# MIZZI ORGANISATION FINANCE p.l.c.

## Annual Report and Financial Statements
31 December 2010

Company Registration Number: C 29506

## Directors' report

The directors present their report and the audited financial statements for the financial year ended 31 December 2010.

**Principal activity**

The company's principal activity, which is unchanged since last year, is to carry on the business of a finance and investment company in connection with the ownership, development, operation and financing of the business activities of the companies forming part of the Mizzi Organisation.

**Review of the business**

During the current financial year, the company repaid the outstanding 2002 bonds amounting to €3,649,382.

Interest income earned on advances to companies forming part of the Mizzi Organisation and bank interest income totalled €2,225,717 (2009: €1,736,362), while interest payable and similar charges on the bonds issued and bank amounted to €2,096,501 (2009: €1,624,240). The profit for the year before taxation amounted to €17,229 (2009: €56,341). For the forthcoming year, the directors expect that the present level of activity will be sustained.

**Results and dividends**

The financial results are set out on page 11. During the financial year ended 2010, the directors did not recommend the payment of a dividend (2009: €150,000).

**Directors**

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

Dr John C. Grech (Chairman)
Dr Louis Camilleri Preziosi
Brian R. Mizzi
Kenneth C. Mizzi
Maurice F. Mizzi
Carmel J. Farrugia - appointed on 14 October 2010

The company's Articles of Association do not require any directors to retire. The directors will be eligible for re-appointment on the lapse of the period for which they were appointed in accordance with the company's Articles of Association.

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

The directors are required by the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of each reporting period and of the profit or loss for that period.

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

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

## **Directors' report** - continued

**Statement of directors' responsibilities for the financial statements** - continued

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 Companies Act, 1995. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Mizzi Organisation Finance p.l.c. for the year ended 31 December 2010 are included in the Annual Report 2010, which is published in hard-copy printed form and made available on the Mizzi Organistion 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.

The directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the company as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that the company faces.

**Going concern basis**

After making due enquiries, the directors have a reasonable expectation, at the time of approving the financial statements, that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

**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

Dr John C. Grech
Chairman

Maurice F. Mizzi
Director

Registered office
Mizzi House
National Road
Blata l-Bajda
Malta

Company secretary:
Hugh Mercieca

Telephone Number:
21233111

28 April 2011

## Statement of compliance with the Principles of Good Corporate Governance

Pursuant to the Malta Financial Services Authority Listing Rule 5.97, Mizzi Organisation Finance p.l.c. is hereby reporting on the extent of its adoption of the Code of the Principles of Good Corporate Governance, appended to Chapter 5 of the Listing Rules, and on the effective measures it has taken to ensure compliance throughout the accounting period with the requirements of the Principles which were applicable during the financial year ended 31 December 2010. The directors strongly believe that such practices are in the best interests of the company, its shareholders and other stakeholders, because compliance with principles of good corporate governance:

- is expected by investors on the Malta Stock Exchange; and
- evidences the directors' and the company's commitment to a high standard of corporate governance.

The directors are aware that the Code highlights principles which although of general application to listed companies are adaptable by each company depending on its particular circumstances.

Those circumstances are more often than not determined by two factors:

- the specific nature of the business of the company itself; and
- whilst certain principles in the Code are applicable to companies whose equity securities are listed on the Stock Exchange, they are not altogether applicable, or not applicable in the same manner, to those companies such as Mizzi Organisation Finance p.l.c., that fall within the definition of a listed company by virtue of having issued debt instruments which are listed on the Malta Stock Exchange.

It is in the light of these factors that the directors are making this statement of compliance with the Code.

The primary responsibility for good corporate governance in a company lies with its Board of Directors. In this regard the Board of Directors of the company carried out a review of its compliance with the Code during the financial period being reported upon.

The company acts as a finance company to the Mizzi Organisation, and as such its operations are limited to monitoring the status of loans made available to related companies from the proceeds of the bonds issued to the public and listed on the Malta Stock Exchange.

Accordingly, the operations of the company are very limited and the directors believe that the adoption of certain structures and other mechanisms which may well be appropriate for a company having more extensive activities or operations, not only are not appropriate for the company, but could well have the adverse effect of unnecessarily increasing the costs of administration without adding much benefit from a corporate governance perspective. In this context, the Board believes that the company’s current organisational set up should guarantee the proper and efficient functioning of the company and provide adequate corporate governance safeguards.

## Statement of compliance with the Principles of Good Corporate Governance - continued

**Composition of the Board:** The company is directed and managed directly by the Board at its regular meetings. The Board is composed of a Chairman and five non-executive directors, two of whom are independent directors from outside the Mizzi Organisation. The Board is composed exclusively of non-executive directors, and the company does not have any other executive officers or committees to whom any executive or other functions are delegated, apart from the company secretary. In view of the restricted nature of its business, the Board deals with the company's business directly and does not consider it necessary to have an executive structure to which it can delegate any of its functions.

In this respect, the Directors consider that the company is headed by an effective Board and its members provide a mix of proficient directors, each of whom is able to add value and to bring independent judgment to bear on the decision-making process. Apart from being conducive to good corporate governance, this structure provides, in the Board's view, the added benefits of direct control and management of the company's affairs, together with an effective centralisation of the decision-making process.

**Responsibilities of the Board:** In view of the restricted business of the company, the company does not have any business plans or strategies and its main function remains that of monitoring the loans receivable from companies forming part of the Mizzi Organisation. In this context, the Board believes that through its regular meetings it is in a position to properly monitor the financial position and business of the company.

**Board Meetings:** The Board convenes regularly, normally every two to three months, and allows proper and equal opportunity to all directors to voice and express their views on matters relating to the company and its business. During the current year, the Board met four times and all Board members were present during the meetings.

**Information and Professional Development:** The company is committed to provide adequate and detailed induction training to directors who are newly appointed to the Board. The company pledged to make available to the directors all training and advice on a requirements basis, including regular attendance at courses on matters which are important to the execution of the role of directors.

**Evaluation of the Board's Performance:** The Board has not implemented a formal mechanism for the purposes of carrying out a rigorous evaluation of its own performance. In the context of the nature of the company's business, the Board does not consider that such a formal procedure is necessary. However the Board discusses the performance of individual directors and of the Board itself as a function on an ongoing basis during its meetings with a view to ensuring that the Board functions effectively.

## Statement of compliance with the Principles of Good Corporate Governance - continued

**Remuneration of the Board:** The Board also feels that in the current circumstances of the company, the establishment of a Remuneration Committee is unwarranted. Indeed, save for the remuneration of the independent non-executive directors, the company does not pay any remuneration to any of its directors. The directors believe that since the Board is composed exclusively of non-executive directors, and that directors' remuneration consists solely of the remuneration payable to the independent directors, amounting to €14,500 per annum, the need to formally set up a Remuneration Committee does not arise. This belief is founded on the premise that the raison d'être of establishing a Remuneration Committee is that of avoiding a situation where executive directors participate in the determination of their own remuneration packages. Given that there are no executive directors, executives or employees within the company and remuneration paid is attributable solely to the independent directors, the establishment of a Remuneration Committee would add no value to the corporate governance structures of the company. However, the Board discusses, reviews and approves the remuneration arrangements of the independent directors at least on an annual basis taking cognisance of the contribution of the individual director and effectiveness achieved. The remuneration policy of the Board is expected to remain in line with that adopted during the financial year ended 31 December 2010.

**Management structures:** The Board is of the view that in the context of the nature of the company's business and its organisational set-up, the company does not require sophisticated internal control systems and reporting systems to ensure that the decision-making process at Board level is adequate. The current systems are, in the opinion of the Board, appropriate for the company's current level of operations. The company does not have a CEO, nor does the company have any employees. The Board sustains that in the light of the current level of activities of the company, the Board itself is adequately equipped to direct and manage all operations of the company, with the assistance of outside advisors as necessary, but without the need of appointing a CEO or any other personnel.

**Relations with Shareholders and with the Market:** The company communicates effectively with shareholders through shareholder meetings, and through announcements it also keeps contact with the market. In addition, the Board believes that the activities and practices recommended by the Principles in this area are less applicable to the company since it has no equity securities listed on a Recognised Investment Exchange.

**Institutional Shareholders:** The requirements in this area do not apply to the circumstances of the company.

**Conflicts of Interest:** The directors consider that the Board properly serves the legitimate interests of all shareholders and is accountable to all shareholders, particularly through the representation of the shareholders on the Board itself. The Board intends to ensure that the company communicates with shareholders effectively not only through the general meetings but also through the individual directors on a regular basis. The Board has adopted rules such that directors having conflicts of interest on any matter being discussed at Board level disclose the conflict in a timely manner to the Board and the director so conflicted will thus not be allowed to vote on such matters. In view of the nature of the company's business no such conflicts have occurred during the year under review. The Board believes that these circumstances and required practices are aimed more at companies having listed equity instruments.

**Corporate Social Responsibility:** The directors aim to adhere to accepted principles of corporate social responsibility in day to day practices, within the limited scope of the company's business.

## Statement of compliance with the Principles of Good Corporate Governance - continued

The above is a summary of the views of the Board on the company's compliance with the Code. Generally the Board is of the opinion that, in the context of the applicability of the various principles of the Code to a company having a listed debt instrument, and in the context of the company's limited business operations, the company has substantially been in compliance with the Code throughout the financial year under review. The board shall keep these principles under review and shall monitor any developments in the company's business to evaluate the need to introduce new corporate governance structures or mechanisms as and when the need arises.

### Audit Committee

The Audit Committee's primary objective is to assist the Board in fulfilling its oversight responsibilities over the financial reporting processes, financial policies and internal control structures. The Audit Committee reports directly to the Board of Directors. The Committee is at all times accountable to the Board and through its Chairman reports to the Board on a regular basis.

The role of the Committee is determined principally by the Listing Rules. In essence, it is entrusted with the task of ensuring that the company has the appropriate measures in place to identify, manage, minimise and control its risks. Furthermore, it has the authority to make recommendations to the Board in relation to the appointment of the external auditors, and to approve the remuneration and terms of engagement of the auditors.

The Committee shall be required to advise the Board of Directors on the following matters:
(a) its monitoring responsibility over the financial reporting processes, financial policies and internal control structures;
(b) maintaining communications on such matters between the Board, management and the independent auditors; and
(c) preserving the company's assets by understanding the company's risk environment and determining how to deal with those risks.

In the discharge of this role, but without prejudice to the generality of the foregoing, the Committee shall, inter alia, have the responsibility:
(a) to review the significant financial reporting issues and judgments made in connection with the preparation of the company's financial statements, interim reports, preliminary announcements and related formal statements. The Audit Committee should also review the clarity and completeness of disclosures in the financial statements;
(b) to review the company's internal financial controls and internal control and risk management systems;
(c) to consider annually whether there is a need for an internal audit function and make a recommendation to the Board;
(d) to make recommendations to the Board in relation to the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditors with the aim of requesting shareholder approval;
(e) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process;
(f) to make proposals for the development and implementation of a policy on the engagement of the external auditors to provide non-audit services to the company;
(g) unless dealt with in any other manner, to monitor and scrutinise related party transactions falling within the ambits of the Listing Rules and to make its recommendations to the Board on any proposed related party transactions falling within the scope of the Listing Rules.

## **Statement of compliance with the Principles of Good Corporate Governance** - continued

The Audit committee was constituted following the 2009 bond issue. During the current financial year, and up to the date of authorisation for issue of this report, the Committee has met 4 times.

The Committee is composed of non-executive directors of the Issuer as follows:
a) Carmel J. Farrugia, Chairman of the Committee - appointed 14 October 2010
b) Dr John C. Grech, Chairman of the Issuer
c) Kenneth C. Mizzi

Dr Louis Camilleri Preziosi, non-executive director of the Issuer, also served on the Committee until 14 October 2010.

**Repayment of company's borrowings**

As stipulated in the offering memorandum for the 2009 bond issue, the company's directors have resolved to set up a sinking fund to ensure that the said bond repayment obligations are duly fulfilled in accordance with the terms of the bond issue. Amounts of funds to be allocated to this sinking fund over the term of the borrowings have been formally established. Under the terms of the 2009 bond issue, the sinking fund and related cash reserve will be set up from the financial year ending 31 December 2011.

Approved by the board on 28 April 2011 and signed on its behalf by:

Dr John C. Grech
Chairman

Maurice F. Mizzi
Director

## Independent auditor's report

To the Shareholders of Mizzi Organisation Finance p.l.c.

**Report on the Financial Statements**

We have audited the financial statements of Mizzi Organisation Finance p.l.c. on pages 10 to 31, which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Financial Statements*
As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on pages 1 and 2, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995, 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.

*Auditor's Responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*
In our opinion the financial statements

- give a true and fair view of the financial position of the company as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

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

**Report on Other Legal and Regulatory Requirements**

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 3 to 7 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

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

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

PRICEWATERHOUSECOOPERS
167 Merchants Street
Valletta
Malta

F Axisa

Fabio Axisa
Partner

28 April 2011

## Statement of financial position

| | Notes | As at 31 December 2010 € | 2009 € |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Loans and advances | 4 | **28,075,462** | 29,660,462 |
| **Current assets** | | | |
| Loans and advances | 5 | **1,670,000** | 3,999,382 |
| Receivables | 6 | **176,012** | 164,692 |
| Cash and cash equivalents | 7 | **90,115** | 103,770 |
| Total current assets | | **1,936,127** | 4,267,844 |
| **Total assets** | | **30,011,589** | 33,928,306 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 8 | **232,937** | 232,937 |
| Retained earnings | | **248,408** | 231,375 |
| Total equity | | **481,345** | 464,312 |
| **Non-current liabilities** | | | |
| Borrowings | 9 | **29,302,346** | 29,208,662 |
| **Current liabilities** | | | |
| Payables | 10 | **227,898** | 605,950 |
| Borrowings | 9 | **-** | 3,649,382 |
| Total current liabilities | | **227,898** | 4,255,332 |
| Total liabilities | | **29,530,244** | 33,463,994 |
| **Total equity and liabilities** | | **30,011,589** | 33,928,306 |

The notes on pages 14 to 31 are an integral part of these financial statements.

The financial statements on pages 10 to 31 were authorised for issue by the Board on 28 April 2011 and were signed on its behalf by:

Dr John C. Grech
Chairman

Maurice F. Mizzi
Director

## Statement of comprehensive income

| | Notes | Year ended 31 December 2010 € | 2009 € |
|---|---|---|---|
| Interest receivable | 11 | **2,225,717** | 1,736,362 |
| Interest payable and similar charges | 12 | **(2,096,501)** | (1,624,240) |
| **Net interest income** | | **129,216** | 112,122 |
| Administrative expenses | 13 | **(111,987)** | (55,781) |
| **Profit before tax** | | **17,229** | 56,341 |
| Tax expense | 14 | **(196)** | (769) |
| **Profit for the year – total comprehensive income** | | **17,033** | 55,572 |
| Earnings per share | 16 | **17.03** | 55.57 |

The notes on pages 14 to 31 are an integral part of these financial statements.

## Statement of changes in equity

| | Note | Share capital € | Retained earnings € | Total € |
|---|---|---|---|---|
| Balance at 1 January 2009 | | 232,937 | 325,803 | 558,740 |
| **Comprehensive income** | | | | |
| Profit for the year | | | | |
| - total comprehensive income | | - | 55,572 | 55,572 |
| **Transactions with owners** | | | | |
| Dividends relating to 2008 | 17 | - | (150,000) | (150,000) |
| Balance at 31 December 2009 | | 232,937 | 231,375 | 464,312 |
| **Comprehensive income** | | | | |
| Profit for the year | | | | |
| - total comprehensive income | | - | 17,033 | 17,033 |
| **Balance at 31 December 2010** | | **232,937** | **248,408** | **481,345** |

The notes on pages 14 to 31 are an integral part of these financial statements.

## Statement of cash flows

| | Notes | Year ended 31 December 2010 € | 2009 € |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | **2,214,195** | 1,716,584 |
| Interest paid | | **(2,096,092)** | (1,560,742) |
| Cash paid to service providers, net of refund from parent company | | **(396,562)** | (337) |
| Tax paid | | **(196)** | (669) |
| Net cash (used in)/generated from operating activities | | **(278,655)** | 154,836 |
| **Cash flows from investing activities** | | | |
| Loans granted to parent company | 4 | **(85,000)** | (18,668,000) |
| Loans granted to related parties | 4, 5 | **-** | (1,518,551) |
| Repayments of loans from parent company | 5 | **3,999,382** | 465,876 |
| Repayments of loans from related parties | 4, 5 | **-** | 9,858,080 |
| Net cash generated from/(used in) investing activities | | **3,914,382** | (9,862,595) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issuance of bonds | 9 | **-** | 9,806,164 |
| Repayment of 2002 bonds | 9 | **(3,649,382)** | - |
| Dividends paid | 17 | **-** | (150,000) |
| Net cash (used in)/generated from financing activities | | **(3,649,382)** | 9,656,164 |
| **Net movement in cash and cash equivalents** | | **(13,655)** | (51,595) |
| **Cash and cash equivalents at beginning of year** | | **103,770** | 155,365 |
| **Cash and cash equivalents at end of year** | 7 | **90,115** | 103,770 |

The notes on pages 14 to 31 are an integral part of these financial statements.

# Notes to the financial statements

## 1. Summary of significant accounting policies

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

### 1.1 Basis of preparation

These financial statements are prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Companies Act, 1995. They have been prepared under the historical cost convention.

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

*Standards, interpretations and amendments to published standards effective in 2010*

In 2010, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2010. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the company's accounting periods beginning after 1 January 2010. The company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

### 1.2 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

## 1. Summary of significant accounting policies - continued

### 1.3 Financial assets

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise loans and advances, receivables and cash and cash equivalents in the statement of financial position (Notes 1.4, 1.5 and 1.6).

**Recognition and measurement**
The company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets classified within the loans and receivables category are recognised on settlement date, which is the date on which an asset is delivered to or by the company. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

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

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

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

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of receivables is described in note 1.5.

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

### 1.4 Loans and advances

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

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

### 1.5 Receivables

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

### 1.6 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of the financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.

### 1.7 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.

### 1.8 Financial liabilities

The company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The company's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

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

### 1.9 Payables

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

### 1.10 Borrowings

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

### 1.11 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.

### 1.12 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, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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.

### 1.13 Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing financial instruments using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Accordingly, interest expense includes the effect of amortising any difference between net proceeds and redemption value in respect of the company’s interest-bearing borrowings.

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

**1.14 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. Financial risk management**

**2.1 Financial risk factors**

The company's activities potentially expose it to a variety of financial risks: market risk (including fair value interest rate risk), credit risk and liquidity risk. The company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company did not make use of derivative financial instruments to hedge certain risk exposures during the financial periods ended 31 December 2010 and 2009.

The Board provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

(a) Market risk

*(i) Foreign exchange risk*

The company is not exposed to foreign exchange risk because its principal assets and liabilities, comprising loans to related parties (Notes 4 and 5) and borrowings (Note 9), are denominated in euro. The company's interest income, interest expense and other operating expenses are also denominated in euro. 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) Fair value interest rate risk*

In view of the nature of its operations, the company's transactions mainly consist of earning interest income on advances effected, principally from the bond issue proceeds, and servicing its borrowings. The company's significant interest-bearing instruments, comprising advances to the parent company and other related parties and bonds issued to the general public, are subject to fixed interest rates. The company has secured a spread between the return on its investments and its cost of borrowing. Accordingly the company is not exposed to cash flow interest rate risk but is potentially exposed to fair value interest rate risk in view of the fixed interest nature of its instruments, which are however measured at amortised cost. The company's operating income and cash flows are substantially independent of changes in market interest rates and on this basis, 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 insignificant.

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

(b) Credit risk

Credit risk arises from loans and advances to related parties (Notes 4 and 5), cash and cash equivalents (Note 7) and other receivables (Note 6), which constitute the company's loans and receivables category for IAS 39 categorisation purposes. The company's exposures to credit risk are analysed as follows:

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| Loans and receivables category: | | |
| Loans to parent company and other related parties | **29,745,462** | 33,659,844 |
| Other receivables | **176,012** | 164,692 |
| Cash at bank | **90,115** | 103,770 |
| | **30,011,589** | 33,928,306 |

The maximum exposure to credit risk at the end of the reporting period in respect of these financial assets is equivalent to their carrying amount.

The company's loans and advances consist of advances to related parties forming part of the Mizzi Organisation (see Note 18), which advances have been effected out of the 2002 and 2009 bond issue proceeds. The company monitors intra-group credit exposures on a regular basis and ensures timely performance of these assets in the context of overall group liquidity management. The company's collateral held as security in respect of the financial assets originating from the 2002 bond issue is disclosed in Note 4 to the financial statements. The guarantors in respect of these assets comprise the borrowers themselves and another company forming part of the Mizzi Organisation. The company assesses the credit quality of these related parties taking into account financial position, performance and other factors. The company takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

The company's other receivables mainly include interest receivable from the company's parent and other related parties in respect of the advances referred to previously. The company banks only with local financial institutions with high quality standing or rating.

At the end of the reporting periods, the company had no past due or impaired financial assets.

(c) Liquidity risk

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which mainly comprise borrowings (Note 9) and other current payables (Note 10). Prudent liquidity risk management includes maintaining sufficient cash and liquid assets to ensure the availability of an adequate amount of funding to meet the company's obligations.

## 2. Financial risk management - continued

The company's liquidity risk is managed actively by ensuring that cash inflows arising from expected maturities of the company's advances to related parties effected out of the 2009 and 2002 bond issue proceeds, match cash outflows in respect of the company's bond borrowings, covering principal and interest payments, as referred to in Note 9 and reflected in the table below. The company's advances are subject to a contractual repayment schedule over the term of the borrowings. During the financial year ended 31 December 2009, the repayment schedule has been modified for advances still outstanding taking cognisance of the 2009 bond issue which refinanced such advances. Prior to the 2009 bond issue, repayment proceeds were utilised by the company to acquire with rights of recourse bills of exchange drawn in favour of a related party forming part of Mizzi Organisation. The funds were accordingly advanced to this related party with a view to securing a regular stream of cash inflows over the term of the borrowings into a sinking fund to meet the 2002 bond repayment obligations as they arose. In accordance with the terms and conditions stipulated in the Prospectus for the 2009 bonds, with effect from the year ending 31 December 2011, the company will set up a sinking fund and related cash reserve from repayments of the advances to related parties with the objective of channelling a regular stream of cash flows to fund 2009 bond interest and capital repayment obligations.

The table below analyses 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, on the assumption that the 2009 bonds will be redeemed at the latest optional redemption date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **At 31 December 2010** | | | | | |
| Borrowings | 1,860,000 | 1,860,000 | 5,580,000 | 37,440,000 | 46,740,000 |

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **At 31 December 2009** | | | | | |
| Borrowings | 5,684,187 | 1,860,000 | 5,580,000 | 39,300,000 | 52,424,187 |

### 2.2 Capital risk management

The group's objectives when managing capital at subsidiary level are to safeguard the respective company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may issue new shares or adjust the amount of dividends paid to shareholders.

The company's equity, as disclosed in the statement of financial position, constitutes its capital. The company maintains its level of capital by reference to its financial obligations and commitments arising from operational requirements. Taking cognisance of the nature of the company's assets, together with collateral held as security, backing the company's principal borrowings, the capital level at the end of the reporting period is deemed adequate by the directors.

## 2. Financial risk management - continued

### 2.3 Fair values of financial instruments

At 31 December 2010 and 2009, the carrying amounts of cash at bank, receivables, payables and accrued expenses approximated their fair values due to the nature or short-term maturity of these instruments. The fair values of loans and advances subject to fixed interest rates were not significantly different from their carrying amounts at the end of the reporting period based on discounted cash flows using market interest rates prevailing at 31 December. Information on the fair value of the company's interest-bearing borrowings is disclosed in the respective note to the financial statements.

## 3. Critical accounting estimates and judgments

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

## 4. Loans and advances: non-current amounts

| | Loans to parent company € | Loans to other related parties € | Total € |
|---|---|---|---|
| Non-current portion of advances outstanding as at 1 January 2010 | 25,304,535 | 4,355,927 | 29,660,462 |
| Advances effected during the year | 85,000 | - | 85,000 |
| Less: Current portion of advances (amounts becoming repayable within one year as at 31 December 2010 – see Note 5) | (1,425,978) | (244,022) | (1,670,000) |
| Non-current portion of advances outstanding as at 31 December 2010 | **23,963,557** | **4,111,905** | **28,075,462** |
| Non-current portion of advances outstanding as at 1 January 2009 | 10,453,959 | 9,490,441 | 19,944,400 |
| Advances effected during the year (see Note below) | 18,668,000 | 1,518,551 | 20,186,551 |
| Repayments received during the year (see Note below) | - | (7,002,471) | (7,002,471) |
| Reclassification of advances upon rescheduling of loan repayments (see Note below) | - | 349,406 | 349,406 |
| Less: Current portion of advances (amounts becoming repayable within one year as at 31 December 2009 – see Note 5) | (3,817,424) | - | (3,817,424) |
| Non-current portion of advances outstanding as at 31 December 2009 | 25,304,535 | 4,355,927 | 29,660,462 |

**4. Loans and advances: non-current amounts** - continued

The proceeds of the 2002 bond issue (see Note 9) had been advanced by the company to Consolidated Holdings Limited, Kastell Limited and Mizzi Holdings Limited for the principal purposes of re-financing existing banking facilities of the respective company or of an operating subsidiary of that company, and for the general corporate funding purposes of the companies mentioned above or of operating subsidiaries of these companies. Consolidated Holdings Limited, Kastell Limited, Mizzi Holdings Limited and The General Soft Drinks Company Limited, the guarantors in respect of the company's 2002 bond issue, have jointly and severally between themselves and with the respective borrower irrevocably undertaken under each loan agreement with the issuer to repay all interest and principal amounts that will become due and payable by the borrower to Mizzi Organization Finance p.l.c. pursuant to the loans. Mizzi Holdings Limited is the company's parent, whilst, Consolidated Holdings Limited, Kastell Holdings Limited and The General Soft Drinks Limited are related parties forming part of the Mizzi Organisation.

The actual net proceeds of the 2009 bond issue have been advanced to Mizzi Holdings Limited. Advances in this respect amounted to €9,830,000 (reflected in the table above within advances effected during the previous year). The net bond proceeds were firstly utilised to repay any amounts due by the issuer with respect to the 2002 bonds. Accordingly, a portion of the advances amounting to €3,649,382 had been earmarked to repay the 2002 bonds which had not been surrendered in exchange for 2009 bonds. The resultant amount of the proceeds which remained available to the issuer has been utilised to partly refinance existing borrowings in relation to the construction of the General Soft Drinks factory and other capital expenditure.

The comparative figures included in the table on page 21 also reflect advances to Mizzi Holdings Limited effected during the preceding year out of repayments received from United Acceptances Finance Limited.

Interest on all advances is payable six monthly in arrears on 31 May and 30 November of each year.

All advances, apart from advances to Mizzi Holdings Limited referred to above amounting to €9,830,000, were subject to interest at the fixed rate of 7.45% per annum until 31 May 2010 and 6.95% thereafter. The advances amounting to €9,830,000 were subject to interest at 6.95% during the financial year ended 31 December 2010. All loans will be subject to a fixed interest rate of 6.95% subsequent to 31 December 2010.

The maturity or repayment terms of the outstanding advances at 31 December 2010, which are subject to a repayment schedule over the period to 30 November 2019, are as follows:

| | Loans to parent company € | Loans to other related parties € | Total € |
|---|---|---|---|
| Repayable: | | | |
| Within 1 year | 1,425,978 | 244,022 | 1,670,000 |
| After more than 1 year | | | |
| Between 1 and 2 years | 1,425,978 | 244,022 | 1,670,000 |
| Between 2 and 5 years | 6,772,081 | 1,164,011 | 7,936,092 |
| Over 5 years | 15,765,498 | 2,703,872 | 18,469,370 |
| | 23,963,557 | 4,111,905 | 28,075,462 |
| | 25,389,535 | 4,385,927 | 33,745,462 |

**4. Loans and advances: non-current amounts** – continued

During the preceding year, the repayment terms of advances out of the 2002 bond issue proceeds which remained outstanding at 31 December 2009 were rescheduled on the basis of revised arrangements with the issuer, taking cognisance of the issuer's contractual obligations under the 2009 bonds, in particular the requirement to set up a sinking fund. The maturity or repayment terms of the outstanding advances as at 31 December 2009, subject to the revised repayment schedule over the period to 30 November 2019, were as follows:

| | Loans to parent company € | Loans to other related parties € | Total € |
|---|---|---|---|
| Repayable: | | | |
| Within 1 year | 3,999,382 | - | 3,999,382 |
| After more than 1 year | | | |
| Between 1 and 2 years | 1,424,744 | 245,256 | 1,670,000 |
| Between 2 and 5 years | 4,274,233 | 735,767 | 5,010,000 |
| Over 5 years | 19,605,558 | 3,374,904 | 22,980,462 |
| | 25,304,535 | 4,355,927 | 29,660,462 |
| | 29,303,917 | 4,355,927 | 33,659,844 |

Advances granted by the company in prior years to United Acceptances Finance Limited, a related party forming part of the Mizzi Organisation, have been settled in full during the financial year ended 31 December 2009 (refer to table on page 21). These advances reflected the acquisition with rights of recourse of bills of exchange drawn in favour of this related party. These transactions were accounted for as collateralised advances i.e. loans secured by bills of exchange in accordance with the requirements of IFRSs. The face value of the bills of exchange covered receivables financed by this party in the ordinary course of its activities as a finance house to all companies within the Mizzi Organisation. The utilisation of this facility has been discontinued subsequent to settlement. Proceeds from the above mentioned settlement amounting to €8,838,000 had been advanced to Mizzi Holdings Limited.

## 5. Loans and advances: current amounts

| | Loans to parent company € | Loans to other related parties € | Total € |
|---|---|---|---|
| Balance as at 1 January 2010 | 3,999,382 | - | 3,999,382 |
| Repayments received during the year | (3,999,382) | - | (3,999,382) |
| Current portion of advances (amounts becoming repayable within one year as at 31 December 2010 – see Note 4) | 1,425,978 | 244,022 | 1,670,000 |
| Balance as at 31 December 2010 | **1,425,978** | **244,022** | **1,670,000** |
| Balance as at 1 January 2009 | 647,834 | 3,205,015 | 3,852,849 |
| Repayments received during the year | (465,876) | (2,855,609) | (3,321,485) |
| Current portion of advances (amounts becoming repayable within one year as at 31 December 2009 – see Note 4) | 3,817,424 | - | 3,817,424 |
| Reclassification of advances upon rescheduling of loan repayments | - | (349,406) | (349,406) |
| Balance as at 31 December 2009 | 3,999,382 | - | 3,999,382 |

## 6. Receivables

| | **2010** **€** | 2009 € |
|---|---|---|
| **Current** | | |
| Interest receivable from parent company | **149,868** | 135,324 |
| Interest receivable from other related parties | **25,712** | 26,637 |
| Prepayments and accrued income | **432** | 2,731 |
| | **176,012** | 164,692 |

The repayment of amounts owed to the company in respect of interest receivable is secured in the manner disclosed in Note 4 to the financial statements.

## 7. Cash and cash equivalents

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

| | **2010** **€** | 2009 € |
|---|---|---|
| Cash at bank | **90,115** | 103,770 |

## 8. Share capital

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| **Authorised** | | |
| 5,000 (2009: 5,000) ordinary shares of €232.937340 each | **1,164,687** | 1,164,687 |
| **Issued and fully paid** | | |
| 1,000 (2009: 1,000) ordinary shares of €232.937340 each | **232,937** | 232,937 |

## 9. Borrowings

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| **Current** | | |
| 36,493 6.7% bonds 2009 - 2012 issued in 2002 | **-** | 3,649,382 |
| **Non-current** | | |
| 300,000 6.2% bonds 2016 - 2019 issued in 2009 | **29,302,346** | 29,208,662 |

By virtue of the Prospectus dated 29 October 2009, during the previous financial year the company issued for subscription by the general public 250,000 bonds for an amount of €25,000,000, with an over-allotment option of another 50,000 for a maximum amount of €5,000,000, which was exercised in full as a result of over-subscriptions. The bonds have a nominal value of €100 per bond and have been issued at par, other than 18,840 bonds subscribed by Mizzi Applicants which have been issued at the Mizzi Applicants' Bond Issue Price of €97.50 per bond. Mizzi Applicants comprise members of the Mizzi family and employees of companies within the Mizzi Organisation.

The bonds are subject to a fixed interest rate of 6.2% per annum payable six monthly in arrears on 31 May and 30 November in each year.

All bonds are redeemable at par (€100 for each bond) and at the latest are due for redemption on 30 November 2019. The bonds are redeemable in whole or in part at the company's sole discretion on any date falling between and including 30 November 2016 and 30 November 2019 (Early Redemption Date/s).

Consolidated Holdings Limited, Kastell Limited, Mizzi Holdings Limited and The General Soft Drinks Company Limited, the guarantors, are jointly and severally with the company and between themselves, guaranteeing the repayment of the nominal value of the bonds on the redemption date and of the interest amounts of the bonds on each interest payment date. The guarantors irrevocably and unconditionally guarantee the due and punctual performance of all the obligations undertaken by the company under the 2009 bonds.

In accordance with the terms and conditions specified in the Prospectus, the company has undertaken to commence the allocation of funds to a sinking fund with effect from the financial year ending 31 December 2011. The value of the sinking fund should be equivalent to at least 50% of the value of the bonds issued, with a view to setting up a cash reserve from the guarantors' annual net cash inflows from operating activities to fund part of the redemption proceeds on redemption date.

**9. Borrowings** - continued

Under the terms and conditions of the 2009 Prospectus, 2002 bondholders could surrender their 2002 bonds in exchange for 2009 bonds. As outlined in the tables below, 2002 bonds with a face value of €19,644,352 had been surrendered in this manner. The actual net proceeds from the bond issue, which had been advanced to Mizzi Holdings Limited, were firstly utilised to repay any amounts due by the issuer with respect to the 2002 bonds. Accordingly, an amount of €3,649,382 was earmarked to repay the 2002 bonds which had not been surrendered. The resultant amount of the proceeds which remained available to the issuer has been utilised to partly refinance existing borrowings in relation to the construction of the General Soft Drinks factory and other capital expenditure (refer to Note 4).

The bonds have been admitted to the Official List of the Malta Stock Exchange. The quoted market price of the bonds at 31 December 2010 was 104.01 (2009: 103.00), which in the opinion of the directors fairly represented the fair value of these financial liabilities.

At the end of the reporting period, 2009 bonds having a face value of €292,300 (2009: €622,200) were held by company directors, and bonds with a face value of €588,800 (2009:€499,100) were held by other officers of companies forming part of the Mizzi Organisation and close family members of these individuals.

The 2009 bonds are measured at the amount of net proceeds adjusted for the amortisation of the difference between net proceeds and the redemption value of the bonds using the effective interest method as follows:

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| **6.2% bonds 2016 – 2019** | | |
| Original face value of bonds issued | **30,000,000** | 30,000,000 |
| Gross amount of bond issue costs | **(752,150)** | (752,150) |
| Amortisation of gross amount of bond issue costs: | | |
| Accumulated amortisation at beginning of year | **7,446** | - |
| Amortisation charge for the current year (Note 12) | **88,163** | 7,446 |
| Accumulated amortisation at end of year | **95,609** | 7,446 |
| Unamortised bond issue costs | **(656,541)** | (744,704) |
| Gross amount of discounts in respect of bonds issued under terms applicable to Mizzi Applicants | **(47,100)** | (47,100) |
| Amortisation of gross amount of discounts: | | |
| Accumulated amortisation at beginning of year | **466** | - |
| Amortisation charge for the current year (Note 12) | **5,521** | 466 |
| Accumulated amortisation at end of year | **5,987** | 466 |
| Unamortised amount of discounts | **(41,113)** | (46,634) |
| **Amortised cost and closing carrying amount of the bonds** | **29,302,346** | 29,208,662 |

**9. Borrowings** - continued

The company had issued for subscription the 2002 bonds by virtue of the Offering Memorandum dated 2 May 2002. The 2002 bond issue consisted of 100,000 bonds with a face value of Lm100 for each bond which had been issued at the Bond Offer Price of Lm100 each bond, with the exception of 4,846 bonds issued at the Employee Bond Price of Lm97.50 per bond under the terms and conditions of the Employee Offering. As a result of Malta's adoption of the euro, the 2002 bonds had been restructured to 232,937 bonds with a face value of €100 per bond. The bonds were subject to a fixed interest rate of 6.7% per annum payable six monthly in arrears on 31 May and 30 November in each year. All bonds were redeemable at par and at the latest were due for redemption on 31 May 2012 but were redeemable in whole or in part at the option of the company on 31 May 2010 and 31 May 2011 (Optional Redemption Dates).

In view of the bond issue effected during the preceding year, 2002 bonds with a face value of €19,644,352 were surrendered by 2002 bondholders in exchange for bonds issued in 2009, pursuant to, and subject to, the terms and conditions in the Prospectus dated 29 October 2009. The 2002 bonds which had not been surrendered in exchange for 2009 bonds have a face value amounting to €3,649,382 and the issuer repaid the outstanding liability in full on 31 May 2010.

Consolidated Holdings Limited, Kastell Limited, Mizzi Holdings Limited and The General Soft Drinks Company Limited, the guarantors, were jointly and severally with the company and between themselves, guaranteeing the repayment of the nominal value of the bonds on the redemption date and of the interest amounts of the bonds on each interest payment date. The guarantors irrevocably and unconditionally guaranteed the due and punctual performance of all the obligations undertaken by the company. The bond proceeds had been advanced to the guarantors for the purposes outlined in Note 4 to the financial statements, pursuant to, and subject to, the terms and conditions in the Offering Memorandum as amended by a supplementary agreement.

The bond had been admitted to the Official List of the Malta Stock Exchange. The quoted market price of the bonds as at 31 December 2009 was 100.00, which in the opinion of the directors fairly represented the fair value of these financial liabilities.

At 31 December 2009, 2002 bonds with a face value amounting to €76,530 were held by related parties, principally consisting of company directors, other officers of companies forming part of the Mizzi Organisation and close family members of these individuals.

## 9. **Borrowings** - continued

The 2002 bonds were also measured at the amount of net proceeds adjusted for the amortisation of the difference between net proceeds and the redemption value of the bonds using the effective interest method as follows:

| | 2009 |
|---|---|
| | € |
| **6.7% bonds 2009 - 2012** | |
| Original face value of bonds issued in 2002 | 23,293,734 |
| Face value of bonds surrendered in exchange for bonds issued in 2009 | (19,644,352) |
| Face value of bonds outstanding at 31 December | 3,649,382 |
| Gross amount of discounts in respect of bonds issued under the terms of the Employee Offering | (28,222) |
| Amortisation of gross amount of discounts: | |
| Accumulated amortisation at beginning of year | 26,135 |
| Amortisation charge for the year (Note 12) | 2,087 |
| Accumulated amortisation at end of year | 28,222 |
| **Amortised cost and closing carrying amount of the bonds** | 3,649,382 |

## 10. Payables

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| **Current** | | |
| Amounts owed to parent company | **6,307** | 84,807 |
| Other payables | **38,867** | 73,357 |
| Accruals | **182,724** | 447,786 |
| | **227,898** | 605,950 |

## 11. Interest receivable

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| Interest receivable from parent company | **1,913,932** | 950,326 |
| Interest receivable from other related parties | **311,748** | 780,920 |
| Bank interest receivable | **37** | 5,116 |
| | **2,225,717** | 1,736,362 |

## 12. Interest payable and similar charges

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| Coupon interest payable on bonds | **2,002,817** | 1,614,241 |
| Amortisation of difference between initial net proceeds and redemption value of bonds (Note 9) | **93,684** | 9,999 |
| | **2,096,501** | 1,624,240 |

## 13. Administrative expenses

The company's administrative expenses comprise director's fees (see Note 15) and such other expense items incurred in the administration of the company's activities.

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2010 and 2009 relate to the following:

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| Annual statutory audit | **2,204** | 2,204 |
| Other assurance services | **1,550** | 1,550 |
| Tax advisory and compliance services | **375** | 314 |
| Other non-audit services | **4,820** | 2,651 |
| | **8,949** | 6,719 |

In addition to the amounts disclosed above, during the preceding financial year, fees amounting to €140,000 were charged for services provided in relation to the 2009 bond issue.

## 14. Tax expense

| | **2010** | 2009 |
|---|---|---|
| | **€** | € |
| Current taxation | **196** | 769 |

## 14. Tax expense - continued

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

| | 2010 € | 2009 € |
|---|---|---|
| Profit before tax | **17,229** | 56,341 |
| Tax on profit at 35% | **6,030** | 19,719 |
| Tax effect of: | | |
| Losses surrendered for group relief purposes | **-** | 259,043 |
| Amortisation of bond issue costs not allowable for tax purposes | **32,789** | 2,770 |
| Group relief | **(38,807)** | - |
| Income subject to 15% final withholding tax | **(7)** | (1,025) |
| Under provision in prior year | **191** | - |
| Bond issue costs claimed during the year | **-** | (279,738) |
| **Tax charge in the accounts** | **196** | 769 |

## 15. Director's emoluments

| | 2010 € | 2009 € |
|---|---|---|
| Fees | **14,500** | 7,000 |

## 16. Earnings per share

Earnings per share is calculated by dividing the result attributable to owners of the company by the weighted average number of ordinary shares of Mizzi Organisation Finance p.l.c. in issue during the year.

| | 2010 | 2009 |
|---|---|---|
| Net profit attributable to owners of the company | **€17,033** | €55,572 |
| Weighted average number of ordinary shares in issue | **1,000** | 1,000 |
| Earnings per share | **€17.03** | €55.57 |

## 17. Dividends

| | 2010 € | 2009 € |
|---|---|---|
| Final dividends paid on ordinary shares Gross and net | **-** | 150,000 |
| Dividends per share | **-** | 150 |

## 18. Related party transactions

Mizzi Organisation Finance p.l.c. forms 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 Companies Act, Cap. 386 of the laws of Malta. The Organisation is a conglomerate of companies principally comprising Consolidated Holdings Limited, Kastell Limited, Mizzi Holdings Limited and The General Soft Drinks Company Limited, together with all their respective subsidiaries. The Mizzi Organisation also includes Falcon Wines & Spirits Limited and Mizzi Motors Limited, which are an integral component of the Organisation's beverage and automotive business activities. Indeed, the related operations of the Organisation and the activities of these two entities are managed on a collective basis. Mizzi Holdings Limited is the company's immediate parent (see Note 19) and also its ultimate controlling party.

The entities constituting the Mizzi Organisation are ultimately fully owned by Daragon Limited, Demoncada Holdings Limited, Demoncada Limited, Maurice Mizzi Investments 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. Three of the company's directors are members of the Mizzi Family.

Transactions with companies forming part of Mizzi Organisation principally include advances effected by the company, mainly out of the bond issue proceeds, as disclosed in Notes 4 and 5 to the financial statements. Interest receivable earned from these transactions is disclosed in Note 11 and year-end balances in this respect are disclosed in Note 6 to the financial statements.

The company's expenditure reflected in profit or loss comprises management fees payable and other amounts recharged from the parent company of €33,087 (2009: €15,208) and €14,740 (2009: €7,500) respectively.

Key management personnel compensation, consisting of remuneration and other compensation to the company's directors, has been disclosed in Note 15.

## 19. Statutory information

Mizzi Organisation Finance p.l.c. is a public limited liability company and is incorporated in Malta.

The immediate and ultimate parent company of Mizzi Organisation Finance p.l.c. is Mizzi Holdings Limited, a company registered in Malta, with its registered address at Mizzi House, National Road, Blata l-Bajda. The company's share capital is virtually entirely held by Mizzi Holdings Limited at the end of the reporting period and as at the date of authorisation for issue of these financial statements.