FALCON WINES & SPIRITS LIMITED

Annual Report and Financial Statements
31 December 2007

Company Registration Number: C 3774

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2007.

Principal activities

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

Review of the business

The company's level of business has increased during the current financial year and accordingly its financial results have improved. The company's financial position remains satisfactory. The directors expect that the present level of activity will be sustained for the foreseeable future.

Results and dividends

The profit and loss account is set out on page 4. The directors have proposed and paid a final net dividend of Lm10,000 (2006: Lm5,000).

Directors

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

Maurice F. Mizzi
Jeffrey J. Mizzi – deceased on 6 May 2007
Ian J. Mizzi

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

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

Ian J. Mizzi
Director

Registered office
Mdina Road
Qormi
Malta

30 April 2008

Statement of directors' responsibilities

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 financial 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;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the 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.

Independent auditor's report

To the Shareholders of Falcon Wines & Spirits Limited

We have audited the financial statements of Falcon Wines & Spirits Limited on pages 4 to 24 which comprise the balance sheet as at 31 December 2007 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Maltese Companies Act, 1995. As described in the statement of directors' responsibilities on page 2, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free of 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 judgment, 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 and fair presentation of the financial statements 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 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

PricewaterhouseCoopers
PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

30 April 2008

Profit and loss account

	Notes	Year ended 31 December 2007 Lm	2006 Lm
Turnover	2	**821,888**	663,235
Cost of sales		**(578,282)**	(475,921)
Gross profit		**243,606**	187,314
Distribution and selling costs		**(114,552)**	(113,857)
Administrative expenses		**(36,252)**	(7,084)
Other operating income		**30,673**	34,207
Operating profit		**123,475**	100,580
Interest receivable and similar income	5	**1,581**	7,349
Interest payable and similar charges	6	**(25,342)**	(40,664)
Profit before tax		**99,714**	67,265
Tax expense	7	**(28,559)**	(15,987)
Profit for the financial year		**71,155**	51,278
Earnings per share	8	**71.01**	51.15

Balance sheet

	Notes	As at 31 December 2007 Lm	2006 Lm
ASSETS			
Fixed assets			
Tangible assets			
Property, plant and equipment	10	**16,818**	11,924
Current assets			
Stocks	11	**249,950**	162,842
Debtors	12	**237,241**	261,359
Current taxation		**30,737**	44,695
Cash at bank and in hand		**1,313**	42,995
Total current assets		**519,241**	511,891
Total assets		**536,059**	523,815
EQUITY AND LIABILITIES			
Capital and reserves			
Called up issued share capital	13	**1,002**	1,002
Profit and loss account		**183,482**	122,327
Total equity		**184,484**	123,329
Creditors: amounts falling due within one year			
Interest-bearing borrowings	14	**35,887**	-
Trade and other creditors	15	**315,688**	400,486
Total liabilities		**351,575**	400,486
Total equity and liabilities		**536,059**	523,815

The financial statements on pages 4 to 24 were authorised for issue by the board on 30 April 2008 and were signed on its behalf by:

Maurice F. Mizzi
Director

Ian J. Mizzi
Director

Statement of changes in equity

	Note	Called up issued share capital Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2006		1,002	76,049	77,051
Profit for the financial year - total recognised income for 2006		-	51,278	51,278
Dividends for 2006	9	-	(5,000)	(5,000)
Balance at 31 December 2006		1,002	122,327	123,329
Profit for the financial year - total recognised income for 2007		-	71,155	71,155
Dividends for 2007	9	-	(10,000)	(10,000)
Balance at 31 December 2007		**1,002**	**183,482**	**184,484**

Cash flow statement

	Notes	Year ended 31 December 2007 Lm	2006 Lm
Operating activities			
Cash (used in)/generated from operations	16	**(20,918)**	156,342
Interest received		**1,581**	7,349
Interest paid		**(25,342)**	(40,664)
Tax paid		**(14,601)**	(41,875)
Net cash (used in)/generated from operating activities		**(59,280)**	81,152
Investing activities			
Purchase of property, plant and equipment	10	**(8,289)**	(12,732)
Financing activities			
Dividends paid	9	**(10,000)**	(5,000)
Movement in cash and cash equivalents		**(77,569)**	63,420
Cash and cash equivalents at beginning of year		**42,995**	(20,425)
Cash and cash equivalents at end of year	17	**(34,574)**	42,995

Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

1. Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) 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 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 1 – Critical accounting estimates and judgments).

Standards, interpretations and amendments to published standards effective in 2007

In 2007 the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2007. The adoption of these revisions to the requirements of IFRSs did not result in substantial changes to the company's accounting policies. IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, introduce new disclosures relating to financial instruments and capital, but do not have any impact on the classification and measurement of the company's financial instruments and capital.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for accounting periods beginning after 1 January 2007. The company has not early adopted these revisions to the requirements of IFRSs 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.

2. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Sales are recognised upon delivery of products or performance of services, net of sales taxes and discounts, and are included in the financial statements as turnover. Revenue is recognised as follows:

(a) Sales of goods
Sales of goods are recognised when the company has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services
Sales of services are recognised in the accounting period in which the services are rendered.

(c) Interest income
Interest income is recognised in the profit and loss account for all interest-bearing instruments as it accrues, on a time-proportion basis using the effective interest method, unless collectibility is in doubt.

2. Revenue recognition - continued

Other operating income, consisting in the main of advertising and other similar charges to another company forming part of Mizzi Organisation, is recognised on an accrual basis unless collectibility is in doubt.

3. 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 Maltese Liri, which is the company's functional and presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the rates of exchange 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 the profit and loss account.

4. Property, plant and equipment

All property, plant and equipment is recorded at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

	%
Vending and other equipment	15 - 20
Motor vehicles	25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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).

4. Property, plant and equipment - continued

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in the profit and loss account.

5. Operating leases

(a) The company is the lessee

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

6. Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out method. Cost is 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.

7. Trade debtors

Trade debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade debtors 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 trade 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 effective interest rate. The amount of the provision is recognised in the profit and loss account.

8. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at face value. Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

9. Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account 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 balance sheet date.

10. Other financial instruments

The company's other financial assets, which have not been referred to in the accounting policies disclosed above, are classified as loans and receivables in accordance with the requirements of IAS 39. 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.

The company recognises a financial asset or liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs, for all financial assets not carried at fair value through profit or loss. All regular way transactions in assets classified in the loans and receivables category are accounted for using settlement date accounting. 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. Essentially these financial assets are measured at their face or nominal values. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

The company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. If there is objective evidence that an impairment loss on loans and receivables has been incurred, 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 discounted at the financial asset's original effective interest rate.

The company's financial liabilities other than those referred to in the accounting policies above, 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. These liabilities are subsequently measured at amortised cost and, accordingly, are carried principally at their face or nominal values. The company derecognises a financial liability from its balance sheet when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

11. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

12. 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.

13. Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation on property, plant and equipment and provisions for impairment of trade debtors and other receivables.

Deferred income 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.

14. Borrowing costs

Interest costs are charged against income without restriction. No borrowing costs have been capitalised.

Notes to the financial statements

1. 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.

2. Turnover

All the company's turnover relates to activities in the local beverages sector. It is mainly derived from the importation and sale of beer and non-alcoholic beverages in cans, the sale of products through vending machines, the provision of servicing in respect of vending machines and dispense equipment together with other ancillary activities.

3. Expenses by nature

	2007 Lm	2006 Lm
Cost of goods sold	**495,578**	403,701
Staff costs (Note 4)	**123,334**	125,734
Depreciation of property, plant and equipment (Note 10)	**3,395**	2,869
Operating lease rentals payable:		
- motor vehicles	**19,424**	15,751
- property	**6,750**	7,079
Management fees and similar service charges	**31,135**	9,491
Marketing, business promotion and related expenses	**12,689**	7,811
Other expenses	**36,781**	24,426
Total cost of sales; distribution and selling costs; and administrative expenses	**729,086**	596,862

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

	2007 Lm	2006 Lm
Movement in provisions for impairment of trade debtors (included in 'Administrative expenses')	**(1,176)**	(5,307)
Exchange differences	**(328)**	84
Auditor's remuneration	**750**	650

4. Staff costs

	2007 Lm	2006 Lm
Wages and salaries	**114,873**	116,813
Social security costs	**8,461**	8,921
	123,334	125,734

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

	2007	2006
Direct	**14**	14
Administration	**2**	2
	16	16

5. Interest receivable and similar income

	2007 Lm	2006 Lm
Interest receivable from related party forming part of Mizzi Organisation	**-**	3,470
Bank interest receivable	**1,581**	3,879
	1,581	7,349

6. Interest payable and similar charges

	2007 Lm	2006 Lm
Interest payable to related party forming part of Mizzi Organisation	**24,647**	40,000
Bank interest and charges	**695**	664
	25,342	40,664

7. Tax expense

	2007 Lm	2006 Lm
Current tax expense	**28,559**	15,987

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:

	2007 Lm	2006 Lm
Profit before tax	**99,714**	67,265
Tax on profit at 35%	**34,900**	23,543
Tax effect of:		
Movement in temporary differences arising on property, plant and equipment and provisions for impairment of trade debtors	**(6,341)**	(7,556)
Tax charge in the accounts	**28,559**	15,987

At 31 December 2007, the company had deductible temporary differences, arising on property, plant and equipment and provisions for impairment of trade debtors, amounting to Lm95,077 (2006: Lm113,022). The related deferred tax asset has not been recognised in these financial statements due to the uncertainty of the realisation of the tax benefits.

8. Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Net profit attributable to equity holders of the company	**Lm71,155**	Lm51,278
Weighted average number of ordinary shares in issue	**1,002**	1,002
Earnings per share	**Lm71.01**	Lm51.18

9. Dividends

	2007 Lm	2006 Lm
Final dividends paid on ordinary shares:		
Gross	**15,385**	7,692
Tax at source	**(5,385)**	(2,692)
Net	**10,000**	5,000
Dividends per share	**9.98**	4.99

10. Property, plant and equipment

	Vending and other equipment Lm	Motor vehicles Lm	Total Lm
At 1 January 2006			
Cost	227,912	5,313	233,225
Accumulated depreciation	(225,851)	(5,313)	(231,164)
Net book amount	2,061	-	2,061
Year ended 31 December 2006			
Opening net book amount	2,061	-	2,061
Additions	12,732	-	12,732
Disposals	(527)	-	(527)
Depreciation charge	(2,869)	-	(2,869)
Depreciation released on disposals	527	-	527
Closing net book amount	11,924	-	11,924
At 31 December 2006			
Cost	240,117	5,313	245,430
Accumulated depreciation	(228,193)	(5,313)	(233,506)
Net book amount	11,924	-	11,924
Year ended 31 December 2007			
Opening net book amount	11,924	-	11,924
Additions	8,289	-	8,289
Depreciation charge	(3,395)	-	(3,395)
Closing net book amount	**16,818**	-	**16,818**
At 31 December 2007			
Cost	248,406	5,313	253,718
Accumulated depreciation	(231,588)	(5,313)	(236,901)
Net book amount	**16,818**	-	**16,818**

11. Stocks

	2007 Lm	2006 Lm
Spares and consumables	**77,039**	58,404
Goods held for resale	**172,911**	104,438
	249,950	162,842

The cost of inventories recognised as expense is appropriately disclosed in Note 3 to the financial statements. During the current financial year, inventory write-downs amounted to Lm10,623 (2006: Lm32,279). These amounts have been included in 'Cost of sales' in the profit and loss account.

12. Debtors

	2007 Lm	2006 Lm
Amounts falling due within one year		
Trade debtors – gross	**167,635**	17,228
Less: Provisions for impairment of trade debtors	**(38,639)**	(39,815)
Trade debtors – net	**128,996**	77,413
Amounts owed by related parties forming part of Mizzi Organisation	**97,296**	168,847
Other debtors	**-**	12,177
Prepayments	**10,949**	2,922
	237,241	261,359

13. Called up issued share capital

	2007 Lm	2006 Lm
Authorised		
10,000 (2006: 10,000) ordinary shares of Lm1 each	**10,000**	10,000
Issued and fully paid		
1,002 (2006: 1,002) ordinary shares of Lm1 each	**1,002**	1,002

14. Interest-bearing borrowings

	2007 Lm	2006 Lm
Short-term – falling due within one year		
Bank overdraft	**35,887**	-

The company's banking facilities as at 31 December 2007 amounted to Lm50,000 (2006: Lm50,000). The bank borrowings are secured by a general hypothec over all assets of a related party forming part of Mizzi Organisation and by guarantees by this related party and other related parties forming part of Mizzi Organisation which are supported by general and special hypothecary guarantees over property. All the company's borrowings are subject to floating rates of interest. The weighted average effective interest rate as at 31 December 2007 was 5% (2006: 5.25%).

15. Trade and other creditors

	2007 Lm	2006 Lm
Amounts falling due within one year		
Trade creditors	**130,216**	42,162
Amounts owed to related parties forming part of Mizzi Organisation	**63,591**	282,565
Other creditors	**29,703**	27,732
Indirect taxation	**8,825**	4,840
Accruals and deferred income	**83,353**	43,187
	315,688	400,486

16. Cash (used in)/generated from operations

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

	2007 Lm	2006 Lm
Operating profit	**123,475**	100,580
Adjustments for:		
Depreciation of property, plant and equipment (Note 10)	**3,395**	2,869
Movement in provisions for impairment of trade debtors	**(1,176)**	(5,307)
Changes in working capital:		
Stocks	**(87,108)**	14,608
Debtors	**25,294**	38,779
Creditors	**(84,798)**	4,813
Cash (used in)/generated from operations	**(20,918)**	156,342

17. Cash and cash equivalents

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

	2007	2006
	Lm	Lm
Cash at bank and in hand	**1,313**	42,995
Bank overdraft (Note 14)	**(35,887)**	-
	(34,574)	42,995

18. Financial risk management

1) Financial risk factors

The company's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company's board of directors provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The company did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. A significant part of the company's purchases are denominated in euro. The carrying amount of trade and other payables denominated in euro as at the balance sheet dates amounted to Lm105,999 (2006: Lm30,929). The company's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in Maltese lira except as outlined above.

Accordingly, the company is not significantly exposed to foreign exchange risk and a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the balance sheet date is not deemed necessary.

18. Financial risk management - continued

(ii) Cash flow and fair value interest rate risk

The company's interest rate risk principally arises from bank borrowings issued at variable rates (Note 14) and balances with related parties subject to floating interest rates (refer to Note 21) which expose the company to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on amounts reported in the profit and loss account in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the balance sheet date to be immaterial. The company's interest-bearing instruments are short-term in nature and accordingly the level of interest rate risk is contained. The company's operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

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

	2007	2006
	Lm	Lm
Loans and receivables category:		
Debtors (Note 16)	**237,241**	261,359
Cash and cash equivalents	**1,313**	42,995
	238,554	304,354

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The company does not hold any collateral as security in this respect.

The company banks only with local financial institutions with high quality standing or rating.

The company 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 and services are effected to customers with an appropriate credit history. The company monitors the performance of its trade receivables on a regular basis to identify incurred collection losses, which are inherent in the company's debtors, taking into account historical experience in collection of accounts receivable.

In view of nature of the company's activities and the market in which it operates, a limited number of customers account for a certain percentage of the company's trade receivables. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk with respect to trade debts, these exposures are monitored and reported more frequently and rigorously. These customers trade frequently with the company and are deemed by management to have excellent credit standing, usually taking cognisance of the performance history without defaults.

18. Financial risk management - continued

The company manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parametres. The company's trade debtors, which are not 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.

The company's debtors include significant amounts due from related parties forming part of the Mizzi Organisation (see Note 12). The Organisation's treasury monitors intra-group credit exposures 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 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.

As at 31 December 2007, trade debtors of Lm38,639 (2006: Lm39,815) were impaired and the amount of the provisions in this respect are equivalent to the amounts disclosed. The individually impaired receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations. Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The company does not hold any collateral as security in respect of the impaired assets.

The movements in the company's provisions for impairment of trade debtors are disclosed in Note 3 to the financial statements.

As at 31 December 2007, trade debtors amounting to Lm22,576 (2006: Lm30,377) were past due but not impaired. These 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 company's past due debts, management has not identified any major concerns with respect to concentration of credit risk as outlined above. Categorisation of receivables as past due is determined by the company on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers.

The ageing analysis of these past due trade debtors is as follows:

	2007	2006
	Lm	Lm
Up to 30 days	**11,640**	10,885
30 to 150 days	**9,860**	18,468
Over 150 days	**1,076**	1,024
	22,576	30,377

(c) Liquidity risk

The company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise interest-bearing borrowings (Note 14) and trade and other creditors (Note 15). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the company's obligations.

18. Financial risk management - continued

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. The company's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments, coupled with the company's committed bank borrowing facilities and other intra-group financing that it can access to meet liquidity needs.

The company's trade and other payables are entirely repayable within one year from the balance sheet date and the company's borrowings are repayable on demand.

2) Capital risk management

Capital is managed at Mizzi Organisation level by reference to the level of aggregate equity and borrowings or debt as disclosed in the consolidated financial statements of The General Soft Drinks Company Limited, Consolidated Holdings Limited, Kastell Limited and Mizzi Holdings Limited (Note 26). The Organisation's objectives when managing capital at individual entity level are to safeguard the respective company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may issue new shares or adjust the amount of dividends paid to shareholders.

The company's equity, as disclosed on the face of the balance sheet, constitutes its capital. The company maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the company's activities and the extent of borrowings or debt, the capital level as at the balance sheet date is deemed adequate by the directors.

3) Fair values of financial instruments

At 31 December 2007 and 2006 the carrying amounts of cash at bank, debtors, creditors, 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.

19. Commitments

Operating lease commitments – where the company is the lessee

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

	2007	2006
	Lm	Lm
Not later than one year	**2,364**	2,768
Later than one year and not later than five years	**9,456**	-
Over five years	**1,576**	-
	13,396	2,768

20. Contingencies

The company, together with certain other related parties forming part of Mizzi Organisation, is jointly and severally liable in respect of guarantees given to secure the banking facilities of various related parties forming part of Mizzi Organisation up to a limit of Lm16,500,000 (2006: Lm15,050,000) together with interest and charges thereon.

21. Related party transactions

Falcon Wines & Spirits Limited forms part of the Mizzi Organisation, which comprises The General Soft Drinks Company Limited, Consolidated Holdings Limited, Kastell Limited, Mizzi Holdings Limited and Mizzi Organisation Limited, together with their shareholder companies, subsidiary undertakings and associated undertakings.

All companies forming part of the Mizzi Organisation are related parties since these companies are all ultimately owned by members of the Mizzi family. Trading transactions between these companies would typically include group interest charges, management fees, service charges and other such items which are normally encountered in a group context.

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

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

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

	2007 Lm	2006 Lm
Sales of goods and services		
Revenue from servicing, advertising and similar service charges	**228,409**	226,390
Sale of goods held for resale	**80,100**	55,631
	308,509	282,021

21. Related party transactions - continued

	2007 Lm	2006 Lm
Purchases of goods and services		
Purchases of goods held for resale and services	**83,767**	90,641
Management fees payable	**23,000**	1,956
	106,767	90,641

The transactions disclosed above were carried out on commercial terms. Year-end balances, arising principally from the transactions referred to previously, are disclosed in Notes 12 and 15 to these financial statements.

The company's expenditure reflected in the profit and loss account comprises amounts recharged from related parties forming part of Mizzi Organisation of Lm145,855 (2006: Lm176,370).

Amounts owed by related parties as at 31 December 2007 of Lm70,368 (2006: Lm69,607) are subject to interest at 5.25% (2006: 4.75%). Interest receivable from related parties and interest payable to related parties are disclosed in Notes 5 and 6 respectively.

22. Statutory information

Falcon Wines & Spirits Limited is a limited liability company and is incorporated in Malta.