854	13,619,731	13,414,184	-	122,742,593
Cost or valuation						
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

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 €	Total €
Year ended 31 December 2019					
Opening net book amount	65,477,150	5,476,674	4,824,880	6,197,737	81,976,441
Additions	929,901	152,368	835,904	3,615,066	5,533,239
Disposals	-	(299)	(104,000)	(1,587,357)	(1,691,656)
Depreciation charge	(797,293)	(660,066)	(936,586)	(1,781,351)	(4,175,296)
Depreciation released on disposals	-	225	27,247	595,330	622,802
Closing net book amount	**65,609,758**	**4,968,902**	**4,647,445**	**7,039,425**	**82,265,530**
At 31 December 2019					
Cost or valuation	77,043,725	19,746,923	14,351,635	15,441,893	126,584,176
Accumulated depreciation and impairment losses	(11,433,967)	(14,778,021)	(9,704,190)	(8,402,468)	(44,318,646)
Net book amount	**65,609,758**	**4,968,902**	**4,647,445**	**7,039,425**	**82,265,530**

Fair valuation of property

The principal elements of the Group's land and buildings, within property, plant and equipment, were last revalued on 31 December 2016 by independent professionally qualified valuers. The book value of these properties 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 20).

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's 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 7). 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 7 for investment property.

Property classified within property, plant and equipment having a carrying amount of €810,000 (2018: €810,000) and other property classified within investment property with a carrying amount of €21,750,000 (2018: €14,170,000) for the group and €5,367,000 (2018: €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 2019 and 2018, which fair value was deemed to fairly approximate its carrying amount.

Structural and ancillary integral improvements to a particular property 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 preceding 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. The carrying amount of the said structure and integral improvements as at 31 December 2019 amounted to €9.9 million (2018: €10.1 million).

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, 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 2019

Description by class based on highest and best use	Fair value at 31 December 2019 €000	Valuation technique	Significant unobservable input	Range of Unobservable Inputs (weighted average) average
Current use as commercial premises	**10,468**	Adjusted sales comparison approach	Sales price per square metre (€)	700 - 2,000 (2,000)
	20,351	Yield methodology	Annual rent per square metre (€)	30 - 180 (100)
			Capitalisation rate (%)	5.0 - 9.0 (7.2)
Redevelopment into residential/commercial premises	**21,696**	Adjusted sales comparison approach	Residential: airspace sales price per square metre (€)	150 - 1,600
			Residential: sales price factor per square metre (€)	200 - 1,220 (650)
			Commercial: sales price factor per square metre (€)	880 - 1,550 (1,180)
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

5. Property, plant and equipment - continued

Description by class based on highest and best use	Fair value at 31 December 2019 €000	Valuation technique	Significant unobservable input	Range of Unobservable Inputs (weighted average) average
Developable land for residential/commercial use	**3,752**	Yield methodology	Annual rent per square metre (€)	225 - 275 (240)
			Capitalisation rate (%)	7.3 - 8.0 (7.8)
	13,100	Adjusted sales comparison approach	Residential: sales price factor per square metre (€)	800
			Commercial: sales price factor per square metre (€)	500
Extended commercial premises	**17,750**	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 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) 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) average
Developable land for residential/commercial use	**2,914**	Yield methodology	Annual rent per square metre (€)	225 - 275 (240)
			Capitalisation rate (%)	7.3 - 8.0 (7.8)
	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

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:

	2019	2018
	€000	€000
Class as presented in tables above		
Current use as commercial premises	**24,400**	24,175
Redevelopment into residential/commercial premises	**3,000**	3,000
Extended commercial premises	**28,200**	27,800
	55,600	54,975

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

	2019	2018
	€	€
Cost	**26,320,465**	25,390,564
Accumulated depreciation and impairment losses	**(7,269,015)**	(6,504,167)
Net book amount	**19,051,450**	18,886,397

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 25 and 39 (a).

Other disclosures

The reclassification to property, plant and equipment from investment property during the preceding 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 2019 €	At 31 December 2018 €	At 1 January 2018 €
Cost	**10,705,653**	8,716,120	7,426,721
Accumulated depreciation	**(4,793,273)**	(3,744,131)	(2,909,214)
Net book amount	**5,912,380**	4,971,989	4,517,507

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

	2019 €	2018 €
Year ended 31 December		
Opening net book amount	**4,971,989**	4,517,507
Additions	**2,526,727**	1,402,615
Disposals	**(537,194)**	(113,216)
Depreciation charge	**(1,165,411)**	(903,179)
Depreciation released on disposals	**116,269**	68,262
Closing net book amount	**5,912,380**	4,971,989

5. Property, plant and equipment - continued

Company

	Furniture, fittings and office equipment €	Motor vehicles €	Total €
At 1 January 2018			
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
Year ended 31 December 2019			
Opening net book amount	132,249	133,050	265,299
Additions	58,433	107,485	165,918
Disposals	-	(66,165)	(66,165)
Depreciation charge	(27,346)	(95,912)	(123,258)
Depreciation released upon disposals	-	52,060	52,060
Closing net book amount	**163,336**	**130,518**	**293,854**
At 31 December 2019			
Cost	1,466,097	684,451	2,150,548
Accumulated depreciation	(1,302,761)	(553,933)	(1,856,694)
Net book amount	**163,336**	**130,518**	**293,854**

6. Right-of-use assets

The statement of financial position reflects the following assets relating to leases:

	As at 31 December 2019 €	As at 1 January 2019 €
Properties - Total right-of-use assets	**20,195,757**	17,543,689

The movements in the carrying amount of right-of-use assets during the year is attributable to additions amounting to €4,185,341 and depreciation charge amounting to €1,533,273.

7. Investment property

Group	**2019**	2018
	€	€
Year ended 31 December		
Opening carrying amount	**59,948,097**	51,295,510
Additions of newly acquired property	**6,219,065**	7,424,183
Additions resulting from subsequent expenditure	**2,374,230**	2,039,013
Gains from changes in fair value	**453,538**	-
Disposals	**(1,090,000)**	-
Reclassification to property, plant and equipment (Note 5)	**-**	(810,609)
Closing carrying amount	**67,904,930**	59,948,097
At 31 December		
Cost	**34,208,515**	25,779,137
Fair value gains	**33,696,415**	34,168,960
Carrying amount	**67,904,930**	59,948,097

The reclassification to property, plant and equipment from investment property during the preceding 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:

	2019	2018
	€	€
Cost	**33,282,433**	26,589,746
Accumulated depreciation	**(2,588,861)**	(3,097,474)
Net book amount	**30,693,572**	23,492,272

7. Investment property - continued

As at 31 December 2019, 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 (2018: €36,425,854) - refer to Notes 25 and 39(a).

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

	At 31 December 2019 €	At 31 December 2018 €	At 1 January 2018 €
Cost	**7,280,237**	7,262,257	7,152,654
Fair value gains	**4,423,552**	4,423,552	4,423,552
Carrying amount	**11,703,789**	11,685,809	11,576,206

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

	2019 €	2018 €
Year ended 31 December		
Opening carrying amount	**11,685,809**	11,576,206
Additions resulting from subsequent expenditure	**17,980**	109,603
Closing carrying amount	**11,703,789**	11,685,809

Company

	2019 €	2018 €
Years ended 31 December		
Opening carrying amount	**116,609**	116,609
Additions of newly acquired property	**5,250,000**	-
Closing carrying amount	**5,366,609**	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. These properties have 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.

8. Intangible assets

	Franchise and licence rights	
	2019	2018
	€	€
At 1 January		
Cost	**219,547**	106,587
Accumulated amortisation	**(87,649)**	(46,587)
Net book amount	**131,898**	60,000
Year ended 31 December 2019		
Opening net book amount	**131,898**	60,000
Additions	**-**	93,220
Amortisation charge	**(21,322)**	(21,322)
Closing net book amount	**110,576**	131,898
At 31 December 2019		
Cost	**219,547**	199,807
Accumulated amortisation	**(108,971)**	(67,909)
Net book amount	**110,576**	131,898

9. Investments in subsidiaries

	Company	
	2019	2018
	€	€
Year ended 31 December		
Opening carrying amount	**8,534,815**	8,534,815
Movements	**(85,961)**	-
Closing carrying amount	**8,448,854**	8,534,815
At 31 December		
Cost	**8,826,693**	8,912,654
Provision for impairment	**(377,839)**	(377,839)
Carrying amount	**8,448,854**	8,534,815

9. Investments in subsidiaries - continued

The subsidiaries at 31 December 2019 and 2018, 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 2019 %**	**2018 %**
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

9. Investments in subsidiaries - continued

	Registered office	Class of shares held	Percentage of shares held 2019 %	2018 %
Nissan Motor Sales Limited	Industrial House National Road Blata l-Bajda Malta	Ordinary shares	**100**	100
Arkadia Marketing Limited	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	**100**	100
		5% Non-cumulative redeemable preference shares	**100**	100
Mizzi Lease Limited	Industrial House National Road Blata l-Bajda Malta	Ordinary shares	**100**	100
Hubbalit Developments Limited	Testaferrata Street Ta' Xbiex Malta	Ordinary shares	**100**	100
Legacy Contractors Limited	The Lyric Antonio Bosio Street Msida Malta	Ordinary shares	**-**	100
Continental Cars (Imports) Limited	Continental Garage Testaferrata Street Msida Malta	Ordinary shares	**100**	100
Mizzi Organisation International s.r.o. (in dissolution)	Palisady 29 Bratislava 811 06 Slovakia	Ordinary shares	**100**	100
Mizzi Motors Limited	200, Rue D'Argens Gzira Malta	Ordinary shares	**100**	100
CIE Recruitment International Limited	Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta	Ordinary shares	**60**	60

During the current financial year the shares in Legacy Contractors Limited were transferred to Consolidated Holdings Limited, a related party forming part of Mizzi Organisation (refer to Note 1.1 for details).

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

9. Investments in subsidiaries - continued

(b) Held through Festa Limited

	Registered office	Class of shares held	Percentage of shares held 2019 %	2018 %
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 2019 %	2018 %
Arkadia Catering Limited (merged into Arkadia Marketing Limited during 2019)	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 2019 %	2018 %
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

10. Investments in associates

Group

	2019	2018
	€	€
Year ended 31 December		
Opening carrying amount as previously reported	**2,979,975**	3,200,009
Share of impact of changes in accounting policies of associate	**(45,116)**	-
	2,934,859	3,200,009
Additions	**800,000**	64,000
Share of profits	**11,919**	386,754
Dividends received	**(177,587)**	(670,788)
Derecognition of carrying amount upon liquidation of associates	**(91,726)**	-
Closing carrying amount	**3,477,465**	2,979,975

	2019	2018
	€	€
At 31 December		
Cost	**3,372,809**	674,907
Provisions for impairment	**(10,000)**	(10,000)
Share of profits and reserves	**114,656**	2,315,068
Carrying amount	**3,477,465**	2,979,975

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 impacts of the additional investments in newly incorporated entities St. Julian's Maritime Finance Limited and Finopz Limited during the current and preceding financial year respectively, were not material in the context of the Group's financial position as at 31 December 2019 and 2018 and the financial results for the years then ended.

During the current financial year, the Group sold its shareholding in FirstUnited Insurance Brokers Limited. As a result, the carrying amount of the investment in the associate has been derecognised from the Group's financial statements upon disposal. The resultant gain of €808,837 has been recognised in profit or loss and presented within 'Share of profit of associates'. In the company's stand-alone financial statements, the related gain of €798,464 has been presented within ''Investment and other related income''.

The associates as at 31 December 2019 and 2018, whose results and financial position affected the figures of the group, are shown below:

	Registered Office	**Class of shares held**	**Percentage of shares held**	
			2019	2018
			%	%
Aqubix Limited	St. Michael's Farmhouse Triq l-Arznu, Maghtab Naxxar Malta	Ordinary shares	**50**	50

10. **Investments in associates** - continued

	Registered office	Class of shares held	Percentage of shares held 2019 %	2018 %
FirstUnited Insurance Brokers Limited	25, Villa Eden Princess Elizabeth Street Ta' Xbiex Malta	Ordinary shares	**-**	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**	50
St. Julians Maritime Finance Limited	Level 2, Regional Business Centre, University Heights, Msida Malta	Ordinary shares	**25**	-

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.

10. **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	
	2019	2018	**2019**	2018
	€	€	**€**	€
ASSETS				
Non-current assets	**6,630,878**	7,025,039	**2,292,103**	5,508,148
Current assets				
Cash and cash equivalents	**470,372**	203,725	**331,124**	11,282
Other current assets	**1,344,770**	1,612,038	**-**	-
Total current assets	**1,815,142**	1,815,763	**331,124**	11,282
Total assets	**8,446,020**	8,840,802	**2,623,227**	5,519,430
LIABILITIES				
Non-current liabilities				
Financial liabilities	**412,800**	663,510	**2,292,103**	2,292,103
Other liabilities	**-**	25,237	**-**	-
Total non-current liabilities	**412,800**	688,747	**2,292,103**	2,292,103
Current liabilities				
Trade and other payables	**2,035,149**	2,257,166	**315,725**	1,852
Other financial liabilities	**2,385,475**	2,334,606	**-**	-
Total current liabilities	**4,420,624**	4,591,772	**315,725**	1,852
Total liabilities	**4,833,424**	5,280,519	**2,607,828**	2,293,955
Net assets	**3,612,596**	3,560,283	**15,399**	3,225,475

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 2019. 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 2019, which year end is different from that of the reporting entity.

10. Investments in associates - continued

Summarised statements of comprehensive income

	IELS		TPG	
	2019	2018	**2019**	2018
	€	€	**€**	€
Revenue	**6,269,678**	6,453,316	**-**	-
Depreciation	**(460,904)**	(602,278)	**-**	-
Interest expense	**(86,265)**	(76,440)	**-**	-
Profit before tax	**301,873**	278,107	**2,257,145**	684,659
Tax expense	**(131,769)**	(56,728)	**(579,176)**	-
Profit for the year - total comprehensive income	**170,104**	221,379	**1,677,696**	684,659
Dividends received from associate	**-**	-	**1,672,000**	702,416

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	Results
	€	€	€	€
2019				
Aqubix Limited	**414,133**	**465,563**	**804,487**	**(179,534)**
Finopz Limited	**3,752,110**	**107,343**	**362,450**	**107,343**
St.Julians Maritime Finance Limited	**2,656,106**	**4,288**	**2,850**	**(298,182)**

	Assets	Liabilities	Revenues	Results
	€	€	€	€
2018				
Aqubix 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

The first available financial information for Finopz Limited relate to the 18 month period from the date of incorporation until 31 December 2019.

Primax Limited is considered by the directors to be non-operating and the Group's share of the associate's assets and liabilities are not deemed material for the purposes of disclosure.

10. Investments in associates - continued

Company

	2019 €	2018 €
Year ended 31 December		
Opening carrying amount	**2,595,025**	531,025
Additions	**800,000**	2,064,000
Derecognition of carrying amount upon liquidation of associate	**(102,098)**	-
Closing carrying amount	**3,292,927**	2,595,025

	2019 €	2018 €
At 31 December		
Cost	**3,302,927**	2,605,025
Provision for impairment	**(10,000)**	(10,000)
Closing carrying amount	**3,292,927**	2,595,025

11. Loans and advances

	Group		Company	
	2019 €	2018 €	2019 €	2018 €
Non-current				
Loans to subsidiaries	**-**	-	**18,515,202**	15,807,865
Loans to related parties forming part of Mizzi Organisation	**6,860,041**	6,603,005	**6,860,041**	6,603,005
Loans to associates	**1,075,938**	575,938	**1,075,938**	575,938
	7,935,979	7,178,943	**26,451,181**	22,986,808
Current				
Loans to subsidiaries	**-**	-	**9,261,215**	8,589,519
Loans to related parties forming part of Mizzi Organisation	**1,472,020**	1,430,024	**1,472,020**	1,430,024
Loans to associates	**-**	200,000	**-**	200,000
	1,472,020	1,630,024	**10,733,235**	10,219,543

11. 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:

	2019	2018
	€	€
Within 1 year	**1,472,020**	1,286,572
Between 1 and 2 years	**2,890,813**	1,209,097
Between 2 and 5 years	**1,497,174**	3,827,963
Over 5 years	**2,472,054**	1,709,397
	8,332,061	8,033,029

The loans to associates 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. The purpose of these advances is to fund the respective associate's financial commitments in respect of specific business ventures. As at 31 December 2019, an amount of €1,075,938 (2018: €575,938) is not repayable within one year and in earmarked for capitalisation, i.e. conversion into ordinary share capital, in accordance with the formal terms of the financing arrangement. 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% (2018: 3.25%) and repayable as follows:

	2019	2018
	€	€
Within 1 year	**1,872,674**	8,589,519
Between 1 and 2 years	**5,102,311**	4,942,674
Between 2 and 5 years	**7,050,602**	8,209,479
Over 5 years	**6,362,276**	2,655,712
	20,387,863	24,397,384

12. Financial assets at fair value through other comprehensive income

Equity investments

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Opening carrying amount	**4,649,265**	4,891,676	**4,649,265**	4,891,676
Net losses from changes in fair value (Note 20)	**(23,098)**	(161,685)	**(23,098)**	(161,685)
Disposals	**-**	(80,726)	**-**	(80,726)
Closing carrying amount	**4,626,167**	4,649,265	**4,626,167**	4,649,265
At 31 December				
Cost	**4,935,729**	4,935,729	**4,935,729**	4,935,729
Fair value gains	**323,373**	346,471	**323,373**	346,471
Provisions for impairment	**(632,935)**	(632,935)	**(632,935)**	(632,935)
Carrying amount	**4,626,167**	4,649,265	**4,626,167**	4,649,265

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

	2019	2018
	€	€
Plaza Centres p.l.c.	**2,332,895**	2,355,993
BNF Bank p.l.c.	**1,750,000**	1,750,000
Manoel Island Yacht Yard Limited	**360,000**	360,000
Cleves Sofia Holdings Ltd	**183,039**	183,039
Other equity investments	**233**	233
	4,626,167	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	
	2019	2018	**2019**	2018
	€	€	**€**	€
Investments listed on the Malta Stock Exchange	**2,332,896**	2,355,994	**2,332,896**	2,355,994
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**	543,271	**543,271**	543,271
	4,626,167	4,649,265	**4,626,167**	4,649,265

12. Financial assets at fair value through other comprehensive income - continued

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.

13. Trade and other receivables

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Current				
Trade receivables	**11,809,683**	11,849,073	**-**	-
Amounts receivable from hire purchase debtors (Note 14)	**4,273,637**	2,239,706	**-**	-
Contract assets				
Gross amounts due from customers for contract work	**3,290,549**	3,557,267	**-**	-
Amounts owed by subsidiaries	**-**	-	**34,436,114**	31,965,504
Amounts owed by related parties forming part of Mizzi Organisation	**2,511,855**	2,683,453	**947,361**	734,165
Amounts owed by associates	**942,250**	1,252,246	**529,797**	353,258
Amounts owed by other related parties	**250,577**	202,180	**66,861**	46,876
Advance payments to suppliers	**362,389**	519,441	**-**	-
Other receivables	**1,408,973**	1,560,878	**125,297**	560,611
Indirect taxation	**2,190,529**	2,230,862	**-**	-
Prepayments	**1,314,341**	2,088,764	**308,255**	295,720
	28,354,783	28,183,870	**36,413,685**	33,956,134
Non-current				
Amounts receivable from hire purchase debtors (Note 14)	**14,512,105**	11,403,884	**-**	-
Prepayments	**-**	295,195	**-**	-
	14,512,105	11,699,079	**-**	-

13. Trade and other receivables - continued

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

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Trade receivables	**1,623,863**	1,473,590	**-**	-
Gross amounts due from customers for contract work	**36,234**	18,360	**-**	-
Amounts owed by subsidiaries	**-**	-	**520,861**	520,861
Amounts owed by associates	**287,500**	287,500	**287,500**	287,500
Other receivables	**37,976**	37,976	**2,103**	2,103
	1,985,573	1,817,426	**810,464**	810,464

Credit loss allowances in respect of amounts receivable from hire purchase debtors are disclosed separately in Note 14.

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 as at 31 December 2018 principally relate to advance payments which were expected to be realised over the term of the related agreements up to nine years after the end of the reporting period.

As referred to in Note 2, upon adoption of IFRS 16 on 1 January 2019, such prepayments were adjusted against the carrying amount of the right-of-use assets.

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 €16,331 (2018: €407,026).

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 €6,936,216 (2018: €4,608,621). Gross amounts due from and to customers in respect of these contracts are disclosed in the table above and in Note 24 respectively.

All movements in contract assets during the current and preceding financial years relate to business variations.

14. Amounts receivable from hire purchase debtors

	2019	2018
	€	€
Current		
Debtors on whom bills of exchange were drawn	**11,143,154**	9,165,056
Credit loss allowances	**(6,024,396)**	(5,857,616)
	5,118,758	3,307,440
Non-current		
Debtors on whom bills of exchange were drawn	**14,537,963**	11,450,530
Credit loss allowances	**(870,979)**	(1,114,380)
	13,666,984	10,336,150
Total amounts receivable from hire purchase debtors	**18,785,742**	13,643,590

14. Amounts receivable from hire purchase debtors - continued

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 €13,993,962 (2018: €10,173,151). Amounts receivable from hire purchase debtors are subject to an effective interest rate of 5.5% (2018: 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 25). 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.

15. Inventories

	2019	2018
	€	€
Property being developed with a view to sale	**448,839**	448,839
Goods held for resale		
Motor vehicles, spare parts and related supplies	**14,865,989**	13,700,397
Other goods purchased for resale	**7,531,231**	6,863,776
Goods in transit	**3,554,415**	2,382,665
Contract and other work in progress	**278,642**	430,887
Payments on account in respect of motor vehicles and spare parts	**462,920**	472,482
	26,693,197	23,850,207
Total inventories	**27,142,036**	24,299,046

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 29 to the financial statements. During the year ended 31 December 2019, net inventory write-downs amounted to €688,067 (2018: €559,443). These amounts have been included in 'Cost of sales' in profit or loss.

16. Financial assets at fair value through profit or loss

Equity investments	Group and Company 2019 €	2018 €
Opening carrying amount	**1,205,636**	1,614,221
Additions at cost	**78,635**	498,502
Net gains/(losses) from changes in fair value (Note 32)	**53,116**	(100,266)
Disposals	**(1,115,867)**	(806,821)
Closing carrying amount	**221,520**	1,205,636
At 31 December		
Cost	**120,256**	1,039,534
Fair value losses	**101,264**	166,102
Carrying amount	**221,520**	1,205,636

The Group's equity investments consist of:

	2019 €	2018 €
Investments listed on the Malta Stock Exchange	**221,520**	898,946
Investments listed on foreign stock exchanges	**-**	306,690
	221,520	1,205,636

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

17. Cash and cash equivalents

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

	Group 2019 €	Group 2018 €	Company 2019 €	Company 2018 €
Cash at bank and in hand	**5,294,349**	3,321,070	**2,760,376**	784
Bank overdrafts (Note 25)	**(14,247,197)**	(17,382,481)	**(828,891)**	(5,305,114)
Bills of exchange factored out to bank (Note 25)	**(2,707,451)**	(2,475,642)	**-**	-
	(11,660,299)	(16,537,053)	**1,931,485**	(5,304,330)

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.

18. Assets classified as held for sale

	Group	
	2019	2018
	€	€
Property classified as held for sale		
Opening carrying amounts	**3,548**	1,587,871
Disposals	**(968)**	(1,584,323)
Closing carrying amount	**2,580**	3,548

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

19. Share capital and Capital contribution reserve

Share capital

	Group and Company	
	2019	2018
	€	€
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 preceding year, the parent company's shareholders have waived amounts of €3,042,999 which were due to them by the company. Such amounts have been converted to a capital contribution reserve.

20. Revaluation reserves

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Surplus arising on fair valuation of:				
Land and buildings of subsidiaries	**38,132,260**	38,178,413	**-**	-
Financial assets at FVOCI	**323,373**	346,471	**323,373**	346,471
	38,455,633	38,524,884	**323,373**	346,471

20. **Revaluation reserves** - continued

The movements in each category are analysed as follows:

	Group	
	2019	2018
	€	€
Land and buildings of subsidiaries		
At beginning of year	**38,178,413**	38,222,298
Transfer upon realisation through asset use	**(32,444)**	(32,444)
Movement in deferred tax liability determined on the basis applicable to property disposals (Note 26)	**(25,064)**	(22,796)
Deferred income taxes on realisation through asset use (Note 26)	**11,355**	11,355
At end of year	**38,132,260**	38,178,413

	Group and Company	
	2019	2018
	€	€
Financial assets at FVOCI		
At beginning of year	**346,471**	508,156
Net losses from changes in fair value (Note 12)	**(23,098)**	(161,685)
At end of year	**323,373**	346,471

The tax impact included in the revaluation reserves as at 31 December 2019, relates to deferred taxation arising on the surplus on fair valuation of land and buildings of subsidiaries for an amount of €5,802,611 (2018: €5,788,902). 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 are recognised directly in equity in other comprehensive income through the revaluation reserve in accordance with the group's accounting policy. When the equity investments are disposed of, the cumulative gain or loss recognised in OCI remains in equity.

The revaluation reserves are non-distributable.

21. Fair value gains and other reserves

	Group	
	2019	2018
	€	€
Fair value gains reserve in respect of investment property	**27,867,158**	28,477,354
Translation reserve	**(31,425)**	(31,425)
Other capital reserves	**208,525**	208,525
	28,044,258	28,654,454

The movements in each category are analysed as follows:

	Group	
	2019	2018
	€	€
Fair value gains reserve in respect of property		
At beginning of year	**28,477,354**	29,052,139
Fair value gains arising during the year (Note 7)	**453,538**	-
Transfer of fair value gains on property upon realisation through disposal, net of deferred tax movements determined on the basis applicable to property disposals	**(822,520)**	(641,999)
Deferred income taxes on fair value gains arising during the year (Note 26)	**(45,354)**	-
Movement in deferred tax liability determined on the basis applicable to property disposals	**(195,860)**	67,214
At end of year	**27,867,158**	28,477,354
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 2019, relates to deferred taxation arising on the fair value gains reserve in respect of property of subsidiaries for an amount of €4,676,981 (2018: €4,649,392). 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.

21. 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.

22. 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	
	2019	2018
	€	€
At 1 January		
Gross amounts of losses	**(778,837)**	(812,296)
Deferred income tax	**272,594**	284,304
	(506,243)	(527,992)
Movements during the year ended 31 December		
Net gains from changes in fair value	**328,402**	285,779
Deferred income tax	**(114,941)**	(100,023)
	213,461	185,756
Reclassified to profit or loss as a reclassification adjustment	**(281,211)**	(319,238)
Deferred income tax	**98,424**	111,733
	(182,787)	(207,505)
At 31 December		
Gross amounts of losses	**(826,028)**	(778,837)
Deferred income tax	**289,111**	272,594
	(536,917)	(506,243)

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 2019 and 2018 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.

23. Lease liabilities

	As at 31 December 2019 €'000	As at 1 January 2019 €'000
Non-current		
Properties	**19,096,251**	16,360,459
Current		
Properties	**1,223,057**	950,458
Total lease liabilities	**20,319,308**	17,310,917

The movement in the carrying amount of these liabilities is analysed in the following table:

	€
As at 1 January 2019	**17,310,917**
Additions	**4,185,341**
Payments	**(1,742,937)**
Interest charge	**565,987**
	20,319,308

The total cash outflows for leases in 2019 was €1,742,937. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2019 are analysed in Note 3.1(c).

24. Trade and other payables

	Group		Company	
	2019 €	2018 €	**2019 €**	2018 €
Current				
Trade payables	**19,264,922**	13,670,156	**-**	-
Payables in respect of capital expenditure	**6,200,193**	2,945,368	**5,200,000**	-
Contract liabilities				
Payments received on account	**3,533,773**	3,473,124	**-**	-
Gross amounts owed to customers for contract work	**1,116,506**	997,493	**-**	-
Deferred income	**493,769**	291,068	**-**	-
Attributable to customer loyalty programme	**381,412**	281,392	**-**	-
Face value of bonds and interest thereon payable to bond holders	**186,555**	186,555	**-**	-
Amounts owed to subsidiaries	**-**	-	**3,241,446**	1,726,432
Amounts owed to associates	**-**	604,979	**-**	29,015
Amounts owed to related parties forming part of Mizzi Organisation	**21,745,656**	11,296,013	**14,024,751**	6,038,128
Amounts owed to other related parties	**937,219**	25,018	**900,956**	24,679
Other payables	**1,406,341**	663,349	**951,277**	461,443
Indirect taxation and social security	**711,987**	917,812	**307,095**	309,978
Accruals	**8,952,429**	7,943,016	**296,486**	400,117
	64,930,762	43,295,343	**24,922,011**	8,989,792

24. Trade and other payables - continued

As at 31 December 2019, amounts owed to customers for contract work included amounts due to other related parties €2,105 (2018: €13,474).

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

Contract liabilities - recognised in revenue during 2019

Revenue recognised in profit or loss during the financial year ended 31 December 2019 that was included in the balances of contract liabilities as at the end of the preceding financial year amounted to €4,754,426 (2018: €2,809,973).

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

25. Borrowings

	Group		**Company**	
	2019	2018	**2019**	2018
	€	€	**€**	€
Current				
Bank overdrafts	**14,247,197**	17,382,481	**828,891**	5,305,114
Bills of exchange factored out to bank	**2,707,451**	2,475,642	**-**	-
Bank loans	**7,582,512**	6,540,799	**6,624,271**	6,001,915
Loans from subsidiary	**-**	-	**400,000**	425,000
Loan from other related party	**600,000**	600,000	**-**	-
	25,137,160	26,998,922	**7,853,162**	11,732,029
Non-current				
Bills of exchange factored out to bank	**3,998,430**	4,042,111	**-**	-
Bank loans	**58,701,661**	61,142,540	**48,696,680**	50,130,959
Redeemable preference shares	**713,353**	713,353	**-**	-
	63,413,444	65,898,004	**48,696,680**	50,130,959
Total borrowings	**88,550,604**	92,896,926	**56,549,842**	61,862,988

25. Borrowings - continued

Group

The group's banking facilities as at 31 December 2019 amounted to €104,660,000 (2018: €111,066,000). These facilities are mainly secured by:

(a) a general hypothec on the parent company's assets for €122,795,000 (2018: €122,795,000);
(b) special hypothecary guarantees over property of group undertakings and related parties forming part of Mizzi Organisation for the amount of €118,482,000 (2018: €118,482,000);
(c) general hypothecary guarantees from group undertakings and related parties forming part of Mizzi Organisation for the amount of €145,396,000 (2018: €145,396,000);
(d) guarantees by group undertakings and related parties forming part of Mizzi Organisation for amounts ranging from €146,000 to €66,540,000 (2018: €146,000 to €66,540,000; and
(e) pledge over bills of exchange drawn.

These banking facilities include an amount of €1,050,000 (2018: €1,050,000) 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 (2018: €7,000,000). At 31 December 2019, the total value of outstanding bills, which had been factored out under this facility amounted to €6,705,881 (2018: €6,517,753). This banking facility may also be utilised to factor out bills of exchange without an option to repurchase them as they fall due. The facility amount covers the recourse element of 15% of the value of bills factored out in this manner.

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

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

	2019	2018
	€	€
Total borrowings:		
At fixed rate	**33,732,412**	35,132,747
At floating rate	**53,504,839**	56,450,826
	87,237,251	91,583,573

Borrowings at floating rates, with a notional amount of €18.3 million (2018: €21.1 million), with interest rates computed using a margin over the three-month Euribor, are hedged through a receive floating, pay fixed interest rate swap agreement (refer to Note 27).

25. **Borrowings** - continued

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

	2019 €	2018 €
Face value of bank loans as at 31 December	**66,506,201**	67,938,263
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	**46,619**	32,895
Amortisation charge for the current year (Note 34)	**32,896**	13,724
Accumulated amortisation at the end of the year	**79,515**	46,619
Unamortised bank borrowings issue costs	**(222,028)**	(254,924)
Amortised cost and closing amount of bank loans as at 31 December	**66,284,173**	67,683,339

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:

	2019 %	2018 %
Bank overdrafts	**2.6**	2.5
Bills of exchange factored out to bank	**2.8**	2.8
Bank loans	**2.7**	2.8

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

	2019 €	2018 €
Between 1 and 2 years	**8,978,339**	9,156,791
Between 2 and 5 years	**35,066,518**	31,945,297
Over 5 years	**14,656,805**	24,082,564
	58,701,662	65,184,652

25. Borrowings - continued

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 2019 amounted to €61,797,312 (2018: €74,387,829). These facilities are mainly secured by:

(a) a general hypothec on the company's assets for €96,682,000 (2018: €96,682,000);
(b) special hypothecary guarantees over property of group undertakings and related parties forming part of Mizzi Organisation for the amount of €96,682,000 (2018: €96,682,000);
(c) general hypothecary guarantees from group undertakings and related parties forming part of Mizzi Organisation for the amount of €96,482,000 (2018: €96,482,000); 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 (2018: €24,441,000 to €66,540,000).

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

	2019	2018
	€	€
Total borrowings:		
At fixed rate	**20,697,709**	23,582,281
At floating rate	**34,844,444**	37,855,707
	55,542,153	61,437,988

Borrowings at floating rates, with a notional amount of €18.3 million (2018: €21.1 million), with interest rates computed using a margin over the three-month Euribor, are hedged through a receive floating, pay fixed interest rate swap agreement (refer to Note 27).

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:

	2019	2018
	€	€
Face value of bank loans as at 31 December	**55,542,979**	56,387,798
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	**46,619**	32,895
Amortisation charge for the current year (Note 34)	**32,896**	13,724
Accumulated amortisation at the end of the year	**79,515**	46,619
Unamortised bank borrowings issue costs	**(222,028)**	(254,924)
Amortised cost and closing amount of bank loans as at 31 December	**55,320,951**	56,132,874

25. Borrowings - continued

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:

	2019	2018
	%	%
Bank overdrafts	**2.0**	2.5
Bank loans	**2.9**	2.9

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

	2019	2018
	€	€
Between 1 and 2 years	**8,159,365**	6,627,634
Between 2 and 5 years	**32,443,717**	27,279,279
Over 5 years	**8,093,598**	16,224,046
	48,696,680	50,130,959

The loans from subsidiary amounting to €400,000 (2018: €425,000) are unsecured, repayable on demand and subject to interest at 3.15% per annum.

26. 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% (2018: 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% (2018: 8 - 10%) of the transfer value.

26. Deferred taxation - continued

The movement on the deferred tax account is as follows:

	2019 €	2018 €
At beginning of year	**10,092,853**	10,502,768
Movement in deferred tax liability determined on the basis applicable to property disposals:		
- Investment property and other assets - recognised in profit or loss (Note 35)	**(17,765)**	(89,309)
- Property, plant and equipment and other assets - recognised in other comprehensive income (Note 20)	**25,064**	22,796
Deferred income tax on fair value gains on investment property arising during the year (Note 35)	**45,354**	-
Realisation through asset use (Notes 20 and 35)	**(11,355)**	(11,355)
Deferred income taxes on temporary differences arising on depreciation of property, plant and equipment (Note 35)	**297,607**	(80,150)
Deferred income taxes on temporary differences arising on credit loss allowances in respect of trade and other receivables (Note 35)	**-**	61,387
Deferred income taxes attributable to unabsorbed capital allowances (Note 35)	**(297,607)**	(324,994)
Deferred income tax on temporary difference arising from fair valuation of derivative instruments (Note 22)	**(16,517)**	11,710
At end of year	**10,117,634**	10,092,853

All the amounts disclosed in the table above, which have been referenced to Note 35, are recognised in profit or loss. The other amounts, referenced to Note 20 and Note 22, have been recognised directly in equity in other comprehensive income.

The balance at 31 December represents:

	2019 €	2018 €
Temporary differences arising on fair valuation of property	**10,479,592**	10,438,294
Temporary differences arising on depreciation of property, plant and equipment	**574,950**	277,343
Temporary differences arising on credit loss allowances in respect of impairment of trade and other receivables	**-**	-
Temporary differences arising on derivative instruments	**(289,110)**	(272,593)
Unutilised tax credits attributable to unabsorbed capital allowances	**(647,798)**	(350,191)
	10,117,634	10,092,853
Disclosed as follows:		
Deferred tax assets	**(289,111)**	(272,594)
Deferred tax liabilities	**10,406,745**	10,365,447

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

26. **Deferred taxation** - continued

At 31 December 2019 and 2018, the group had the following unutilised tax credits and temporary differences:

	Unrecognised		Recognised	
	2019	2018	**2019**	2018
	€	€	**€**	€
Unutilised tax credits arising from:				
Unabsorbed capital allowances	**2,007,136**	3,023,043	**1,850,850**	1,000,545
Unabsorbed tax losses	**79,612**	-	-	-
Unabsorbed capital losses	**106,347**	752,141	**-**	-
Deductible temporary differences arising on:				
Depreciation of property, plant and equipment	**60,797**	234,058	**-**	-
Credit loss allowances in respect of trade and other receivables	**6,915,671**	6,683,418	**-**	-
Credit loss allowances in respect of financial assets at FVOCI	**661,602**	661,602	**-**	-
Derivative instruments	**-**	-	**826,029**	778,837
Taxable temporary differences arising on property, plant and equipment	**-**	-	**(1,642,716)**	(792,410)

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 14).

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

Company

	2019	2018
	€	€
At beginning of year	**(258,601)**	(270,311)
Tax effect of re-measurement of derivatives (Note 22)	**(16,517)**	11,710
At end of year	**(275,118)**	(258,601)

The amount disclosed in the table above, which has been referenced to Note 22, has been recognised directly in equity in other comprehensive income.

The balance at 31 December represents:

	2019	2018
	€	€
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	**(289,111)**	(272,594)

26. Deferred taxation - continued

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 2019, the company had unutilised tax credits arising from unabsorbed capital allowances amounting to €1,636,606 (2018: €1,541,622). At 31 December 2018, the company also had capital losses amounting to €635,093. 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 €2,009,781 (2018: €1,818,197). The related deferred tax assets have not been recognised in these financial statements due to the uncertainty of the realisation of the tax benefits.

27. Derivative financial instruments

Group and Company	**Fair value liabilities 2019 €**	Fair value liabilities 2018 €
At 31 December		
Interest rate derivative		
- interest-rate swap	**826,028**	778,837

In prior years, the parent company entered into receive floating, pay fixed interest rate swap 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 22). 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 2019 is €18.3 million (2018: €21.1 million).

28. Revenue

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

	Group	
	2019	2018
	€	€
By category		
Sale of motor vehicles, spare parts and provision of ancillary services	**68,260,393**	68,217,299
Sale of foodstore goods, clothing and other goods from shopping complex and rented premises	**31,459,512**	34,150,755
Activities in the power, heating and ventilation equipment sectors	**17,176,228**	17,110,038
Operating lease rental income:		
- motor vehicles	**1,773,476**	1,645,607
- property	**2,191,367**	1,916,480
Income from hire purchase financing	**1,603,952**	1,406,593
Sale of ground rents and other property developed with a view to sale	**143,033**	59,677
	122,607,961	124,506,449

The group’s revenue that is recognised over time amounts to €9,876,789 (2018: €9,500,899) 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 2019 relate to the amounts disclosed under ‘contract liabilities’ in Note 24 to the financial statements.

29. Expenses by nature

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Cost of goods sold	**88,790,207**	90,730,945	**-**	-
Employee benefit expense (Note 30)	**17,879,673**	17,098,947	**1,061,994**	1,028,459
Depreciation of property, plant and equipment (Note 5):				
- owned assets	**3,009,885**	3,072,796	**123,256**	135,379
- owned assets (motor vehicles) leased out under operating leases	**1,165,411**	903,179		
- right-of-use assets	**1,533,273**	-	**-**	-
Amortisation of intangible assets	**21,322**	21,322	**-**	-
Property operating lease rentals payable	**-**	1,958,341	**29,200**	29,333
Expense relating to short term leases	**124,384**	-	**-**	-
Expense relating to use of property	**102,515**	-	**-**	-
Expense relating to variable lease payments	**56,657**	-	**-**	-
Movement in credit loss allowances in respect of:				
- hire purchase receivables (included in 'Administrative expenses')	**65,004**	(102,578)	**-**	-
- trade and other receivables (included in 'Administrative expenses')	**168,147**	46,460	**-**	-
Amounts written off in respect of:				
- hire purchase receivables (included in 'Administrative expenses')	**8,911**	7,533	**-**	-
- trade and other receivables (included in 'Administrative expenses')	**10,438**	11,857	**-**	-
Marketing, business promotion and related expenses	**1,493,915**	1,834,641	**-**	-
Other expenses	**8,786,669**	8,562,951	**573,043**	574,878
Total cost of sales; selling and other direct expenses; and administrative expenses	**123,216,411**	124,146,394	**1,787,493**	1,768,049

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

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Exchange differences	**(25,049)**	(32,211)	**-**	-
(Profit)/loss on disposal of property, plant and equipment	**(366,458)**	(335,650)	**(19,335)**	22,950

29. **Expenses by nature** - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2019 and 2018 relate to the following:

	Group	
	2019	2018
	€	€
Annual statutory audit	**115,458**	109,721
Tax advisory and compliance services	**18,020**	17,135
Other non-audit services	**235,580**	94,294
	369,058	221,150

The auditor's remuneration for the company attributable to the year ended 31 December 2019 amounted to €11,500 (2018: €11,500).

30. Employee benefit expense

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Wages and salaries	**16,762,362**	16,053,894	**1,002,170**	977,432
Social security costs	**1,117,311**	1,045,053	**59,824**	51,027
	17,879,673	17,098,947	**1,061,994**	1,028,459

Average number of persons employed during the year:

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Direct	**622**	630	**-**	-
Administration	**164**	164	**29**	27
	786	794	**29**	27

Further to the amounts disclosed in the table above, the Group's personnel related expenses for the year ended 31 December 2019, included subcontracted payroll costs amounting to €906,616 (2018: €241,594).

31. Other operating income

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Management fees and similar recharges	**623,837**	572,982	**2,172,386**	2,254,728
Income which is incidental to the group's key operations, including profit on disposal of specific assets which were surplus to the Group's requirements	**2,192,059**	1,492,787	**44,209**	8,319
	2,815,896	2,065,769	**2,216,595**	2,263,047

32. Investment and other related income

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Gross dividends receivable from investments in subsidiaries	**-**	-	**2,596,969**	2,629,340
Gross dividends receivable from investments in associates	**-**	-	**834,032**	2,387,992
Gross dividends receivable from financial assets at FVOCI	**83,686**	177,764	**83,686**	177,764
Gross dividends receivable from financial assets at FVPL	**44,000**	44,057	**44,000**	44,057
Net fair value gains/(losses) on financial assets at fair value through profit or loss	**53,116**	(100,266)	**53,116**	(100,266)
Gain on disposal of associate	**-**	-	**798,464**	-
Other income	**-**	3,215	**-**	3,215
	180,802	124,770	**4,410,267**	5,142,102

33. Finance income

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Interest receivable from subsidiaries	**-**	-	**754,078**	568,750
Interest receivable from related parties forming part of Mizzi Organisation	**235,953**	241,465	**235,953**	241,465
Interest receivable from associate	**16,832**	7,204	**16,832**	7,204
Bank and other interest receivable	**71,851**	82,996	**-**	-
	324,636	331,665	**1,006,863**	817,419

34. Finance costs

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Interest payable to subsidiaries	**-**	-	**325**	14,979
Interest payable to related parties forming part of Mizzi Organisation	**2,363**	2,532	**1,360**	2,532
Bank interest and charges	**2,985,084**	3,058,514	**1,719,825**	1,901,608
Amortisation of difference between initial net proceeds from and face value of bank loans (Note 25)	**32,896**	13,724	**32,896**	13,724
Interest charges on lease liabilities	**565,987**	-	**-**	-
Other interest payable	**138,877**	86,357	**-**	19,172
	3,725,207	3,161,127	**1,754,406**	1,952,015

35. Tax expense

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Current taxation:				
Current tax expense	**845,826**	810,317	**694,356**	468,314
Adjustment recognised in financial period for current tax of prior periods	**44,177**	2,321	**-**	2,938
Deferred taxation:				
Deferred tax charge (Note 26)	**16,234**	(444,421)	**-**	-
	906,237	368,217	**694,356**	471,252

35. **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	
	2019	2018	**2019**	2018
	€	€	**€**	€
Profit before tax	**261,971**	107,886	**4,091,826**	4,502,504
Tax on profit at 35%	**91,690**	37,760	**1,432,139**	1,575,876
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	**114,599**	153,567	**3,235**	23,789
Unabsorbed capital allowances claimed during the year	**850,535**	491,015	**33,137**	34,262
Unabsorbed tax losses incurred during the year	**27,864**	-	**-**	-
Utilisation of unabsorbed tax losses and capital allowances brought forward from previous years	**(76,470)**	(132,417)	**-**	-
Income exempt from tax or charged at reduced rates	**(347,330)**	(118,569)	**(786,084)**	(1,179,490)
Share of results of associates	**(4,172)**	(135,364)	**-**	-
Determination of deferred taxation on fair value gain of investment property and other properties on the basis applicable to property disposals	**16,234**	26,056	**-**	-
Maintenance allowance claimed on rented property	**(178,387)**	(98,717)	**-**	-
Expenses not deductible for tax purposes	**437,687**	136,565	**11,929**	13,877
Under provision of tax in previous years	**44,177**	2,321	**-**	2,938
Application of provisions of tax legislation to sale of property	**(70,190)**	6,000	**-**	-
Tax charge in the accounts	**906,237**	368,217	**694,356**	471,252

The tax impact relating to components of other comprehensive income is presented in the tables within Notes 20, 21 and 22 to the financial statements.

36. Directors' emoluments

	Group	
	2019	2018
	€	€
Salaries and other emoluments	**413,930**	419,949

During the year, the company has recharged out directors' emoluments amounting to €375,574 (2018: €365,660) and €250,372 (2018: €234,686) 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.

37. Cash generated from operations

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

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Operating profit	**2,660,984**	2,425,824	**429,102**	494,998
Adjustments for:				
Depreciation of property, plant and equipment (Note 5)	**4,175,296**	3,975,975	**123,258**	135,379
Depreciation of right-of-use assets (Note 6)	**1,533,273**	-	**-**	-
Amortisation of intangible assets (Note 8)	**21,322**	21,322	**-**	-
(Profit)/loss on disposal of property, plant and equipment	**(366,458)**	(335,650)	**(19,335)**	22,950
Profit on disposal of assets classified as held for sale	**(143,032)**	(59,677)	**-**	-
Other gains from disposal of property	**(773,250)**	-	**-**	-
Movement in credit loss allowances in respect of trade and other receivables	**233,151**	392,880	**-**	-
Amounts written off in respect of trade and other receivables	**19,349**	-	**-**	-
Net gains from changes in fair value of investment property and other gains from disposal of property	**(453,538)**	-	**-**	-
Changes in working capital:				
Inventories	**(2,842,990)**	218,766	**-**	-
Trade and other receivables	**(3,469,211)**	(6,186,887)	**(2,371,590)**	(2,340,270)
Trade and other payables	**18,380,594**	2,238,772	**10,732,218**	2,566,549
Cash generated from operations	**18,975,490**	2,691,325	**8,893,653**	879,606

Net debt reconciliation

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

38. Commitments

Group

Capital commitments

Commitments for capital expenditure in relation to property development (Notes 5, 7 and 15) not provided for in these financial statements are as follows:

	2019	2018
	€	€
Authorised but not contracted	**430,000**	4,200,000
Contracted but not provided for	**4,200,000**	5,800,000
	4,630,000	10,000,000

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:

	2019	2018
	€	€
Not later than one year	**1,110,539**	1,248,310
Later than one year and not later than five years	**2,290,938**	2,713,381
Later than five years	**1,621,744**	462,795
	5,023,221	4,424,486

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:

	2019	2018
	€	€
Not later than one year	**1,527,525**	1,397,785
Later than one year and not later than five years	**3,798,184**	3,094,802
Later than five years	**144,880**	137,700
	5,470,589	4,630,287

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.

38. 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:

	2019	2018
	€	€
Not later than one year	**-**	793,399
Later than one year and not later than five years	**-**	3,966,651
Later than five years	**-**	29,352,075
	-	34,112,125

Group undertakings lease various premises under operating leases.

With effect from 1 January 2019, the Group has recognised right-of-use assets for leases, except for short term and low-value leases in accordance with the requirements of IFRS 16 (Note 6).

During the current financial year, operating lease payments in respect of cancellable and non-cancellable leases amounting to €283,556 (2018: €1,958,341) were recognised as an operating expense in profit or loss.

39. 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 (2018: €60,111,000) together with interest and charges thereon. These guarantees are supported by a general hypothecary guarantee for the amount of €32,356,000 (2018: €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 (2018: €25,441,000 to €69,080,000), 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 (2018: €1,165,000 to €68,645,000) and by special hypothecary guarantees over property by group undertakings for the amounts ranging from €30,165,000 to €103,005,000 (2018: €30,165,000 to €103,005,000).

39. **Contingencies** - continued

(b) At 31 December 2019, the company has given guarantees totalling €3,876,832 (2018: €3,876,832) in the name of subsidiaries and related parties forming part of Mizzi Organisation in favour of third parties.

(c) At 31 December 2019, subsidiaries had contingent liabilities amounting to €2,632,757 (2018: €2,156,711) 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 (2018: €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 (2018: €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. As at 31 December 2019, subsidiaries whose total liabilities exceeded their total assets by an aggregate amount of €1,611,829 (2018: €2,308,809), incurred an aggregate loss of €204,998 (2018: €1,294,793) for the year then ended. Furthermore, subsidiaries whose current liabilities exceeded their current assets, as at 31 December 2019, by an aggregate amount of €57,089,605 (2018: €51,296,626), generated profit an aggregate of €993,536 (2918: €1,267,902) for the year then ended.

40. **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.

40. 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**	
	2019	2020	**2019**	2020
	€	€	**€**	€
Sales of goods and services				
Sales of goods held for resale and provision of services:				
- Associates	**3,565**	150,965	**-**	-
- Related parties forming part of Mizzi Organisation	**292,316**	690,278	**-**	-
- Other related parties	**43,824**	27,630	**-**	-
Management fees receivable:				
- Subsidiaries	**-**	-	**1,347,384**	1,372,750
- Related parties forming part of Mizzi Organisation	**433,221**	380,210	**433,221**	380,210
Property operating lease rental income receivable:				
- Associates	**-**	24,711	**-**	-
- Related parties forming part of Mizzi Organisation	**120,000**	60,000	**-**	-
- Other related parties	**-**	-	**-**	-
	892,926	1,333,794	**1,780,605**	1,752,960

40. Related party transactions - continued

	Group		Company	
	2019	2018	**2019**	2018
	€	€	**€**	€
Purchases of goods and services				
Purchases of goods held for resale and services				
- Subsidiaries	**-**	-	**-**	37,023
- Associates	**-**	746,358	**-**	-
- Related parties forming part of Mizzi Organisation	**633,474**	425,865	**-**	11,694
- Other related parties	**147,470**	57,660	**-**	-
Expense relating to the use of property				
- Subsidiary	**-**	-	**29,200**	29,333
Purchases of property, plant and equipment				
- Subsidiary	**-**	-	**107,485**	-
- Associate	**-**	50,000	**-**	50,000
	1,585,979	1,279,883	**136,685**	128,050

Year-end balances with related parties, arising principally from the transactions referred to previously, are disclosed in Notes 11, 13, 24 and 25 to these financial statements.

Expenditure amounting to €372,051 (2018: €191,186) and €5,901 (2018: €5,645) 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:

	2019	2018
	€	€
- Subsidiaries	**1,201,452**	914,017
- Associates	**33,436**	16,204
- Other related parties	**24,475**	21,272

During the financial year ended 31 December 2019, related parties forming part of Mizzi Organisation recharged expenditure to subsidiaries amounting to €253,868 (2018: €221,999).

Key management personnel comprise the directors of the company and of the other group undertakings. Information on key management personnel compensation, has been disclosed in Note 36.

Amounts owed by related parties forming part of Mizzi Organisation as at 31 December 2019 of €73,956 (2018: €205,139) are subject to interest at 3.6% (2018: 3.6%). Amounts owed to related parties of €6,221,902 (2018: €6,710,655) are subject to interest of 3.2% (2018: 3.2%). Interest receivable from related parties and interest payable to related parties are disclosed in Notes 33 and 34 respectively.

40. Related party transactions - continued

Company

As at 31 December 2019, amounts owed by subsidiaries of €9,631,063 (2018: €7,634,793) are subject to interest at 3.6% (2018: 3.6%) and €619,715 (2018: €468,958 at 3.6%) is subject to interest at 3.15%.

Amounts owed by related parties as at 31 December 2019 include amounts due from shareholders of €19,516 (2018: €44,769). These amounts are unsecured, interest free and have no fixed date of repayment.

41. Event after the reporting period

With effect from March 2020 onwards, the outbreak of COVID-19 impacted negatively a number of operations of companies within the Mizzi Organisation. Whilst some sectors and certain companies were hit worse than others, Group management invested substantial efforts to safeguard as many jobs as possible and ensure survival of all the respective companies within the Group and the Organisation as a whole. Turnover and financial results attributable to the automotive, retail and food & beverage sectors within the Organisation were particularly impacted, since retail and catering businesses and outlets were forced to close down whilst car showrooms were empty for nearly 4 months during 2020. The mechanical and engineering division of the Organisation continued to operate on external contract sites for the first half of the year, however once these contracts were commissioned, the contracts division experienced a slow-down. Rental income from third parties has been relatively stable, mainly due to the fact that commercial lessees were not impacted by COVID, and also our residential tenants where only slightly impacted. The Organisation's real estate arm continued it's divestment plan for non-core properties, and this experienced a slow-down, however, pre-COVID committed property sales also went ahead and finalised as planned during or after the peak of the pandemic. The other sectors of the Mizzi Organisation which do not form part of the Mizzi Organisation Limited Group are the beverage and the hotel sectors. Being heavily reliant on the tourism industry, the Organisation's beverage sector was also heavily impacted as the hospitality industry was brought to a standstill. On a positive note, the hotel owned and manged by the Organisation managed to remain operative up to a certain extent, having been awarded contracts to provide alternative accommodation to front liners assisting patients infected by the virus.

All companies forming part of the Organisation embarked on a cost-cutting exercise in areas such as payroll costs, direct departmental costs together with selling and administrative expenses. Particular emphasis has also been placed on the credit control function so as to ensure cash receipts from customers and debtors are flowing in regularly and in a sustained manner in order to meet cash outflows. Revised favourable credit term arrangements were negotiated with a number of suppliers, though substantially no concessions were granted to the Organisation by its property lessors.

On a group wide basis, the Mizzi Organisation took a number of initiatives to ensure effective management of available liquidity to fund the requirements of all operations impacted by COVID-19. The Organisation managed to secure favourable arrangements with banks in relation to the postponement of bank loan repayments and with suppliers in relation to the postponement of major capital expenditure payments. A number of Organisation companies have taken advantage of available Government aid, such as the deferral of VAT and tax payments, wage supplement schemes and quarantine leave supplements. The Organisation also encouraged utilisation of vacation leave to decrease accruals in this regard.

41. Event after the reporting period - continued

In view of the current situation brought about by the COVID-19 pandemic, the Organisation has prepared detailed financial and cash flow projections covering all its business lines for the financial years ended 31 December 2020 and 2021, based on historical financial information registered to date during 2020 and forecasts, factoring in the disorder created by the COVID-19 pandemic. These projections have been compiled as part of the preparation of a revised business plan. The projections are based on pessimistic assumptions for the base case scenario, reflecting the anticipated dismal performance during 2020 of specific Organisation business lines referred to above, with a gradual recovery in performance for the automotive, hotel, retail and catering businesses throughout 2021. The projected 2021 financial results for the core businesses within the Organisation are assumed to be significantly lower when compared to 2019 financial results. The projections also contemplate a stressed case scenario with sever business conditions throughout 2021. The cash flow projections take into account the financial support secured by the Organisation under the COVID-19 guarantee scheme managed by the Malta Development Bank. The sanction letters in the name of Mizzi Organisation Limited for the secured additional facilities of €12 million, together with sanction letters in the name of another company forming part of the Mizzi Organisation for the secured additional facilities amounting to a further €3.5 million, have been approved and issued by the respective banks. These funds will assist the group and the Organisation in honouring committed capital expenditure and commitments with trade creditors.

The forecast for 2020 contemplates the projected existence of a significant liquidity buffer at the end of the year notwithstanding the expected adverse financial results, whilst positive cash flow generation is anticipated for 2021. The directors are further encouraged that as at the date of approval of these financial statements, all the business units of the Group are back in business and fully operational within the restrictions and guidelines issued by the Health Authorities. Furthermore, as business started to pick up gradually during the recent months, it was noted that actual performance across all business segments has been better than that forecasted within the 2020 projection.

Assuming stressed conditions are experienced throughout 2021, such that the projected financial results from the automotive business, the hotel, the retail and catering businesses are subdued in line with 2020 performance, whilst simultaneously projected property sales do not materialise, the Organisation would still be in a position to fund its group wide operations taking cognisance of liquidity available.

The Boards of Directors of Mizzi Organisation Limited and of the companies constituting the Mizzi Organisation feel confident that with the measures taken, the secured financing arrangements and the diversity of the Organisation's business lines, the companies within the Organisation shall overcome the disruptions brought about by this pandemic. The directors consider the Organisation and all Organisation companies to be a going concern. Hence the going concern assumption in the preparation of these financial statements is considered appropriate and there are no material uncertainties which may cast significant doubt about the ability of the Organisation and its companies to continue operating as a going concern.

42. Statutory information

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