# MIZZI ORGANISATION

Combined Financial Statements
for the financial year ended 31 December 2014

## Independent auditor's report on the combined financial statements of the Mizzi Organisation for the year ended 31 December 2014

To the Owners of the Mizzi Organisation

We have audited the accompanying combined financial statements of the entities constituting the Mizzi Organisation, which is not a legal entity and principally comprises Consolidated Holdings Limited, Kastell Limited, Mizzi Holdings Limited, The General Soft Drinks Company Limited and their subsidiaries, together with GSD Marketing Limited (formerly Falcon Wines & Spirits Limited) and Mizzi Motors Limited as set out in Note 1.1 – Basis of preparation. The financial statements on pages 3 to 86 comprise the combined statement of financial position as at 31 December 2014, the combined statements of income, comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

These combined financial statements have been prepared solely to assist the owners to present the financial position and results of the entities constituting the Mizzi Organisation. The combined financial statements have been prepared on the basis set out in Note 1.1.

*Directors' Responsibility for the Combined Financial Statements*
The directors of the entities constituting the Mizzi Organisation are responsible for the preparation of these combined financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and on the basis set out in Note 1.1 – Basis of preparation to the combined financial statements. They are responsible for such internal control that they determine is necessary to enable the preparation of financial statements that are free from 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 combined 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 combined 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 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 the combined 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 entities' 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 combined financial statements.

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

**Independent auditor's report on the combined financial statements of the Mizzi Organisation for the year ended 31 December 2014** - continued

To the Owners of the Mizzi Organisation

*Opinion*
In our opinion, the accompanying combined financial statements give a true and fair view of the financial position of the entities constituting the Mizzi Organisation set out in Note 1.1 – Basis of preparation as at 31 December 2014, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and on the basis set out in the said Note 1.1 to the combined financial statements.

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

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

**PricewaterhouseCoopers**

78, Mill Street
Qormi
Malta

FAxisa

Fabio Axisa
Partner

4 May 2015

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

## Combined statement of financial position

| | Notes | As at 31 December 2014 € | 2013 € |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | **86,586,924** | 80,897,839 |
| Investment property | 5 | **36,201,873** | 32,280,584 |
| Investments in associates | 7 | **23,082,221** | 22,233,347 |
| Loans and advances | 8 | **575,938** | 575,938 |
| Available-for-sale financial assets | 9 | **650,668** | 649,489 |
| Trade and other receivables | 10 | **6,787,214** | 7,996,408 |
| Total non-current assets | | **153,884,838** | 144,633,605 |
| **Current assets** | | | |
| Inventories | 12 | **20,983,242** | 19,169,764 |
| Trade and other receivables | 10 | **24,996,217** | 25,141,462 |
| Current tax assets | | **610,975** | 715,104 |
| Cash and cash equivalents | 13 | **6,567,501** | 4,950,636 |
| | | **53,157,935** | 49,976,966 |
| Assets classified as held for sale | 14 | **5,161** | 5,161 |
| Total current assets | | **53,163,096** | 49,982,127 |
| **Total assets** | | **207,047,934** | 194,615,732 |

## **Combined statement of financial position** - continued

| | Notes | 2014 € | 2013 € |
|---|---|---|---|
| | | **As at 31 December** | |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 15 | **2,468,437** | 2,468,437 |
| Revaluation reserves | 16 | **49,917,610** | 44,080,535 |
| Fair value gains and other reserves | 17 | **18,921,633** | 16,123,768 |
| Retained earnings | | **40,007,514** | 36,497,717 |
| Total equity | | **111,315,194** | 99,170,457 |
| **Non-current liabilities** | | | |
| Trade and other payables | 18 | **137,466** | 249,148 |
| Borrowings | 19 | **42,371,246** | 44,205,254 |
| Deferred tax liabilities | 20 | **11,858,008** | 10,676,414 |
| Total non-current liabilities | | **54,366,720** | 55,130,816 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **25,506,535** | 22,791,044 |
| Current tax liabilities | | **141,896** | 232,163 |
| Borrowings | 19 | **15,717,589** | 17,276,112 |
| Provisions for other liabilities and charges | 21 | **-** | 15,140 |
| Total current liabilities | | **41,366,020** | 40,314,459 |
| Total liabilities | | **95,732,740** | 95,445,275 |
| **Total equity and liabilities** | | **207,047,934** | 194,615,732 |

The notes on pages 10 to 86 are an integral part of these combined financial statements.

The combined financial statements on pages 3 to 86 were authorised for issue by the boards of directors of the entities constituting the Mizzi Organisation on 4 May 2015 and were signed on their behalf by:

Maurice F. Mizzi
Director
Consolidated Holdings Limited
Kastell Limited
Mizzi Holdings Limited
The General Soft Drinks Company Limited

Brian R. Mizzi
Director
Consolidated Holdings Limited
Kastell Limited
Mizzi Holdings Limited
The General Soft Drinks Company Limited

## Combined income statement

| | Notes | Year ended 31 December 2014 € | 2013 € |
|---|---|---|---|
| **Revenue** | 22 | **131,633,313** | 120,960,297 |
| Cost of sales | | **(98,867,322)** | (89,885,473) |
| **Gross profit** | | **32,765,991** | 31,074,824 |
| Selling and other direct expenses | | **(15,540,816)** | (15,443,028) |
| Administrative expenses | | **(10,557,056)** | (9,870,369) |
| Net gains from changes in fair value of investment property | 5 | **3,290,652** | 2,785,296 |
| Other operating income | 25 | **667,818** | 847,708 |
| **Operating profit** | | **10,626,589** | 9,394,431 |
| Investment and other related income | 26 | **19,461** | (179,476) |
| Finance income | 27 | **47,845** | 58,278 |
| Finance costs | 28 | **(3,519,632)** | (3,835,202) |
| Share of profits of associates | 7 | **841,807** | 807,189 |
| **Profit before tax** | | **8,016,070** | 6,245,220 |
| Tax expense | 29 | **(884,751)** | (867,406) |
| **Profit for the year** | | **7,131,319** | 5,377,814 |
| Earnings per share | 31 | **6.73** | 5.07 |

The notes on pages 10 to 86 are an integral part of these combined financial statements.

## Combined statement of comprehensive income

| | Notes | Year ended 31 December 2014 € | 2013 € |
|---|---|---|---|
| **Profit for the year** | | **7,131,319** | 5,377,814 |
| **Other comprehensive income:** | | | |
| *Items that will not be reclassified to profit and loss* | | | |
| Revaluation surplus on land and buildings arising during the year, net of deferred tax | 16 | **6,537,822** | 690,847 |
| Impairment charges in respect of revalued land and buildings, net of deferred tax | 16 | **(757,706)** | - |
| Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals | | **(30,177)** | (30,122) |
| Share of other comprehensive income of associate: | | | |
| Share of revaluation surplus arising during the year on land and buildings of an associate, net of deferred tax | 16 | **241,219** | 5,359,317 |
| Redemption of ground rents capitalised in associate | 17 | **(2,226)** | (1,604) |
| *Items that may be subsequently reclassified to profit or loss* | | | |
| Available-for-sale financial assets: | | | |
| - Gains from changes in fair value | 16 | **30,314** | 93,972 |
| - Reclassification adjustments for net losses included in profit or loss upon disposal | 16 | **3,590** | 18,042 |
| Currency translation differences | 17 | **582** | 7,741 |
| Other comprehensive income for the year, net of tax | | **6,023,418** | 6,138,193 |
| **Total comprehensive income for the year** | | **13,154,737** | 11,516,007 |

The notes on pages 10 to 86 are an integral part of these combined financial statements.

## Combined statement of changes in equity

| | Notes | Share capital € | Revaluation reserves € | Fair value gains and other reserves € | Retained earnings € | Total € |
|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | | 2,468,437 | 38,134,297 | 13,504,221 | 34,627,495 | 88,734,450 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | - | 5,377,814 | 5,377,814 |
| **Other comprehensive income:** | | | | | | |
| Revaluation surplus on land and buildings arising during the year, net of deferred tax | 16 | - | 690,847 | - | - | 690,847 |
| Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals | 16 | - | (30,122) | - | - | (30,122) |
| Other transfers | 16 | - | (38,683) | - | 38,683 | - |
| Depreciation transfer, net of deferred tax | 16 | - | (72,409) | - | 72,409 | - |
| Gains from changes in fair value of available-for-sale financial assets | 16 | - | 93,972 | - | - | 93,972 |
| Reclassification adjustments for net losses included in profit or loss upon disposal of available-for-sale financial assets | 16 | - | 18,042 | - | - | 18,042 |
| Transfer of fair value gains on investment property arising during the year, net of deferred tax movements determined on the basis applicable to property disposals | 17 | - | - | 2,249,415 | (2,249,415) | - |
| Transfer of upon realisation of fair value gains through property disposals | 17 | - | - | (12,207) | 12,207 | - |
| Currency translation differences | 17 | - | - | 7,741 | - | 7,741 |
| Share of other comprehensive income of associate: | | | | | | |
| Share of revaluation surplus arising during the year on land and buildings, net of deferred tax | 16 | - | 5,359,317 | - | - | 5,359,317 |
| Share of transfer upon realisation through asset use in respect of revalued land and buildings of an associate | 16 | - | (74,726) | - | 74,726 | - |
| Share of transfer to incentives and benefits reserve of an associate | 17 | - | - | 376,202 | (376,202) | - |
| Redemption of ground rents capitalised in associate | 17 | - | - | (1,604) | - | (1,604) |
| Total other comprehensive income | | - | 5,946,238 | 2,619,547 | (2,427,592) | 6,138,193 |
| **Total comprehensive income** | | - | 5,946,238 | 2,619,547 | 2,950,222 | 11,516,007 |
| **Transactions with owners** | | | | | | |
| Dividends relating to 2013 | 32 | - | - | - | (1,080,000) | (1,080,000) |
| Balance at 31 December 2013 | | 2,468,437 | 44,080,535 | 16,123,768 | 36,497,717 | 99,170,457 |

## **Combined statement of changes in equity** - continued

| | Notes | Share capital € | Revaluation reserves € | Fair value Gains and other reserves € | Retained Earnings € | Total € |
|---|---|---|---|---|---|---|
| Balance at 1 January 2014 | | 2,468,437 | 44,080,535 | 16,123,768 | 36,497,717 | 99,170,457 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | - | 7,131,319 | 7,131,319 |
| **Other comprehensive income:** | | | | | | |
| Revaluation surplus on land and buildings arising during the year, net of deferred tax | 16 | - | 6,537,822 | - | - | 6,537,823 |
| Impairment charges in respect of revalued land and buildings, net of deferred tax | 16 | - | (757,706) | - | - | (757,706) |
| Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals | 16 | - | (30,177) | - | - | (30,177) |
| Depreciation transfer, net of deferred tax | 16 | - | (72,407) | - | 72,407 | - |
| Gains from changes in fair value of available-for-sale financial assets | 16 | - | 30,314 | - | - | 30,314 |
| Reclassification adjustments for net losses included in profit or loss upon disposal of available-for-sale financial assets | 16 | - | 3,590 | - | - | 3,590 |
| Transfer of fair value gains on investment property arising during the year, net of deferred tax movements determined on the basis applicable to property disposals | 17 | - | | 2,816,098 | (2,816,098) | - |
| Transfer upon realisation of fair value gains through property disposals | 17 | - | - | (16,589) | 16,589 | - |
| Currency translation differences | 17 | - | - | 582 | - | 582 |
| Share of other comprehensive income of associate: | | | | | | |
| Share of revaluation surplus arising during the year on land and buildings, net of deferred tax | 16 | - | 241,219 | - | - | 241,219 |
| Share of transfer upon realisation through asset use in respect of revalued land and buildings of an associate | 16 | - | (115,580) | - | 115,580 | - |
| Share of transfer to incentives and benefits reserve of an associate | 17 | | | | | |
| Redemption of ground rents capitalised in associate | 17 | - | - | (2,226) | - | (2,226) |
| Total other comprehensive income | | - | 5,837,075 | 2,797,865 | (2,611,522) | 6,023,418 |
| **Total comprehensive income** | | - | 5,837,075 | 2,797,865 | 4,519,797 | 13,154,737 |
| **Transactions with owners** | | | | | | |
| Dividends relating to 2014 | 32 | - | - | - | (1,010,000) | (1,010,000) |
| **Balance at 31 December 2014** | | **2,468,437** | **49,917,610** | **18,921,633** | **40,007,514** | **111,315,194** |

The notes on pages 10 to 86 are an integral part of these combined financial statements.

## Combined statement of cash flows

| | Notes | Year ended 31 December 2014 € | 2013 € |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 33 | **13,363,143** | 15,641,094 |
| Dividends received | | **254,977** | 411,105 |
| Interest received | | **47,845** | 58,278 |
| Interest paid | | **(3,398,254)** | (3,721,433) |
| Tax paid | | **(507,670)** | (852,159) |
| Net cash generated from operating activities | | **9,760,041** | 11,536,885 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 4 | **(4,770,387)** | (3,534,119) |
| Proceeds from disposal of property, plant and equipment | 4 | **976,956** | 1,066,310 |
| Capital expenditure on investment property | 5 | **(223,553)** | (438,142) |
| Proceeds from disposal of investment property | 4 | **368,000** | - |
| Net proceeds received upon liquidation of associate | 7 | **-** | 42,436 |
| Purchase of available-for-sale financial assets | 9 | **(19,570)** | (4,556) |
| Proceeds from disposal of available-for-sale financial assets | 9 | **48,705** | 104,554 |
| Net cash used in investing activities | | **(3,619,849)** | (2,763,517) |
| **Cash flows from financing activities** | | | |
| Repayments of bank borrowings | 19 | **(3,319,602)** | (4,697,526) |
| Repayments of borrowings from related party | 19 | **(35,639)** | (35,639) |
| Proceeds from borrowings from associate | 19 | **-** | 600,000 |
| Repayments of borrowings from associate | 19 | **-** | (41,500) |
| Dividends paid | 32 | **(1,010,000)** | (1,080,000) |
| Net cash used in financing activities | | **(4,365,241)** | (5,254,665) |
| **Net movements in cash and cash equivalents** | | **1,774,951** | 3,518,703 |
| Effect of exchange rate fluctuations on the translation of cash flows of foreign operations | | **582** | 7,741 |
| **Cash and cash equivalents at beginning of year** | | **(7,667,782)** | (11,194,226) |
| **Cash and cash equivalents at end of year** | 13 | **(5,892,249)** | (7,667,782) |

The notes on pages 10 to 86 are an integral part of these combined financial statements.

# Notes to the combined financial statements

## 1. Summary of significant accounting policies

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

### 1.1 Basis of preparation

These combined financial statements have been prepared solely to assist the owners of the Mizzi Organisation to present the financial position and results of the entities forming part of the Mizzi Organisation.

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. These four entities are the “Guarantors” in respect of the 2009 Bond Issue of Mizzi Organisation Finance p.l.c., which is a subsidiary of one of the Guarantors. The Bonds issued are in fact guaranteed by the said four companies forming part of the Mizzi Organisation. The Mizzi Organisation also includes GSD Marketing Limited (formerly Falcon Wines & Spirits Limited) and Mizzi Motors Limited, which are an integral component of the Guarantors’ beverage and automotive business activities. Indeed, the related operations of the Guarantors and the activities of these two entities are managed on a collective basis.

Ultimately, common individuals forming part of the Mizzi family and/or common individual companies owned by these individuals equally own the Guarantors. However the Guarantors do not form a legal group and fail to meet the definition of a ‘group’ under IAS 27 ‘Consolidated and Separate Financial Statements’. The financial results and financial position of the Guarantors are not consolidated into the financial statements of a single legal company on a statutorily required basis, since no individual entity owns or controls the Guarantors. As outlined previously, the operations of the Guarantors and the other two entities forming part of the Mizzi Organisation (GSD Marketing Limited (formerly Falcon Wines & Spirits Limited) and Mizzi Motors Limited) are managed on a unified basis. GSD Marketing Limited (formerly Falcon Wines & Spirits Limited) and Mizzi Motors Limited are also owned in the same manner as the Guarantors. In fact, the Guarantors and these two companies are all owned by the same parties in the same proportions and are managed together as a single economic entity, notwithstanding the fact that a certain degree of autonomy and flexibility is granted to individual operating companies in the Organisation.

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

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

**1.1 Basis of preparation** - continued

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

The total authorised, issued and fully paid up share capital in the combined financial statements has been assumed to be the aggregate of all of the authorised, issued and fully paid up share capital of each of the Guarantors and the other two companies constituting the Mizzi Organisation.

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

These combined financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial information has been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category within property, plant and equipment, investment property and available-for-sale financial assets.

The preparation of combined financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors of the entities forming part of the Mizzi Organisation to exercise their judgement in the process of applying the Organisation's accounting policies (see Note 3 – Critical accounting estimates and judgements).

*Standards, interpretations and amendments to published standards effective in 2014*

In 2014, the Organisation adopted new standards, amendments and interpretations to existing standards that are mandatory for the Organisation's accounting period beginning on 1 January 2014. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Organisation's accounting policies impacting the Organisation's financial performance and position.

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

*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 2014. The Organisation has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the directors of the entities forming part of Mizzi Organisation are of the opinion that there are no requirements that will have a possible significant impact on the Organisation's financial statements in the period of initial application, except for IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'.

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only three classification categories: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through profit or loss. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9, 'Financial instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to the endorsement process by the EU, the standard is effective for accounting periods beginning on or after 1 January 2018, although early adoption is permitted. The Organisation is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to endorsement by the EU. The Organisation is assessing the impact of IFRS 15.

**Entities constituting the Mizzi Organisation**

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

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

(i) Consolidated Holdings Limited

The Guarantor's principal activity is the holding of investments. The principal subsidiaries of Consolidated Holdings Limited are as follows:

| Name | Principal activity | Registered office | Class of shares held | Percentage of shares held 2014 % | 2013 % |
|---|---|---|---|---|---|
| Industrial Motors Limited | Importation and sale of motor vehicles and spare parts, together with the provision of other ancillary services | Industrial House National Road Blata l-Bajda Malta | Ordinary shares | **100** | 100 |
| The Waterfront Hotel Limited | Owner and operator of 'The Waterfront Hotel' | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| | | | 5% Non-cumulative redeemable preference shares | **100** | 100 |
| United Acceptances Finance Limited | Finance company which entails granting and administering hire purchase agreements | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |

All shareholdings are held directly by Consolidated Holdings Limited.

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

(ii) Kastell Limited

The Guarantor's principal activity is the holding of investments. The principal subsidiaries of Kastell Limited are as follows:

| Name | Principal activity | Registered office | Class of shares held | Percentage shares held 2014 % | Percentage shares held 2013 % |
|---|---|---|---|---|---|
| Arkadia Marketing Limited | Owner and operator of a shopping and commercial centre and the sale of foodstore and other goods | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares<br>5% Non-cumulative redeemable preference shares | **100**<br>**100** | 100<br>100 |
| Arkadia Retail s.r.o. | Non-trading | Rohacova 188/37 Prague 3 130 00 Czech Republic | Ordinary shares | **100** | 100 |
| Continental Cars (Imports) Limited | Importation and sale of motor vehicles (non-trading) | Continental Garage Testaferrata Street Msida Malta | Ordinary shares | **100** | 100 |
| Continental Cars Limited | Importation and sale of motor vehicles and spare parts, together with the provision of other ancillary services | Continental Garage Testaferrata Street Msida Malta | Ordinary shares | **100** | 100 |
| Festa Limited | Provision of holiday related services and involvement in the administration of the car leasing operations | Industrial House Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Hubbalit Developments Limited | Owner of site for development (non-trading) | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

| Name | Principal activity | Registered office | Class of shares held | Percentage of shares held 2014 % | 2013 % |
|---|---|---|---|---|---|
| Malta Farmhouses Limited | Owner of property for development (non-trading) | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Mizzi Automotive Services Limited | Provision of panel beating, spray painting and other services in the automotive industry, together with sale of spare parts | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **66⅔** | 66⅔ |
| Mizzi Limited | Importation and sale of domestic appliances and spare parts, together with the provision of other ancillary services | The Lyric Antonio Bosio Street Msida Malta | Ordinary shares | **100** | 100 |
| Mizzi Organisation International s.r.o. | Non-trading | Palisady 29 Bratislava 811 06 Slovakia | Ordinary shares | **100** | 100 |
| Nissan Motor Sales Limited | Importation and sale of motor vehicles and spare parts, together with the provision of other ancillary services | Antonio Bosio Street Msida Malta | Ordinary shares | **100** | 100 |
| All About Car Parts Limited (formerly Russian Motors Limited) | Importation and sale of motor vehicle spare parts | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **66⅔** | 100 |
| St. Paul's Court Limited | Owner of property (non-trading) | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Titan International Limited | Importation, sale and servicing of power, heating and ventilation equipment and lifts | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

All shareholdings are held directly by Kastell Limited, except for the holdings in Malta Farmhouses Limited, All About Car Parts Limited and Mizzi Automotive Services Limited. The shareholding in Malta Farmhouses Limited is held by Festa Limited. The shareholding in Mizzi Automotive Services Limited (66.7%) and All About Car Parts Limited (66.7%) is held by Kastell Limited equally through Continental Cars Limited and Nissan Motor Sales Limited. These entities are ultimately wholly controlled by the Mizzi Organisation since Mizzi Holdings Limited holds the remaining shareholding (33.3%) through Muscats Motors Limited. The change in the shareholding structure of All About Car Parts Limited occurred during the current financial year. As at 31 December 2013 this subsidiary was 100% owned directly by Kastell.

(iii) Mizzi Holdings Limited

The Guarantor's principal activity is the holding of investments and managing the affairs of the other companies within the Mizzi Organisation. The principal subsidiaries of Mizzi Holdings Limited are as follows:

| **Name** | **Principal activity** | **Registered office** | **Class of shares held** | **Percentage of shares held** | |
|---|---|---|---|---|---|
| | | | | **2014** | 2013 |
| | | | | **%** | % |
| Mizzi Brothers Limited | Sale of clothes and similar goods from rented premises | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Mizzi Estates Limited | Renting out of property, mainly to other companies forming part of the Mizzi Organisation, and sale of property development | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Mizzi Organisation Finance p.l.c. *(the issuer)* | Finance and investment company in connection with the ownership, development, operation and financing of the business activities of the companies forming part of the Mizzi Organisation | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **100** | 100 |
| Muscats Motors Limited | Importation and sale of motor vehicles and spare parts, together with the provision of other ancillary services | Muscats Garage Rue D' Argens Gzira Malta | Ordinary shares | **100** | 100 |

All shareholdings are held directly by Mizzi Holdings Limited.

The registered address of Consolidated Holdings Limited (refer to (i) above), Kastell Limited (refer to (ii) above) and Mizzi Holdings Limited (refer to (iii) above) is Mizzi Organisation Corporate Office, Testaferrata Street, Ta' Xbiex, Malta.

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

**1.1 Basis of preparation** - continued

(iv) The General Soft Drinks Company Limited

The Guarantor's principal activity is the bottling of soft drinks, mineral water and other beverages. The General Soft Drinks Company Limited wholly owns Bevmed Co. Limited whose principal activity is the manufacture of plastic containers for sale to the parent company. The registered address of both companies is Marsa Industrial Estate, Marsa, Malta.

On 15 October 2014, documents relating to the merger of Bevmed Co. Limited into The General Soft Drinks Company Limited, the parent company, were delivered to the Registrar of Companies. The registration was then effected on 29 October 2014. The documents were drawn up by the directors of the respective companies in accordance with and for the purposes of Article 358 of the Companies Act Cap. 386 of the laws of Malta. The merger became effective on 3 February 2015 and Bevmed Co. Limited was struck off the Register on the same date. Under the terms of the merger, the transactions of the amalgamated company have been treated for accounting purposes as being those of the acquiring company with effect from 1 January 2015.

(v) GSD Marketing Limited (formerly known as Falcon Wines & Spirits Limited)

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

(vi) Mizzi Motors Limited

The company's principal activity is the sale and the leasing out of motor vehicles, together with the provision of other ancillary services. The registered address of the company is 200, Rue D'Argens Gzira, Malta.

**Associates of the Mizzi Organisation**

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

(i) Consolidated Holdings Limited

| **Name** | **Principal activity** | **Registered office** | **Class of shares held** | **Percentage of shares held** | |
|---|---|---|---|---|---|
| | | | | **2014** | 2013 |
| | | | | **%** | % |
| Mizzi Associated Enterprises Limited | The ownership and operation of hotels, and the development of property for trading and rental purposes | 30 Archbishop Street Valletta Malta | Ordinary shares | **51** | 51 |

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

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

(ii) Kastell Limited

| Name | Principal activity | Registered office | Class of shares held | Percentage shares held 2014 % | 2013 % |
|---|---|---|---|---|---|
| Institute of English Language Studies Limited | The provision of English language courses to foreign students and other related activities | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta Malta | Ordinary shares | **50** | 50 |
| The Players Group Limited | Holding of investment in Maltco Lotteries Limited | 8/1, Magazines Junction Floriana Malta | Ordinary shares | **25** | 25 |

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

(iii) Mizzi Holdings Limited

| Name | Principal activity | Registered office | Class of shares held | Percentage shares held 2014 % | 2013 % |
|---|---|---|---|---|---|
| FirstUnited Insurance Brokers Limited | To operate as an insurance broker | 25, Villa Eden Princess Elizabeth Street Ta' Xbiex Malta | Ordinary shares | **33⅓** | 33⅓ |
| FirstUnited Insurance Management Limited | The provision of insurance management, advisory and consultancy services | 25, Villa Eden Princess Elizabeth Street Ta' Xbiex Malta | Ordinary shares | **20** | 20 |

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

| Name | Principal activity | Registered office | Class of shares held | Percentage of shares held 2014 % | 2013 % |
|---|---|---|---|---|---|
| Heritage Motor Company Limited (in dissolution) | Non-trading | Level 4, Suite 7 The Plaza Commercial Centre Bisazza Street Malta | Ordinary shares | **25** | 25 |
| Primax Limited | Holding of investments | Mizzi Organisation Corporate Office Testaferrata Street Ta' Xbiex Malta | Ordinary shares | **50** | 50 |

All shareholdings are held directly by Mizzi Holdings Limited.

(iv) The General Soft Drinks Company Limited

| Name | Principal activity | Registered office | Class of shares held | Percentage of shares held 2014 % | 2013 % |
|---|---|---|---|---|---|
| Malta Deposit and Return System Limited (in dissolution) | Non-trading - in liquidation | Mizzi House National Road Blata l-Bajda Malta | Ordinary shares<br>Redeemable preference shares | **35½**<br>**35½** | 35½<br>35½ |

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

### 1.2 Consolidation

(a) Subsidiaries

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

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

## 1. Summary of significant accounting policies - continued

### 1.2 Consolidation - continued

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

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

(b) Associates

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

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

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

### 1.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

**1.3 Foreign currencies** - continued

(c) Companies forming part of Mizzi Organisation

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

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

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

**1.4 Business combinations involving entities under common control**

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

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

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

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

## 1. Summary of significant accounting policies - continued

### 1.5 Property, plant and equipment

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

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

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

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

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

Freehold land is not depreciated as it is deemed to have an indefinite life. Assets in the course of construction and payments on account are not depreciated.

Buildings and integral assets capitalised in respect of leasehold property are depreciated over the term of the property lease arrangement or over the estimated useful life of the assets if shorter than the lease term, ranging from ten to twenty years.

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

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

## 1. Summary of significant accounting policies - continued

### 1.5 Property, plant and equipment - continued

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

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

### 1.6 Investment property

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

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

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

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

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

**1.6 Investment property** - continued

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

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

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

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

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

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

**1.7 Intangible assets**

(a) Goodwill

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

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

**1.7 Intangible assets** - continued

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

(b) Franchise rights

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

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

**1.8 Financial assets**

**Classification**

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Organisation provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Organisation's loans and receivables comprise loans and advances, trade and other receivables, amounts receivable from hire purchase debtors and cash and cash equivalents in the statement of financial position (refer to accounting policies 1.9, 1.11, 1.12 and 1.13).

## 1. Summary of significant accounting policies - continued

### 1.8 Financial assets - continued

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

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

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

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

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

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

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

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

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

**1.8 Financial assets** - continued

**Impairment**

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

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

*(a) Assets carried at amortised cost*

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade, hire purchase and other receivables is described in accounting policies 1.11 and 1.12.

*(b) Assets classified as available-for-sale*

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

**1.9 Loans and advances**

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

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

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

### 1.10 Inventories

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

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

The cost of inventories comprises the invoiced value of goods and, in general, includes transport and handling costs. The cost of raw materials comprises the invoiced value of materials, net of government grants received (refer to accounting policy 1.24 – Government grants), and includes transport and handling costs. The cost of manufactured finished goods comprises raw materials, direct labour, other direct costs and related production overheads.

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

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

### 1.11 Trade and other receivables

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

## 1. Summary of significant accounting policies - continued

### 1.12 Amounts receivable from hire purchase debtors

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

Amounts receivable from hire purchase debtors are covered by bills of exchange for the face value of the debts financed together with the amount of the hire purchase interest element which would be earned over the entire period of credit. The interest element of the bills of exchange is accounted for as income and as a receivable from hire purchase debtors over the credit period as interest accrues with the passage of time. Acquired receivables are initially recognised at the face value or cost of the hire purchase debts financed. Subsequent to initial recognition, amounts receivable from hire purchase debtors are carried at the face value of the debts financed adjusted for the recognition of hire purchase interest income, less provision made for the impairment of these receivables. A provision for impairment of hire purchase receivables is established when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows.

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

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

### 1.13 Cash and cash equivalents

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

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

### 1.14 Non-current assets (or disposal groups) held for sale and discontinued operations

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

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and:

(a) represents a separate major line of business or geographical area of operations;
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
(c) is a subsidiary acquired exclusively with a view to resale.

### 1.15 Financial liabilities

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

### 1.16 Trade and other payables

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

### 1.17 Borrowings

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

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

## 1. Summary of significant accounting policies - continued

### 1.18 Derivative financial instruments

Derivative financial instruments, consisting of forward foreign exchange contracts, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the end of the reporting period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Trading derivative financial instruments are classified as current assets or liabilities.

The Organisation's derivative transactions, while providing effective economic hedges under the Organisation's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in profit or loss. The Organisation enters into derivative financial instruments to manage the foreign exchange risk exposure from certain forecast purchases denominated in foreign currencies. Accordingly, gains or losses arising from changes in the fair value of the Organisation's derivatives are presented in profit or loss within 'cost of sales' in the period in which they arise.

### 1.19 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 1.20 Current and deferred tax

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

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

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

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

**1.20 Current and deferred tax** - continued

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

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

**1.21 Provisions**

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

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

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

**1.22 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Organisation’s activities. Sales are recognised upon delivery of products or performance of services, net of sales taxes, returns, rebates and discounts. The Organisation recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Organisation’s activities as described below.

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

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

Operating lease rental income – refer to accounting policy 1.25 for ‘Operating leases’.

Sales relating to long-term contracts – refer to accounting policy 1.23 for ‘Long-term contracts’.

## 1. Summary of significant accounting policies - continued

### 1.22 Revenue recognition - continued

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

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

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

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

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

### 1.23 Long-term contracts

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

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

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

The aggregate of the costs incurred and the profit or loss recognised on each contract is compared against the progress billings up to the end of the reporting period. The Organisation presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings, within trade and other receivables. The Organisation presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses), within trade and other payables.

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

### 1.24 Government grants

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

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

Grants related to income are presented as a deduction in reporting the related expense. Accordingly, government grants or subsidies received in respect of stocks are accounted for as an adjustment to the carrying amount of the related assets and are recognised in profit or loss as a deduction in reporting 'Cost of sales' when stocks affect the cost of goods sold in profit or loss. Grants receivable in relation to interest rate subsidy schemes are recognised in profit or loss as a deduction in reporting 'Finance costs' when the related interest expense is accrued in profit or loss.

### 1.25 Operating leases

(a) An undertaking is the lessee

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

(b) An undertaking is the lessor

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

### 1.26 Finance leases

(a) An undertaking is the lessor

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

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

## 1. Summary of significant accounting policies - continued

### 1.27 Borrowing costs

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

### 1.28 Dividend distribution

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

## 2. Financial risk management

### 2.1 Financial risk factors

The Organisation’s activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Organisation’s overall risk management, covering risk exposures for all companies constituting the Mizzi Organisation, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Organisation’s financial performance. The board of directors governing all Mizzi Organisation entities provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

(a) Market risk

*(i) Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity’s functional currency. A portion of the Organisation’s purchases are denominated in US dollar and sterling, accordingly the Organisation is exposed to foreign exchange risk arising from such purchases. During the preceding financial year, an entity forming part of the Organisation has entered into forward foreign exchange contracts to manage exposures arising from specific purchases denominated in US dollars. An entity domiciled overseas (see accounting policy 1.1(ii)) has a functional currency which is different from the euro and is subject to currency risk in respect of intra-Organisation balances denominated in euro amounting to €458,410 (2013: €463,558). The exposures from these instruments and the resultant exchange differences recognised in profit or loss are not deemed material in the context of the Organisation’s figures.

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

**2. Financial risk management** - continued

Balances denominated in foreign currencies are settled within very short periods in accordance with the negotiated credit terms. Also, foreign exchange risk attributable to future transactions is not deemed to be material since the respective undertakings manage the related risk by reflecting, as far as is practicable, the impact of exchange rate movements registered with respect to purchases in the respective sales prices. The Organisation also manages risks relating to future transactions by entering into forward contracts in certain instances as outlined previously.

The Organisation's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro, except as outlined above. Management does not consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions denominated in foreign currencies to be significant. Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

*(ii) Cash flow and fair value interest rate risk*

The Organisation's significant instruments which are subject to fixed interest rates comprise trade receivables (Note 10), amounts receivable under finance lease arrangements (Note 10), amounts receivable from hire purchase debtors (Note 11), non–cumulative redeemable preference shares (Note 19) and the bonds issued to the general public (Note 19). In this respect, the Organisation is potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

The Organisation's interest rate risk principally arises from bank borrowings, including bills of exchange factored out to bank, issued at variable rates (Note 19) which expose the Organisation to cash flow interest rate risk. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial and accordingly the level of interest rate risk is contained. The Organisation's operating cash flows are substantially independent of changes in market interest rates.

*(iii) Price risk*

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

The Organisation is exposed to equity securities price risk in view of investments held by the Organisation which have been classified in the combined statement of financial position as available-for-sale. To manage its price risk arising from investments in equity securities, the Organisation diversifies its portfolio in terms of listing status and business sectors of investees. A significant portion of the Organisation's available-for-sale investments are quoted on the Malta Stock Exchange and are accordingly incorporated in the MSE equity index. The impact of a reasonable possible shift in the MSE equity index on the Organisation's available-for-sale revaluation reserve is not deemed significant in the context of the Organisation's figures reported in the combined statement of financial position. The analysis is based on the assumption that the equity index had increased/decreased by 5% at the end of the reporting period, with all other variables held constant, and that all the equity instruments listed on the Malta Stock Exchange moved according to the historical correlation with the index. Another portion of the Organisation's investments are in unlisted private companies (refer to Note 9).

**2. Financial risk management** - continued

(b) Credit risk

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Loans and receivables category: | | |
| Trade and other receivables (Note 10) | **31,783,431** | 33,137,870 |
| Loans and advances (Note 8) | **575,938** | 575,938 |
| Cash and cash equivalents (Note 13) | **6,567,501** | 4,950,636 |
| | **38,926,870** | 38,664,444 |

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

Entities forming part of the Mizzi Organisation principally bank only with local financial institutions with high quality standing or rating.

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

In view of the nature of the Organisation's activities and the markets in which it operates, a limited number of customers account for a certain percentage of the Organisation's trade and other receivables, particularly in respect of amounts receivable from hire purchase debtors. An undertaking has a significant concentration of credit risk with respect to hire purchase receivables because the face value of receivables from two customers amount to €2,437,584 (2013: €2,304,278). Over the years, these customers traded frequently with the Organisation and historically they were deemed by management to have acceptable credit standing, usually taking cognisance of the performance history in relation to defaults. These exposures are monitored and reported more frequently and rigorously. The Organisation also has a significant concentration of credit risk with respect to finance lease debts because the receivables from one of the two customers referred to above with respect to hire purchase debtors, constitutes 45% (2013: 64%) of the Organisation's finance lease receivables (see Note 10). These two customers also owe another entity forming part of the Organisation an amount of €526,359 (2013: €541,237). In view of the financial circumstances of these two customers, provisions for impairment covering the entire receivable in one case and covering a portion of the other receivable respectively were deemed necessary at the end of the reporting period reflecting the possibility of default and potential recoveries from the customer. These exposures are monitored in the rigorous manner disclosed above.

**2. Financial risk management** - continued

The Organisation manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The Organisation's trade and hire purchase receivables, which are not 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 Organisation's loans referred to in the table above consist of advances to an associate of the Organisation and the Organisation's trade and other receivables include significant amounts due from related parties. The Organisation's treasury monitors related party credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall liquidity management. The Organisation assesses the credit quality of these related parties taking into account financial position, performance and other factors. The Organisation takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

As at 31 December 2014, hire purchase receivables with a face value of €5,509,403 (2013: €5,573,287) were impaired and the amount of the provisions in this respect are €4,980,198 (2013: €4,740,246). The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. It was assessed that a significant portion of these receivables is expected to be recovered. The Organisation does not hold any significant collateral as security in respect of the impaired hire purchase receivables.

The movement in provisions for impairment of hire purchase receivables is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| At beginning of year | **4,740,246** | 4,227,278 |
| Reversals of provisions which are no longer required | **(349,252)** | (76,585) |
| Increase in provisions | **589,204** | 589,553 |
| At end of year | **4,980,198** | 4,740,246 |

Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations including accrued interest. The movements in these provisions are mainly disclosed in Note 23 and are included in 'Administrative expenses' in profit or loss.

As at 31 December 2014, trade receivables of €2,524,412 (20132: €2,358,597) and other receivables of €2,910,833 (2013: €3,006,733) were impaired. Provisions for impairment 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. The Organisation does not hold any collateral as security in respect of the impaired assets. The movements in provisions for impairment of these receivables are disclosed in Note 23 and are included in 'Administrative expenses' in profit or loss.

As at 31 December 2014 amounts receivable from hire purchase debtors of €1,587,483 (2013: €1,607,955) were past due but not impaired. These mainly relate to a number of independent customers for whom there is no recent history of default. Categorisation of hire purchase receivables as past due is determined by the Organisation on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers.

**2. Financial risk management** - continued

The ageing analysis of these past due hire purchase receivables is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Up to 3 months | **1,381,538** | 1,432,930 |
| 3 to 6 months | **73,775** | 64,523 |
| 6 to 12 months | **71,293** | 39,583 |
| 12 months and over | **60,877** | 70,919 |
| | **1,587,483** | 1,607,955 |

As at 31 December 2014, trade receivables of €2,140,074 (2013: €2,536,298) were past due but not impaired. These mainly relate to a number of independent trade customers for whom there is no recent history of default. Whilst a limited number of customers account for a certain percentage of the Organisation's past due trade debts, management has not identified any major concerns with respect to concentration of credit risk as outlined above. Categorisation of trade receivables as past due is determined by the Organisation on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers. The ageing analysis of these past due trade receivables is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Up to 3 months | **2,112,622** | 2,496,405 |
| Over 3 months | **27,452** | 39,893 |
| | **2,140,074** | 2,536,298 |

At 31 December 2014 and 2013, the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is not deemed to be significant.

(c) Liquidity risk

The Organisation is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise borrowings (Note 19) and trade and other payables (Note 18). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Organisation's obligations.

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. This is also performed at a central treasury function which controls the overall liquidity requirements of Mizzi Organisation within certain parameters. The Organisation's liquidity risk is actively managed taking cognisance of the matching of cash inflows and outflows arising from expected maturities of financial instruments, together with the Organisation's committed bank borrowing facilities and other financing that it can access to meet liquidity needs. In this respect management does not consider liquidity risk to the Organisation as significant taking into account the liquidity management process referred to above.

**2. Financial risk management** - continued

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

| | Less than 1 year € | Between 1 and 2 years € | Between 2 and 5 years € | Over 5 years € | Total € |
|---|---|---|---|---|---|
| **At 31 December 2014** | | | | | |
| Bank borrowings | 15,548,702 | 8,146,620 | 4,295,038 | 12,964 | 28,003,324 |
| Bonds | 1,860,000 | 1,860,000 | 35,580,000 | - | 39,300,000 |
| Loans and advances from associate | 600,000 | - | - | - | 600,000 |
| Redeemable preference shares | - | - | - | 815,281 | 815,281 |
| Trade and other payables | 25,394,852 | - | - | 6,988 | 25,401,840 |
| | **43,403,554** | **10,006,620** | **39,875,038** | **835,233** | **94,120,445** |
| **At 31 December 2013** | | | | | |
| Bank borrowings | 17,446,726 | 4,570,094 | 10,501,114 | 223,836 | 32,741,770 |
| Bonds | 1,860,000 | 1,860,000 | 5,580,000 | 31,860,000 | 41,160,000 |
| Loans from associate | 600,000 | - | - | - | 600,000 |
| Redeemable preference shares | - | - | - | 815,281 | 815,281 |
| Trade and other payables | 22,679,362 | - | - | 6,988 | 22,686,350 |
| | 42,586,088 | 6,430,094 | 16,081,114 | 32,906,105 | 98,003,401 |

As at 31 December 2013, the Organisation also held derivative contracts, consisting of forward foreign exchange contracts, with a notional amount of €601,733, which were gross settled and accordingly give rise to inflows and outflows in respect of the notional amount.

### 2.2 Capital risk management

The Organisation's capital is managed at the level of Mizzi Organisation by reference to the aggregate level of equity and borrowings or debt as disclosed in the respective consolidated financial statements of Consolidated Holdings Limited, Kastell Limited, Mizzi Holdings Limited and The General Soft Drinks Company Limited, together with the financial statements of GSD Marketing Limited (formerly known as Falcon Wines & Spirits Limited) and Mizzi Motors Limited. The capital of the entities forming part of the Mizzi Organisation, which have been mentioned above, is managed on an aggregate basis by the Organisation as if they were organised as one entity. The Organisation's objectives when managing capital are to safeguard the Organisation's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the entities forming part of the Organisation may issue new shares or adjust the amounts of dividends paid to shareholders.

## 2. Financial risk management - continued

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Total borrowings | **58,088,835** | 61,481,366 |
| Less: cash and cash equivalents | **(6,567,501)** | (4,950,636) |
| Net debt | **51,521,334** | 56,530,730 |
| Total equity | **111,315,194** | 99,170,457 |
| Total capital | **162,836,528** | 155,701,187 |
| Net debt/total capital | **32%** | 36% |

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

### 2.3 Fair values of financial instruments

#### 2.3.1 Financial instruments carried at fair value

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

- Quoted prices (unadjusted) in active markets for identical assets (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly i.e. as prices, or indirectly i.e. derived from prices (level 2).

- Inputs for the asset or liability that are not based on observable market data i.e. unobservable inputs (level 3).

## 2. Financial risk management - continued

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

The Organisation's available-for-sale financial assets with a carrying amount of €373,409 (2013: €372,230) are categorised as level 1 instruments since these investments are listed in an active market. These assets have been categorised as level 1 since initial recognition. With respect to investments with a carrying amount of €277,259 (2013: €277,259), reflecting historical cost less impairment, fair value determined by reference to level 2 categorisation is deemed to approximate carrying amounts.

The Organisation's derivative contracts as at 31 December 2013, consisting of forward foreign exchange contracts (refer to Note 18), were fair valued on the basis of valuation techniques by reference to forward exchange rates at the end of the reporting period. Accordingly, these derivative financial instruments were categorised as level 2 instruments since initial recognition.

### 2.3.2 Financial instruments not carried at fair value

At 31 December 2014 and 2013 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the combined financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances and other balances with related parties which are short-term or repayable on demand is equivalent to their carrying amount.

The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Organisation for similar financial instruments. The carrying amount of the Organisation's non-current advances to associate and non-current hire purchase receivables fairly approximates the estimated fair value of these assets based on discounted cash flows. The fair value of the Organisation's non-current floating interest rate bank borrowings at the end of the reporting periods is not significantly different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2 within the fair value measurement hierarchy required by IFRS 7, 'Financial Instruments: Disclosures'. Information on the fair value of the bonds issued to the public is disclosed in the respective note to the combined financial statements. The fair value estimate in this respect is deemed Level 1 as it constitutes a quoted price in an active market.

## 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these combined financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

As referred to in Notes 4 and 5 to this combined financial information, the Organisation's land and buildings category of property, plant and equipment and investment property are fair valued on 31 December on the basis of professional advice.

## 4. Property, plant and equipment

| | Land, buildings and improvements to premises € | Plant, machinery and operational equipment € | Furniture, fittings and office equipment € | Motor vehicles € | Assets in the course of construction and payment on account € | Total € |
|---|---|---|---|---|---|---|
| **At 1 January 2013** | | | | | | |
| Cost or valuation | 79,061,276 | 28,204,712 | 17,656,407 | 11,921,960 | | 136,844,355 |
| Accumulated depreciation and impairment losses | (10,848,999) | (21,798,797) | (14,571,966) | (7,297,455) | | (54,517,217) |
| Net book amount | 68,212,277 | 6,405,915 | 3,084,441 | 4,624,505 | | 82,327,138 |
| **Year ended 31 December 2013** | | | | | | |
| Opening net book amount | 68,212,277 | 6,405,915 | 3,084,441 | 4,624,505 | | 82,327,138 |
| Additions | 284,417 | 443,293 | 812,662 | 1,993,747 | | 3,534,119 |
| Revaluation surplus arising during the year (Note 16) | 785,053 | - | - | - | | 785,053 |
| Disposals | - | (81,342) | - | (2,076,003) | | (2,157,345) |
| Depreciation charge | (1,153,288) | (1,425,307) | (933,336) | (1,487,542) | | (4,999,473) |
| Depreciation released on disposals | - | 64,004 | - | 1,344,343 | | 1,408,347 |
| Closing net book amount | 68,128,459 | 5,406,563 | 2,963,767 | 4,399,050 | | 80,897,839 |
| **At 31 December 2013** | | | | | | |
| Cost or valuation | 80,130,746 | 28,566,663 | 18,469,069 | 11,839,704 | | 139,006,182 |
| Accumulated depreciation and impairment losses | (12,002,287) | (23,160,100) | (15,505,302) | (7,440,654) | | (58,108,343) |
| Net book amount | 68,128,459 | 5,406,563 | 2,963,767 | 4,399,050 | | 80,897,839 |
| **Year ended 31 December 2014** | | | | | | |
| Opening net book amount | 68,128,459 | 5,406,563 | 2,963,767 | 4,399,050 | | 80,897,839 |
| Additions | 281,374 | 928,864 | 1,453,877 | 2,063,962 | 42,310 | 4,770,387 |
| Revaluation surplus arising during the year (Note 16) | 7,429,344 | - | - | - | - | 7,429,344 |
| Impairment charges recognised in other comprehensive income - (effect on cost or valuation Note 16) | (861,030) | - | - | - | - | (861,030) |
| Disposals | - | (101,072) | (8,653) | (1,636,257) | - | (1,745,982) |
| Depreciation charge | (1,126,151) | (1,426,199) | (1,065,911) | (1,340,770) | - | (4,959,031) |
| Depreciation released on disposals | - | - | 6,274 | 1,049,123 | - | 1,055,397 |
| Closing net book amount | **73,851,996** | **4,808,156** | **3,349,354** | **4,535,108** | **42,310** | **86,586,924** |
| **At 31 December 2014** | | | | | | |
| Cost or valuation | 86,980,434 | 29,394,455 | 19,914,293 | 12,267,409 | 42,310 | 148,598,901 |
| Accumulated depreciation and impairment losses | (13,128,438) | (24,586,299) | (16,564,939) | (7,732,301) | - | (62,011,977) |
| Net book amount | **73,851,996** | **4,808,156** | **3,349,354** | **4,535,108** | **42,310** | **86,586,924** |

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

*Fair valuation of property*

The principal elements of the Organisation's land and buildings, within property, plant and equipment, were revalued on 31 December 2014 by a professionally qualified valuer. The book value of these properties has been adjusted to the revaluation and the resultant surplus or impairment, net of applicable deferred income taxes, has been credited or debited to the revaluation reserve in shareholders' equity (Note 16).

The impairment charges recognised in equity in other comprehensive income during the current financial year are attributable to reductions in the carrying amount of property so as to reflect the recoverable amount of these assets. The recoverable amount of the assets (the higher of the value in use and net selling price) was determined at the individual asset level and represents the net selling price, determined by reference to market prices for equivalent assets.

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

The directors have reviewed the carrying amount of the property as at 31 December 2014, on the basis of assessments by the property valuer. Other than the revaluation surplus and impairment charges noted above, no other adjustments to the carrying amounts of the remaining property were deemed necessary as at 31 December 2014 taking cognisance of developments that occurred during the current financial year.

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

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

The Organisation's land and buildings, within property, plant and equipment, consists of operational premises that are owned and managed by companies forming part of the Organisation. The Organisation's investment property comprises property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies constituting the Organisation (refer to Note 5). All the recurring property fair value measurements at 31 December 2014 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

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

A reconciliation from the opening balance to the closing balance of property for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, for the current and preceding financial years, is reflected in the table above and in Note 5 for investment property.

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

Property classified within property, plant and equipment having a carrying amount of €350,000 and other property classified within investment property with a carrying amount of €933,000, has not been revalued since acquisition or initial recognition. The directors have assessed the fair values of these properties at 31 December 2014, which fair values were deemed to fairly approximate the carrying amounts.

V*aluation processes*

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

- information provided by the Organisation which is derived from the respective company's financial systems and is subject to the company's overall control environment; and

- assumptions and valuation models used by the valuers; with assumptions being typically market related and based on professional judgement and market observation.

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

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

*Valuation techniques*

The external valuations of the Level 3 property as at 31 December 2014, have been performed using a multi-criteria approach, with every property being valued utilising the valuation technique considered by the external valuer to be the most appropriate for the respective property. At 31 December 2013, all valuations were performed using an adjusted sales comparison approach. In those instances where the valuation technique applied to a specific property's fair valuation has been modified, this change was effected to attain a more representative measurement of fair value. Throughout this process, the highest and best use of certain properties has been revised taking cognisance of the outcome of the valuation method applied.

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

- Adjusted sales comparison approach: a sales price per square metre related to transactions in comparable properties located in proximity to the respective property, with significant adjustments for differences in the size, age, exact location and condition of the property.

  The term airspace is a conceptual unit representing a packet of three-dimensional accessible, usable and developable space. The concept of sales price factor per airspace or square metre is the value expected to be fetched on the open market and represents the present value of the property after deduction of all development, refurbishment and related costs.

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

- Yield methodology: an annual rent rate per square metre together (also related to comparable properties or transactions and adjusted as described above) together with a market capitalisation rate utilised for capitalisation of rental income streams. Where applicable, costs to completion (determined by reference to cost per square metre), which must be incurred for the property to generate the envisaged rental income streams, are also taken into account.

- Discounted cash flow ("DCF") approach: considers the free cash flows arising from the projected income streams expected to be derived from the operation of the property, discounted to present value using an estimate of the weighted average cost of capital that would be available to finance such an operation. The significant unobservable inputs utilised with this technique include:

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

## 4. Property, plant and equipment - continued

*Information about fair value measurements using significant unobservable inputs (Level 3) as at 31 December 2014*

| Description by class based on highest and best use | Fair value at 31 December 2014 €000 | Valuation technique | Significant unobservable input | Range of unobservable inputs (weighted average) |
|---|---|---|---|---|
| Current use as commercial premises | **10,700** | Adjusted sales comparison approach | Sales price per square metre (€) | 700 – 2,000 (2,000) |
| | **18,800** | Yield methodology | Annual rent per square metre (€) | 30 – 180 (90) |
| | | | Capitalisation rate (%) | 5.0 – 9.0 (7.2) |
| | **12,700** | DCF approach | EBITDA | €3,900,000 |
| | | | Growth rate | 2% per annum |
| | | | Discount rate | 7.45% (post-tax) |
| | | | Perpetuity yield | 6% |
| | | | Estimated capital expenditure | €7,900,000 |
| Redevelopment into residential/commercial premises | **15,800** | Adjusted sales Comparison Approach | Residential: airspace sales price per square metre (€) | 150 – 1,100 (700) |
| | | | Residential: sales price factor per square metre (€) | 120 – 1,170 (400) |
| | | | Commercial: sales price factor per square metre (€) | 880 – 1,550 (980) |
| Marketed for residential use | **3,500** | Adjusted sales comparison approach | Sales price per residential unit (€) | 96,000 - 215,000 (175,000) |
| Development for commercial use | **350** | Adjusted sales comparison approach | Sales price per square metre (€) | 450 – 1,250 (1,000) |

## 4. **Property, plant and equipment** - continued

| Description by class based on highest and best use | Fair value at 31 December 2014 €000 | Valuation technique | Significant unobservable input | Range of Unobservable Inputs (weighted average) |
|---|---|---|---|---|
| Developable land for residential/commercial use | **2,100** | Capitalised rental income less cost to completion | Annual rent per square metre (€) | 225 – 275 (240) |
| | | | Capitalisation rate (%) | 7.3 – 8.0 (7.8) |
| | | | Cost to completion per square metre (€) | 1,200 |
| | **10,500** | Adjusted sales comparison approach | Residential: sales price factor per square metre (€) | 800 |
| | | | Commercial: sales price factor per square metre (€) | 350 |
| Extended commercial premises | **16,500** | Yield methodology | Annual rent per square metre (€) | 110 – 1,190 (900) |
| | | | Capitalisation rate (%) | 7.5 |
| | **7,000** | Adjusted sales comparison approach | Residential: sales price factor per square metre (€) | 205 |
| | | | Commercial: sales price factor per square metre (€) | 590 |

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

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

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

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

*Information about fair value measurements using significant unobservable inputs (Level 3) as at 31 December 2013*

| Description by class based on highest and best use | Fair value at 31 December 2013 | Valuation technique | Significant unobservable input | Range of unobservable inputs (weighted average) |
|---|---|---|---|---|
| | €000 | | | € |
| Current use as commercial premises | **16,700** | Adjusted sales comparison approach | Sales price per square metre | 700 – 2,000 (1,900) |
| Redevelopment into residential/commercial premises | **24,500** | Adjusted sales comparison approach | Residential: airspace sales price per square metre | 150 - 1,900 (1,025) |
| | | | Residential: sales price factor per square metre | 110 |
| | | | Commercial: sales price factor per square metre | 735 |
| Marketed for residential use | **2,000** | Adjusted sales comparison approach | Sales price per residential unit | 140,000 - 200,000 (175,000) |
| Development for commercial use | **650** | Adjusted sales comparison approach | Sales price per square metre | 450 - 1,320 (1,100) |

## 4. Property, plant and equipment - continued

| Description by class based on highest and best use | Fair value at 31 December 2013 | Valuation technique | Significant unobservable Input | Range of Unobservable Inputs (weighted average) |
|---|---|---|---|---|
| | €000 | | | € |
| Developable land for residential/commercial use | **11,250** | Adjusted sales comparison approach | Commercial: airspace sales price per square metre | 850 - 2,100 (1,020) |
| | | | Commercial: sales price factor per square metre | 350 |
| | | | Residential: sales price per airspace | 45,000 |
| Extended commercial premises | **33,050** | Adjusted sales comparison approach | Sales price per square metre | 2,000 |
| | | | Sales price factor per square metre | 200 - 700 (400) |

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

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

| | 2014 | 2013 |
|---|---|---|
| | €000 | €000 |
| **Class as presented in tables above** | | |
| Current use as commercial premises | **36,200** | 11,600 |
| Redevelopment into residential/commercial premises | **2,800** | 12,500 |
| Extended commercial premises | **23,500** | 31,900 |
| | **62,500** | 56,000 |

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

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

| | 2014 € | 2013 € |
|---|---|---|
| Cost | **40,644,180** | 40,362,806 |
| Accumulated depreciation and impairment losses | **(10,457,916)** | (9,443,165) |
| Net book amount | **30,186,263** | 30,919,641 |

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

The impairment charges recognised in equity in other comprehensive income during the current financial year are attributable to reductions in the carrying amount of property so as to reflect the recoverable amount of these assets. The recoverable amount of the assets (the higher of the value in use and net selling price) was determined at the individual asset level and represents the net selling price, determined by reference to market prices for equivalent assets.

The category of motor vehicles disclosed above comprises motor vehicles leased out under operating leases as follows:

| | At 31 December 2014 € | At 31 December 2013 € | At 1 January 2013 € |
|---|---|---|---|
| Cost | **5,301,930** | 5,226,719 | 4,978,329 |
| Accumulated depreciation | **(2,243,366)** | (2,131,023) | (2,128,563) |
| Net book amount | **3,058,564** | 3,095,696 | 2,849,766 |

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

| | 2014 € | 2013 € |
|---|---|---|
| **Year ended 31 December** | | |
| Opening net book amount | **3,095,696** | 2,849,766 |
| Additions | **1,065,340** | 1,507,897 |
| Disposals | **(990,129)** | (1,259,507) |
| Depreciation charge | **(822,305)** | (894,347) |
| Depreciation released on disposals | **709,962** | 891,887 |
| Closing net book amount | **3,058,564** | 3,095,696 |

## 5. Investment property

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Year ended 31 December** | | |
| Opening carrying amount | **32,280,584** | 29,057,146 |
| Reclassification from inventories (Note 12) | **775,084** | - |
| Additions resulting from subsequent expenditure | **223,553** | 438,142 |
| Disposals | **(368,000)** | - |
| Net gains from changes in fair value | **3,290,652** | 2,785,296 |
| Closing carrying amount | **36,201,873** | 32,280,584 |
| **At 31 December** | | |
| Cost | **10,930,870** | 10,300,233 |
| Fair value gains | **25,271,003** | 21,980,351 |
| Carrying amount | **36,201,873** | 32,280,584 |

The reclassification from inventories to investment property relates to transfers of property in view of management's decision to utilise the assets for the purposes of deriving rentals, as evidenced by commencement of operating lease arrangements.

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

Disclosures required in terms of IFRS 13 in relation to fair value measurements attributable to investment property are presented in Note 4. The Organisation's investment property is reflected within all classes presented in the table in Note 4.

**5. Investment property** - continued

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Cost | **10,930,870** | 10,300,233 |
| Accumulated depreciation | **(1,145,782)** | (996,938) |
| Net book amount | **9,785,088** | 9,303,295 |

As at 31 December 2014, bank borrowings in the name of undertakings forming part of the Mizzi Organisation are secured on the Organisation's investment property with a fair value of €17,465,000 (2013: €13,408,000).

In prior years an entity forming part of Mizzi Organisation was a recipient company of the division of a fully-owned subsidiary of an associate of another company forming part of the Mizzi Organisation. As a result of the division, the entity acquired investment property in exchange for the issue of redeemable preference shares (see Note 19).

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

| | **At 31 December 2014** | At 31 December 2013 | At 1 January 2013 |
|---|---|---|---|
| | **€** | € | € |
| Cost | **4,417,650** | 4,371,946 | 4,259,413 |
| Fair value gains | **9,148,047** | 8,091,277 | 6,095,821 |
| Carrying amount | **13,565,697** | 12,463,223 | 10,355,234 |

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Year ended 31 December** | | |
| Opening carrying amount | **12,463,223** | 10,355,234 |
| Additions resulting from subsequent expenditure | **62,893** | 112,533 |
| Cessation of operating lease arrangements | **(148,860)** | - |
| Net gains from changes in fair value | **1,188,441** | 1,995,456 |
| Closing carrying amount | **13,565,697** | 12,463,223 |

## 6. Intangible assets

| | Franchise rights € |
|---|---|
| **At 31 December 2014, 2013 and 2012** | |
| Cost | 46,587 |
| Accumulated amortisation | (46,587) |
| Net book amount | - |

## 7. Investments in associates

| | **2014 €** | 2013 € |
|---|---|---|
| **Year ended 31 December** | | |
| Opening carrying amount | **22,233,347** | 16,478,353 |
| Share of profit | **841,807** | 808,443 |
| Share of revaluation surplus on land and buildings | **241,219** | 5,359,317 |
| Dividends received | **(231,926)** | (367,472) |
| Redemption of capitalised ground rents (Note 17) | **(2,226)** | (1,604) |
| Derecognition of carrying amount upon liquidation of associate | **-** | (43,690) |
| Closing carrying amount | **23,082,221** | 22,233,347 |

| | **2014 €** | 2013 € |
|---|---|---|
| **At 31 December** | | |
| Cost | **1,743,143** | 1,743,143 |
| Share of profits and reserves | **21,401,098** | 20,552,224 |
| Provisions for impairment | **(62,020)** | (62,020) |
| Carrying amount | **23,082,221** | 22,233,347 |

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

During the preceding financial year, the carrying amount of the investment in Lada Motors Limited (a former associate of Kastell Limited) had been derecognised from the Organisation's financial statements upon liquidation of the company. The resultant loss of €1,254, taking into account proceeds upon liquidation of €42,436, had been recognised in profit or loss and presented within 'Share of profit of associates'.

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

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

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

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

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

**Summarised balance sheets**

| | **IELS As at 31 October 2014 €** | **TPG As at 31 December 2014 €** | **MAE As at 31 December 2014 €** |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **8,189,621** | **4,802,966** | **40,726,759** |
| **Current assets** | | | |
| Cash and cash equivalents | **33,908** | **246** | **1,676,595** |
| Other current assets | **1,612,814** | **-** | **4,880,435** |
| Total current assets | **1,646,722** | **246** | **6,557,030** |
| **Total assets** | **9,836,343** | **4,803,212** | **47,283,789** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | **-** | **-** | **63,447** |
| Financial liabilities | **942,181** | **2,292,103** | **-** |
| Other liabilities | **240,016** | **-** | **4,344,316** |
| Total non-current liabilities | **1,182,197** | **2,292,103** | **4,407,763** |
| **Current liabilities** | | | |
| Trade and other payables | **2,893,117** | **360** | **1,380,386** |
| Other financial liabilities | **3,041,227** | **-** | **315,085** |
| Other liabilities | **192,432** | **-** | **243,597** |
| Total current liabilities | **6,126,776** | **360** | **1,939,068** |
| **Total liabilities** | **7,308,973** | **2,292,463** | **6,346,831** |
| **Net assets** | **2,527,370** | **2,510,749** | **40,936,958** |

**7. Investments in associates** - continued

The group's respective share of the net assets reflected above is in substance equivalent to the group's carrying amount of its investment in the associates.

The company's statutory financial year end for Institute of English Language Studies Limited is 31 October 2014 and accordingly the financial information made available to shareholders relates to financial year ended 31 October. Accordingly, the financial statements of Institute of English Language Studies Limited used in applying the equity method are attributable to the financial year ended 31 October 2014, which year end is different from that of the reporting entity.

**Summarised statements of comprehensive income**

| | IELS As at 31 October 2014 € | TPG As at 31 December 2014 € | MAE As at 31 December 2014 € |
|---|---|---|---|
| **Revenue** | **5,739,260** | **-** | **6,500,759** |
| Depreciation | (409,981) | - | (822,413) |
| Interest income | - | - | 74,353 |
| Interest expense | (162,513) | - | (33,490) |
| Profit before tax | 626,115 | 524,959 | 1,121,012 |
| Tax expense | (234,198) | - | (307,783) |
| Profit for the year | 391,917 | 524,959 | 813,229 |
| Other comprehensive income | - | - | 468,614 |
| **Total comprehensive income** | **391,917** | **524,959** | **1,281,843** |
| **Dividends received from associate** | **-** | **-** | **230,683** |

## 7. Investments in associates - continued

**Summarised balance sheets**

| | IELS As at 31 October 2013 € | TPG As at 31 December 2013 € | MAE As at 31 December 2013 € |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | 6,585,548 | 4,199,585 | 40,337,297 |
| **Current assets** | | | |
| Cash and cash equivalents | 70,712 | 1,583 | 779,812 |
| Other current assets | 1,370,279 | - | 5,366,808 |
| Total current assets | 1,440,991 | 1,583 | 6,146,620 |
| **Total assets** | 8,026,539 | 4,201,168 | 46,483,917 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | - | - | 68,735 |
| Financial liabilities | 338,438 | 2,292,103 | 250,000 |
| Other liabilities | 205,264 | - | 4,414,361 |
| Total non-current liabilities | 543,702 | 2,292,103 | 4,733,096 |
| **Current liabilities** | | | |
| Trade and other payables | 2,325,177 | 360 | 1,311,489 |
| Other financial liabilities | 2,868,273 | - | 315,085 |
| Other liabilities | 153,934 | - | 169,132 |
| Total current liabilities | 5,347,384 | 360 | 1,795,706 |
| **Total liabilities** | 5,891,086 | 2,292,463 | 6,528,802 |
| **Net assets** | 2,135,453 | 1,908,705 | 39,955,115 |

## 7. Investments in associates - continued

**Summarised statements of comprehensive income**

| | IELS As at 31 October 2013 € | TPG As at 31 December 2013 € | MAE As at 31 December 2013 € |
|---|---|---|---|
| **Revenue** | 5,079,895 | - | 6,309,622 |
| Depreciation | (260,435) | - | (698,592) |
| Interest income | 565 | - | 58,787 |
| Interest expense | (168,426) | - | (30,245) |
| Profit before tax | 514,705 | 281,592 | 1,180,759 |
| Tax expense | (179,510) | - | (240,471) |
| Profit for the year | 335,195 | 281,592 | 940,288 |
| Other comprehensive income | - | - | 10,505,319 |
| **Total comprehensive income** | 335,195 | 281,592 | 11,445,607 |
| **Dividends received from associate** | - | - | 229,442 |

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

The Organisation's share of the results of the other associates and its share of the assets and liabilities are as follows:

| **2014** | Assets € | Liabilities € | Revenues € | Profit € |
|---|---|---|---|---|
| FirstUnited Insurance Brokers Limited | 844,996 | 537,512 | 435,120 | 74,169 |
| FirstUnited Insurance Management Limited | 62,119 | 10,905 | 125,055 | 22,477 |
| 2013 | | | | |
| FirstUnited Insurance Brokers Limited | 825,260 | 537,552 | 437,194 | 72,677 |
| FirstUnited Insurance Management Limited | 70,917 | 25,623 | 128,523 | 20,777 |

## 7. Investments in associates - continued

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

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

The Organisation had advanced an amount of €575,938 (2013: €575,938) by way of shareholder's loan to an associate. These advances do not bear interest and do not have any fixed date of repayment. The purpose of these advances is to fund the associate's financial commitments in respect of a business venture. In accordance with the formal terms of the financing arrangement, the amounts advanced as shareholder's loans are earmarked for capitalisation i.e. conversion into ordinary share capital. At the end of the reporting period, in the opinion of the directors, the fair value of this asset approximates its carrying amount.

## 9. Available-for-sale financial assets

| | 2014 € | 2013 € |
|---|---|---|
| **Year ended 31 December** | | |
| Opening carrying amount | **649,489** | 860,582 |
| Additions at cost | **19,570** | 4,556 |
| Net gains from changes in fair value (Note 16) | **30,314** | 93,972 |
| Disposals | **(48,705)** | (104,554) |
| Increase in provisions for impairment | **-** | (205,067) |
| Closing carrying amount | **650,668** | 649,489 |

| | 2014 € | 2013 € |
|---|---|---|
| **At 31 December** | | |
| Cost | **1,375,367** | 1,408,092 |
| Fair value gains/(losses) | **6,392** | (27,512) |
| Provisions for impairment | **(731,091)** | (731,091) |
| Carrying amount | **650,668** | 649,489 |

The Organisation's available-for-sale assets consist of:

| | 2014 € | 2013 € |
|---|---|---|
| Investments listed on the Malta Stock Exchange | **373,409** | 372,230 |
| Other investments in unlisted local private companies | **277,259** | 277,259 |
| | **650,668** | 649,489 |

## 9. Available-for-sale financial assets - continued

The Organisation's available-for-sale investments, consisting of equity instruments, are fair valued annually. For investments traded on the Malta Stock Exchange, fair value is determined by reference to quoted market prices. For other unlisted investments, fair value is mainly estimated by reference to the net asset backing of the investee and the use of valuation techniques, principally discounted cash flow models. The cost of the other unlisted investments approximates fair value and no movements have been recognised in equity. During the preceding financial year, an impairment loss had been recognised in respect of an investment in an unlisted company which was in unexpected adverse trading and operating conditions. In prior years, an impairment charge had also been recorded in respect of this investment and in respect of an investment in another unlisted entity.

## 10. Trade and other receivables

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Current** | | |
| Trade receivables | **10,507,158** | 10,566,861 |
| Amounts receivable from hire purchase debtors (Note 11) | **2,588,290** | 3,153,289 |
| Gross amounts due from customers for contract work | **1,088,046** | 354,912 |
| Finance lease receivables (net of unearned finance income) | **48,984** | 90,307 |
| Amounts owed by associates | **415,373** | 394,321 |
| Amounts owed by other related parties | **3,025,817** | 3,086,869 |
| Government grants receivable | **-** | 8,789 |
| Advance payments to suppliers | **46,856** | 19,990 |
| Other receivables | **2,486,731** | 2,554,960 |
| Indirect taxation | **1,749,311** | 1,251,333 |
| Prepayments and accrued income | **3,039,651** | 3,659,831 |
| | **24,996,217** | 25,141,462 |
| **Non-current** | | |
| Amounts receivable from hire purchase debtors (Note 11) | **3,689,793** | 3,905,424 |
| Finance lease receivables (net of unearned finance income) | **-** | 26,566 |
| Other receivables | **2,522,836** | 3,329,229 |
| Prepayments and accrued income | **574,585** | 735,189 |
| | **6,787,214** | 7,996,408 |

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

Current trade receivables as at 31 December 2014 disclosed above include an amount of €83,097 (2013: €49,990) that is subject to a fixed interest rate of 6%.

Accrued income reflected in the table above consisting of a non-current amount of €81,058 (2013: €317,591) and a current amount of €291,181 (2013: €188,673), is effectively subject to a fixed interest rate of 5%. Furthermore, current accrued income as at 31 December 2013 included an amount of €405,923 that was subject to a fixed interest rate of 6%. Furthermore, current accrued income as at 31 December 2013 included an amount of €405,923 that was subject to a fixed interest rate of 6%.

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

Prepayments and accrued income include amounts, presented within current assets, which are amounts owed by other related parties of €4,048 (2013: €325).

Furthermore amounts owed by associated undertakings are included in the following line items:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Prepayments and accrued income | **83,888** | - |
| Gross amounts due from customers for contract work | **-** | 79,203 |

Non-current amounts, other than finance lease receivables and amounts referred to above, principally relate to advance payments which are expected to be realised over the term of the related agreements up to ten years after the end of the reporting period. The other non-current amounts are principally receivable within five years from the end of the reporting period.

Receivables above are disclosed net of provisions for impairment as follows:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Trade receivables | **2,519,687** | 2,358,597 |
| Other receivables: current amounts | **2,094,613** | 1,878,724 |
| Other receivables: non-current amounts | **816,220** | 1,128,009 |
| | **5,430,520** | 5,365,330 |

Provisions for impairment of amounts receivable from hire purchase debtors are disclosed separately in Note 11.

The aggregate amount of costs incurred and recognised profits (less recognised losses) to date for contracts in progress at the end of the reporting period amounts to €2,246,615 (2013: €1,363,193). Gross amounts due from and to customers in respect of these contracts are disclosed in the table above on page 61 and in Note 18 respectively.

An undertaking forming part of the Mizzi Organisation enters into motor vehicle finance lease arrangements with third party customers, whereby the contractual terms essentially transfer all risks and rewards incidental to ownership of the motor vehicles. These arrangements do not include significant unguaranteed residual values accruing to the benefit of the lessor. Gross receivables from finance leases at the end of the reporting period are analysed as follows:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Gross finance lease receivables: | | |
| Not later than one year | **52,029** | 92,333 |
| Later than one year and not later than five years | **-** | 29,599 |
| | **52,029** | 121,932 |
| Unearned future finance income | **(3,045)** | (5,059) |
| Net investment in finance leases | **48,984** | 116,873 |

## 10. Trade and other receivables - continued

The net investment in finance leases is analysed as follows:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Not later than one year | **48,984** | 90,307 |
| Later than one year and not later than five years | **-** | 26,566 |
| | **48,984** | 116,873 |

Amounts receivable from finance lease debtors are subject to an effective interest rate of 9% (2013: 9%).

Government grants receivable represented state aid in respect of the energy grant scheme. This grant related to assets and is included in liabilities as deferred government grants. The amount of the liability was credited to profit or loss on a straight-line basis over the expected lives of the related assets and is presented within 'Other operating income' and disclosed in Note 25. The impact of other Government grants received on the Organisation's financial results is disclosed in Note 28.

## 11. Amounts receivable from hire purchase debtors

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Current** | | |
| Debtors on whom bills of exchange were drawn | **7,519,171** | 7,651,442 |
| Provisions for impairment | **(4,930,881)** | (4,498,153) |
| | **2,588,290** | 3,153,289 |
| **Non-current** | | |
| Debtors on whom bills of exchange were drawn | **3,739,110** | 4,147,517 |
| Provisions for impairment | **(49,317)** | (242,093) |
| | **3,689,793** | 3,905,424 |
| **Total amounts receivable from hire purchase debtors** | **6,278,083** | 7,058,713 |

**11. Amounts receivable from hire purchase debtors** - continued

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

As at 31 December 2014, hire purchase receivables include amounts owed by related parties of €50,824 (2013: €128,560).

During the financial year under review, the entity has financed receivables with a face value amounting to €3,294,719 (2013: €4,021,238). Amounts receivable from hire purchase debtors are subject to an effective interest rate of 8% (2013: 8%).

Receivables covered by bills of exchange factored out to bank with an option to repurchase them as they fall due are not derecognised from the Organisation's statement of financial position. The amounts advanced under this facility are treated as collateralised borrowings (disclosed as distinct liabilities) amounting to the face value of the bills factored out (Note 19). Receivables covered by bills of exchange factored out to bankers without an option to repurchase them as they fall due are derecognised by the Organisation. The entity would retain credit risk in these receivables through the bank's right of recourse which would be limited to 15% of the value of the bills factored in the preceding six months. During the current and preceding financial years no receivables have been factored out in this manner.

In prior years, Mizzi Organisation Finance p.l.c. entered into a financial arrangement with United Acceptances Finance Limited (both entities forming part of the Organisation) for the acquisition of bills of exchange drawn in favour of the latter company, which entity operates as a financing company within the Organisation. The former company, the issuer of bonds to the public, resolved to utilise the cumulative amount of bills of exchange acquired in this manner, with a face value of €2,721,909 and fair value of €2,419,272 to set up the sinking fund earmarked for the eventual repayment of the bonds. The bills of exchange are accordingly held by an authorised trustee that is independent of the Mizzi Organisation.

In addition to the amount of €2,721,909 reflecting the face value of the bills of exchange outlined above, the issuer's parent committed a further amount of €300,000 by way of a bank guarantee to align the sinking fund with the targeted commitments (refer to Note 35[a]). As at the date of authorisation for issue of these financial statements, the issuer continued building up the sinking fund through a property portfolio owned by the Organisation that has been hypothecated in favour of the bond holders, as approved by the Listing Committee of the Malta Financial Services Authority.

## 12. Inventories

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Property being developed with a view to sale** | | |
| At 1 January | **2,319,939** | 2,742,349 |
| Additions resulting from subsequent expenditure | **134,957** | 49,802 |
| Reclassification to investment property (Note 5) | **(775,084)** | - |
| Transfers to cost of sales | **(1,109,173)** | (472,212) |
| At 31 December | **570,639** | 2,319,939 |
| **Goods held for resale** | | |
| Motor vehicles, spare parts and related supplies | **10,404,817** | 8,460,201 |
| Other goods purchased for resale | **5,628,580** | 4,916,107 |
| Raw materials and manufactured finished goods | **1,810,198** | 1,667,340 |
| Containers (carried at net realisable value) | **91,018** | 28,951 |
| Goods in transit | **1,355,714** | 1,153,208 |
| Contract and other work in progress | **231,193** | 336,836 |
| Payments on account in respect of motor vehicles and spare parts | **891,083** | 287,182 |
| | **20,412,603** | 16,849,825 |
| Total inventories | **20,983,242** | 19,169,764 |

The reclassification to investment property relates to the transfer of property in view of management's decision to utilise the assets for the purposes of deriving rentals, as evidenced by commencement of operating lease arrangements.

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

The cost of inventories recognised as expense is appropriately disclosed in Note 23 of the financial statements. During the year ended 31 December 2014, net inventory write-downs amounted to €550,964 (2013: €706,820). These amounts have been included within 'Cost of sales' in profit or loss.

Bank borrowings in the name of entities forming part of the Mizzi Organisation are secured on inventories with a carrying amount of €571,000 (2013: €2,320,000) - refer to Note 19.

## 13. Cash and cash equivalents

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Cash at bank and in hand | **6,567,501** | 4,950,636 |
| Bank overdrafts (Note 19) | **(12,055,715)** | (12,112,423) |
| Bills of exchange factored out to bank (Note 19) | **(404,035)** | (505,995) |
| | **(5,892,249)** | (7,667,782) |

At 31 December 2014, the Organisation's cash at bank included an amount of €1,147,994 (2013: nil) that was earmarked by bankers as cover for guarantees issued by the banks in favour of third parties in the ordinary course of business. These amounts are included within the Organisation's cash and cash equivalents as the funds are considered an integral part of the Organisation's overall cash management.

The current portion of the factoring facility in respect of bills of exchange factored out to bank (Note 19) is treated as a cash equivalent since this facility forms an integral part of the Organisation's cash management.

## 14. Assets classified as held for sale

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Property classified as held for sale** | | |
| Opening and closing carrying amount | **5,161** | 5,161 |

## 15. Share capital

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Authorised** | | |
| 1,571,998 (2013: 1,571,998) ordinary shares of €2.329373 each | **3,661,770** | 3,661,770 |
| **Issued and fully paid** | | |
| 1,059,700 (2013: 1,059,700) ordinary shares of €2.329373 each | **2,468,437** | 2,468,437 |

The total authorised, issued and fully paid up share capital for the combined financial statements has been assumed to be the aggregate of all of the authorised, issued and fully paid up share capital of each of the guarantors and the other two companies constituting the Mizzi Organisation.

## 16. Revaluation reserves

| | 2014 € | 2013 € |
|---|---|---|
| Surplus arising on fair valuation of: | | |
| Land and buildings of entities forming part of the Mizzi Organisation | **38,902,765** | 33,225,233 |
| Land and buildings of associates | **11,008,452** | 10,882,813 |
| Available-for-sale financial assets | **6,393** | (27,511) |
| | **49,917,610** | 44,080,535 |

The movements in each category are analysed as follows:

| | 2014 € | 2013 € |
|---|---|---|
| **Land and buildings of entities forming part of the Mizzi Organisation** | | |
| At beginning of year | **33,225,233** | 32,675,600 |
| Revaluation surplus arising during the year (Note 4) | **7,429,344** | 785,053 |
| Impairment charges (Note 4) | **(861,030)** | - |
| Transfer upon realisation through asset use | **(111,396)** | (111,396) |
| Deferred income taxes on revaluation surplus arising during the year (Note 20) | **(891,522)** | (94,206) |
| Deferred income taxes on realisation through impairment charges (Note 20) | **103,324** | - |
| Movement in deferred tax liability determined on the basis applicable to property disposals | **(30,177)** | (30,122) |
| Deferred income taxes on realisation through asset use (Note 20) | **38,989** | 38,987 |
| Other movements | **-** | (38,683) |
| At end of year | **38,902,765** | 33,225,233 |

## 16. **Revaluation reserves** - continued

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Land and buildings of associates** | | |
| At beginning of year | **10,882,813** | 5,598,222 |
| Share of revaluation surplus arising during the year, net of deferred tax | **241,219** | 5,359,317 |
| Transfer upon realisation through asset use – share of depreciation transfer, net of deferred tax | **(115,580)** | (74,726) |
| At end of year | **11,008,452** | 10,882,813 |

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Available-for-sale financial assets** | | |
| At beginning of year | **(27,511)** | (139,525) |
| Net gains from changes in fair value (Note 9) | **30,314** | 93,972 |
| Reclassification adjustments for net losses included in profit or loss upon disposal of available-for-sale financial assets | **3,590** | 18,042 |
| At end of year | **6,393** | (27,511) |

The tax impact relating to components of other comprehensive income is presented in the above tables.

Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in equity in other comprehensive income through the revaluation reserve in accordance with the Organisation's accounting policy. When the assets are disposed of, the related accumulated fair value adjustments, including the amount of the adjustment on initial application of IAS 39, are reclassified to profit or loss as a reclassification adjustment and reflected as gains or losses from available-for-sale financial assets.

The revaluation reserves are non-distributable.

## 17. **Fair value gains and other reserves**

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Fair value gains reserve in respect of investment property | **17,404,025** | 14,604,516 |
| Share of associate's incentives and benefits reserve | **1,034,695** | 1,034,695 |
| Capital reserves | **322,115** | 322,115 |
| Share of associate's capital reserve | **192,223** | 194,449 |
| Translation reserve | **(31,425)** | (32,007) |
| | **18,921,633** | 16,123,768 |

**17. Fair value gains and other reserves** - continued

The movements in each category are analysed as follows:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **Fair value gains reserve in respect of investment property** | | |
| At beginning of year | **14,604,516** | 12,367,308 |
| Fair value gains arising during the year | **3,232,878** | 2,785,296 |
| Movement in deferred tax liability determined on the basis applicable to property disposals | **(28,834)** | (18,579) |
| Deferred income taxes on fair value gains arising during the year | **(387,946)** | (517,302) |
| Realisation through asset disposals | **(16,589)** | (12,207) |
| At end of year | **17,404,025** | 14,604,516 |
| **Share of associate's incentives and benefits reserve** | | |
| At beginning of year | **1,034,695** | 658,493 |
| Share of transfer from retained earnings | **-** | 376,202 |
| At end of year | **1,034,695** | 1,034,695 |
| **Capital reserves** | | |
| At beginning and end of year | **322,115** | 322,115 |
| **Share of associate's capital reserve** | | |
| At beginning of year | **194,449** | 196,053 |
| Redemption of capitalised ground rents (Note 7) | **(2,226)** | (1,604) |
| At end of year | **192,223** | 194,449 |
| **Translation reserve** | | |
| At beginning of year | **(32,007)** | (39,748) |
| Currency translation differences arising during the year | **582** | 7,741 |
| At end of year | **(31,425)** | (32,007) |

The tax impact relating to components of other comprehensive income is presented in the above tables.

Gains from changes in fair value of investment property, net of deferred tax movements, which are unrealised at the end of the reporting periods, would be recognised in profit or loss in accordance with the Organisation's accounting policy for investment property. These amounts are transferred from retained earnings to the fair value gains reserve since these gains are not considered by the directors of the respective entities to be available for distribution.

**17. Fair value gains and other reserves** - continued

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

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

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

**18. Trade and other payables**

| | 2014<br>€ | 2013<br>€ |
|---|---|---|
| **Current** | | |
| Trade payables | **10,384,225** | 9,854,790 |
| Payments received on account | **1,717,819** | 1,609,537 |
| Amounts payable in respect of capital expenditure | **569,411** | 590,451 |
| Gross amounts owed to customers for contract work | **327,581** | 103,579 |
| Advances from customers for contract work | **1,341,077** | 275,229 |
| Amounts owed to associates | **503,201** | 472,033 |
| Derivative financial instruments | **-** | 13,947 |
| Other payables | **1,248,565** | 1,138,124 |
| Indirect taxation | **2,126,585** | 1,936,647 |
| Deferred Government grants related to assets (Note 10) | **11,682** | 11,682 |
| Accruals and deferred income | **7,276,388** | 6,785,025 |
| | **25,506,534** | 22,791,044 |
| **Non-current** | | |
| Deferred Government grants related to assets (Note 10) | **17,984** | 28,774 |
| Deferred income | **112,494** | 213,386 |
| Other payables | **6,988** | 6,988 |
| | **137,466** | 249,148 |

As at 31 December 2013, the Organisation's outstanding derivative contract with a fair value of €13,947 consisted of forward contracts for the forward purchase of US dollars against euro, maturing within one year form the end of the reporting period. These contracts had a notional amount of €601,733 with a weighted average contracted forward rate of USD1.3452:€1.

Non-current deferred income relates to funds received in advance to compensate the Organisation for expenditure that will be incurred until 2016. The amount of the liability is amortised to profit or loss on a straight-line basis over this period to match expenditure the funds are intended to compensate.

## 19. Borrowings

| | 2014 | 2013 |
|---|---|---|
| | **€** | € |
| **Current** | | |
| Bank overdrafts | **12,055,715** | 12,112,423 |
| Bills of exchange factored out to bank (Note 28) | **404,035** | 505,995 |
| Bank loans | **2,550,629** | 3,914,845 |
| Loans from related party | **107,210** | 142,849 |
| Loans from associates | **600,000** | 600,000 |
| | **15,717,589** | 17,276,112 |
| **Non-current** | | |
| Bills of exchange factored out to bank (Note 28) | **329,020** | 429,031 |
| Bank loans | **11,482,867** | 13,338,242 |
| 300,000 6.2% bonds 2016 – 2019 issued in 2009 | **29,744,078** | 29,622,700 |
| Redeemable preference shares | **815,281** | 815,281 |
| | **42,371,246** | 44,205,254 |
| **Total borrowings** | **58,088,835** | 61,481,366 |

By virtue of the Prospectus dated 29 October 2009, Mizzi Organisation Finance p.l.c. ("the Issuer"), an entity forming part of the Organisation, 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 issuer'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 issuer 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 issuer under the bonds.

In accordance with the terms and conditions specified in the Prospectus, the issuer has continued the allocation of funds to a sinking fund (see Note 11). The value of the sinking fund should eventually 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 the redemption date.

**19. Borrowings** - continued

The 2002 bond proceeds had been advanced to the guarantors for the principal purpose 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 the operating subsidiaries of these companies, pursuant to, and subject to, the terms and conditions in the Offering Memorandum dated 2 May 2002, as amended by a supplementary agreement.

Under the terms and conditions in the 2009 Prospectus, 2002 bondholders could surrender their 2002 bonds in exchange for 2009 bonds. The actual net proceeds of the bond issue, were firstly utilised to repay any amounts due by the issuer with respect to the 2002 bonds. The resultant amount of the proceeds which remained available to the issuer had been utilised to partly refinance existing borrowings in relation to the construction of The General Soft Drinks factory and other capital expenditure.

The bonds have been admitted to the Official List of the Malta Stock Exchange. The quoted market price of the bonds at 31 December 2014 was 106.05 (2013: 106.00), which in the opinion of the directors fairly represented the fair value of these financial liabilities.

At the end of the reporting period, bonds having a face value of €298,500 (2013: €292,300) were held by directors of the issuer, and bonds with a face value of €529,100 (2014: €529,100) were held by other officers of companies forming part of the Mizzi Organisation and close family members of these individuals.

## 19. **Borrowings** - continued

The 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:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **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 | **397,085** | 290,021 |
| Amortisation charge for the current year (Note 13) | **114,225** | 107,064 |
| Accumulated amortisation at end of year | **511,310** | 397,085 |
| Unamortised bond issue costs | **(240,840)** | (355,065) |
| 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 | **24,865** | 18,161 |
| Amortisation charge for the current year (Note 13) | **7,153** | 6,704 |
| Accumulated amortisation at end of year | **32,018** | 24,865 |
| Unamortised amount of discounts | **(15,082)** | (22,235) |
| **Amortised cost and closing carrying amount of the bonds** | **29,744,078** | 29,622,700 |

**19. Borrowings** - continued

The Organisation's banking facilities as at 31 December 2014 amounted to €43,400,000 (2013: €45,100,000). These facilities are mainly secured by:

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

These banking facilities include an amount of €1,050,000 (2013: €1,050,000) in respect of the recourse element of 15% of the face value of bills of exchange factored out to the bank with an option to repurchase them as they fall due up to a limit of €7,000,000 (2013: €7,000,000). At 31 December 2014, the total value of outstanding bills, which had been factored out under this facility, amounted to €733,055 (2013: €935,026) as disclosed above. This banking facility may also be utilised to factor out bills of exchange without an option to repurchase them as they fall due. The facility amount covers the recourse element of 15% of the value of bills factored out in this manner.

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

The Organisation's bank borrowings are subject to floating rates of interest. The weighted average effective interest rates for bank borrowings at the end of the reporting period are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **%** | % |
| Bank overdrafts | **4.7** | 4.8 |
| Bills of exchange factored out to bank | **5.0** | 5.0 |
| Bank loans | **4.4** | 4.4 |

Maturity of Organisation's non-current bank borrowings:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Between 1 and 2 years | **7,723,089** | 3,767,784 |
| Between 2 and 5 years | **4,075,901** | 9,902,380 |
| Over 5 years | **12,897** | 97,109 |
| | **11,811,887** | 13,767,273 |

At 31 December 2014, an entity forming part of the Mizzi Organisation had other short-term advances of €107,210 (2013: €142,849) from a related party, which are repayable on demand, interest free and secured by the undertaking's property for the amount of €431,000 (2014: €431,000).

The short-term loans from associates amounting to €600,000 (2013: €600,000) are repayable on demand, unsecured and subject to a fixed interest rate of 4% (2013: 4%).

**19. Borrowings** - continued

In prior years, an undertaking was a recipient company in respect of the division of a fully owned subsidiary of an associate of another company forming part of the Mizzi Organisation. As a result of this division, the undertaking acquired investment property in exchange for the issue of redeemable preference shares for the amount of €815,281. These redeemable preference shares are mandatorily redeemable on or before 31 December 2064, which redemption date is to be determined by the issuer, and pay dividends at 3% annually on a non-cumulative basis. These liabilities will not be settled within twelve months after the end of the reporting period in accordance with the terms of the arrangement in place. In the opinion of the directors of the entity, these redeemable preference shares meet the criteria established by IAS 32: 'Financial Instruments - Presentation', for classification as financial liabilities rather than equity.

**20. Deferred taxation**

Deferred income taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2013: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. tax effect of 12% of the transfer value.

The movement on the deferred tax account is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| At beginning of year | **10,676,414** | 10,164,083 |
| Movement in deferred tax liability determined on the basis applicable to property disposals: | | |
| Investment property - recognised in profit or loss (Note 29) | **42,944** | 57,263 |
| Property, plant and equipment and other assets - recognised in other comprehensive income (Note 16) | **30,177** | 30,122 |
| Deferred income taxes on revaluation surplus on property, plant and equipment arising during the year (Note 16) | **891,522** | 94,206 |
| Deferred income taxes on fair value gains on investment property arising during the year (Note 29) | **387,946** | 517,302 |
| Realisation through impairment charges in respect of revalued property, plant and equipment (Note 16) | **(103,324)** | - |
| Realisation through asset use (Note 29) | **(38,989)** | (38,987) |
| Realisation through asset disposals (Note 29) | **(133,100)** | (56,665) |
| Deferred income taxes on temporary differences arising on depreciation of property, plant and equipment (Note 29) | **(98,188)** | (149,526) |
| Deferred income taxes attributable to unabsorbed capital allowances (Note 29) | **104,757** | (7,964) |
| Deferred income taxes attributable to unutilised investment tax credits (Note 29) | **97,849** | 66,580 |
| At end of year | **11,858,008** | 10,676,414 |

All the amounts disclosed in the table above, which have been referenced to Note 29 are recognised in profit or loss. The other amounts, referenced to Note 16, have been recognised directly in equity in other comprehensive income.

**20. Deferred taxation** - continued

The balance at 31 December represents:

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Temporary differences arising on fair valuation of property | **11,979,448** | 10,902,272 |
| Temporary differences arising on depreciation of property, plant and equipment | **597,398** | 695,586 |
| Deferred taxation attributable to unabsorbed capital allowances | **(575,571)** | (680,328) |
| Deferred taxation attributable to unutilised investment tax credits | **(143,267)** | (241,116) |
| | **11,858,008** | 10,676,414 |

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

Changes to the taxation rules on capital gains arising on transfer of immovable property were announced by the Minister for Finance during the Budget Speech for the financial year 2015, and in respect of which a Bill entitled ‘An Act to implement Budget measures for the financial year 2015 and other administrative measures’ was published in December 2014. With effect from 1 January 2015, the final tax on transfers of immovable property acquired after 1 January 2004 will be reduced to 8% of the transfer value while the rate in respect of transfers of property acquired before 1 January 2004 will be 10%. The announcement of the revised tax regime by the Minister for Finance and the subsequent publication of the Budget Bill in December 2014 do not, as at 31 December 2014, have the substantive effect of actual enactment. Accordingly, tax rates used for the measurement of deferred taxation as at 31 December 2014 are those applicable prior to the measures announced in the Budget Speech for the financial year 2015, which are disclosed above. The net impact of the application of the changed tax regime on the deferred tax liability attributable to fair valuation of the Organisation’s property would be a decrease amounting to €2,023,514 of which €1,214,334 would be recognised in other comprehensive income and €809,180 would be recognised in profit or loss.

**20. Deferred taxation** - continued

At 31 December 2014 and 2013, the Organisation had the following unutilised tax credits and temporary differences:

| | Unrecognised | | Recognised | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 20013 |
| | **€** | € | **€** | € |
| Unutilised tax credits arising from: | | | | |
| Unabsorbed tax losses | **1,561,022** | 2,170,178 | **-** | - |
| Unabsorbed capital allowances | **4,109,634** | 3,938,388 | **1,644,489** | 1,943,795 |
| Unabsorbed capital losses | **1,241,600** | 1,382,971 | - | - |
| Investment tax credits | **16,173,191** | 16,448,183 | 143,267 | 241,116 |
| Deductible temporary differences arising on: | | | | |
| Depreciation of property, plant and equipment | **223,864** | 366,524 | **174,673** | 138,612 |
| Provisions for impairment of trade and other receivables | **9,912,129** | 10,267,752 | **-** | - |
| Provisions for impairment of investments in associates and available-for-sale financial assets | **777,173** | 793,111 | **-** | - |
| Provisions for other liabilities and charges | **-** | 15,140 | **-** | - |
| Taxable temporary differences arising on depreciation of property, plant and equipment | **-** | - | **(1,881,524)** | (2,126,002) |

Under the Business Promotion Regulations 2001, two entities forming part of Mizzi Organisation (The General Soft Drinks Company Limited and Bevmed Co. Limited) are entitled to investment tax credits on "qualifying" capital expenditure, the full amount of which would be available for set-off against the respective undertaking's tax liability. These unutilised investment tax credits are disclosed in the table above and which balance increases annually at the end of the financial year. At 31 December 2014, the balance of these credits increased by 0.44 % (2013: 0.56%).

The temporary differences arising on provisions for impairment of trade and other receivables include those arising on provisions for impairment of amounts receivable from hire purchase debtors (see Note 11).

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

## 21. Provisions for other liabilities and charges: current amounts

| | Provisions for legal claims | |
|---|---|---|
| | **2014** | 2013 |
| | **€** | € |
| **Year ended 31 December** | | |
| At beginning of year | **15,140** | 15,140 |
| Credited to profit or loss: | | |
| - unused amounts reversed | **(15,140)** | - |
| At end of year | **-** | 15,140 |

The amounts shown above comprised gross provisions in respect of legal claims brought against the Organisation. The outcome of the outstanding legal claims did not give rise to any significant loss and accordingly the amount of the provisions at 31 December 2013 was reversed during the current financial year.

## 22. Revenue

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| **By category of business** | | |
| Sale of motor vehicles, spare parts and provision of ancillary services | **52,283,321** | 43,199,788 |
| Sale of foodstore goods, clothing and other goods from shopping complex and rented premises | **28,171,030** | 29,134,265 |
| Bottling of soft drinks, mineral water and sale of other beverages | **31,244,214** | 30,327,650 |
| Activities in the power, heating and ventilation equipment sectors | **12,044,557** | 11,412,416 |
| Hotel operations | **3,585,038** | 3,256,460 |
| Sale of property developed with a view to sale | **1,597,900** | 694,000 |
| Income from hire purchase financing | **672,444** | 966,842 |
| Finance lease income – motor vehicle lease arrangements | **2,014** | 6,490 |
| Operating lease rental income: | | |
| - property | **853,220** | 773,966 |
| - motor vehicles | **1,179,575** | 1,188,420 |
| | **131,633,313** | 120,960,297 |

Income from hire purchase and related financing includes interest amounting to €11,305 (2013: €15,855) earned on loans and advances to related parties. Revenue from activities in the power, heating and ventilation equipment sectors includes contract revenue amounting to €8,847,988 (2013: €7,952,022).

## 23. Expenses by nature

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Cost of goods purchased for resale | **75,673,592** | 67,676,543 |
| Raw materials and other consumables used | **9,984,023** | 10,188,994 |
| Changes in inventory of manufactured finished goods | **106,288** | 56,469 |
| Cost attributable to property sold | **1,186,088** | 518,656 |
| Hotel food and beverage costs | **401,724** | 381,445 |
| Hotel operating supplies, services and related expenses | **866,502** | 709,976 |
| Depreciation of property, plant and equipment (Note 4) | | |
| - owned assets | **4,136,725** | 4,068,252 |
| - owned assets (motor vehicles) leased out under operating leases | **822,306** | 931,221 |
| Employee benefit expense (Note 24) | **19,652,125** | 18,250,651 |
| Interest payable and financing costs (included in 'Cost of sales') | **58,695** | 91,665 |
| Marketing, business promotion and related expenses | **2,412,927** | 2,520,246 |
| Property operating lease rentals payable | **990,320** | 955,883 |
| Movement in provisions for impairment of receivables: | | |
| - hire purchase (included in 'Administrative expenses') | **105,483** | 527,275 |
| - trade and other (included in 'Selling and other direct expenses') | **(22,048)** | 566,430 |
| - trade and other (included in 'Administrative expenses') | **87,238** | 260,448 |
| Other expenses | **8,503,206** | 7,494,716 |
| **Total cost of sales; selling and other direct expenses; and administrative expenses** | **124,965,194** | 115,198,870 |

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Exchange differences | **70,769** | (5,789) |
| Profit on disposal of property, plant and equipment | **(286,369)** | (317,312) |
| Amounts written off in respect of trade receivables (included in Administrative expenses) | **18,683** | 27,265 |

Exchange differences disclosed above include the impact of fair value gains registered on forward foreign exchange contracts entered into by the Organisation during the preceding financial year, as referred to in Note 18.

## 24. Employee benefit expense

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Wages and salaries | **18,405,198** | 17,069,439 |
| Social security costs | **1,246,927** | 1,181,212 |
| | **19,652,125** | 18,250,651 |

Average number of persons employed during the year:

| | **2014** | 2013 |
|---|---|---|
| Direct | **739** | 726 |
| Administration | **260** | 267 |
| | **999** | 993 |

## 25. Other operating income

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Profit on disposal of specific assets, including assets which were surplus to the Organisation's requirements | **286,369** | 317,312 |
| Income which is incidental to the Organisation's key operations | **369,767** | 518,714 |
| Government grants | **11,682** | 11,682 |
| | **667,818** | 847,708 |

Other Government grants recognised in profit or loss are disclosed in Note 28 to the financial statements.

## 26. Investment and other related income

| | 2014 € | 2013 € |
|---|---|---|
| Gross dividends receivable from available-for-sale financial assets | **21,664** | 42,246 |
| Net losses upon disposal of available-for-sale financial assets | **(3,590)** | (18,042) |
| Other gross dividends receivable | **1,387** | 1,387 |
| Increase in provisions for impairment of available-for-sale financial assets | **-** | (205,067) |
| | **19,461** | (179,476) |

## 27. Finance income

| | 2014 € | 2013 € |
|---|---|---|
| Interest receivable from associate | **6,174** | 5,486 |
| Bank interest receivable | **38,719** | 35,904 |
| Other interest receivable | **2,952** | 16,888 |
| | **47,845** | 58,278 |

## 28. Finance costs

| | 2014 € | 2013 € |
|---|---|---|
| Coupon interest payable on bonds | **1,860,000** | 1,860,000 |
| Amortisation of difference between initial net proceeds and redemption value of bonds (Note 19) | **121,378** | 113,768 |
| Bank interest and charges | **1,451,080** | 1,816,181 |
| Other finance costs | **87,174** | 45,253 |
| | **3,519,632** | 3,835,202 |

Bank finance costs for the preceding financial year, reflected in the table above, are stated net of Government grants receivable in respect of the interest rate subsidy scheme amounting to €23,342.

## 29. Tax expense

| | 2014 € | 2013 € |
|---|---|---|
| Current taxation: | | |
| Current tax expense | **531,332** | 470,554 |
| Adjustment recognised in financial period for current tax of prior period | **(9,800)** | 8,849 |
| Deferred taxation (Note 20) | **363,219** | 388,003 |
| | **884,751** | 867,406 |

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

| | 2014 € | 2013 € |
|---|---|---|
| Profit before tax | **8,016,070** | 6,245,220 |
| Tax on profit at 35% | **2,805,625** | 2,185,827 |
| Tax effect of: | | |
| Unrecognised temporary differences and other movements, mainly attributable to property, plant and equipment and provisions for impairment of trade and other receivables | **464,145** | 780,863 |
| Incentives in respect of investment tax credits | **(918,118)** | (1,030,110) |
| Unabsorbed capital allowances claimed during the year | **108,118** | 71,805 |
| Unabsorbed tax losses incurred during the year | **85,914** | - |
| Utilisation of unabsorbed tax losses and capital allowances brought forward from previous years | **(457,894)** | (328,232) |
| Income not subject to tax or charged at reduced rates | **(5,806)** | (28,381) |
| Share of results of associates | **(294,632)** | (282,516) |
| Determination of deferred taxation on fair value gains of investment property and other properties on the basis applicable to property disposals | **(865,292)** | (468,306) |
| Maintenance allowance claimed on rented property | **(142,026)** | (134,744) |
| Expenses not deductible for tax purposes | **72,035** | 52,532 |
| (Over)/under provision of tax in previous years | **(9,800)** | 8,849 |
| Amortisation of bond issue costs not allowable for tax purposes | **42,482** | 39,819 |
| **Tax charge in the accounts** | **884,751** | 867,406 |

The tax impact relating to components of other comprehensive income is presented in the tables within Notes 16 and 17 to the financial statements.

## 30. Directors' emoluments

| | 2014 € | 2013 € |
|---|---|---|
| Salaries and other emoluments | **1,158,747** | 662,313 |
| Fees | **14,500** | 14,500 |
| | **1,173,247** | 676,813 |

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

## 31. Earnings per share

Earnings per share is calculated by dividing the result attributable to owners of the Organisation by the weighted average number of ordinary shares of Mizzi Organisation on an aggregated basis (see Note 15) in issue during the year.

| | 2014 | 2013 |
|---|---|---|
| Net result attributable to the owners of the Organisation | **€7,131,319** | €5,377,814 |
| Weighted average number of ordinary shares in issue | **1,059,700** | 1,059,700 |
| Earnings per share | **€6.73** | €5.07 |

## 32. Dividends

| | 2014 € | 2013 € |
|---|---|---|
| Final dividends paid on ordinary shares: | | |
| Gross | **1,253,957** | 1,317,805 |
| Tax at source | **(243,957)** | (237,805) |
| Net | **1,010,000** | 1,080,000 |
| Dividends per share | **0.95** | 1.02 |

## 33. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| Operating profit | **10,626,589** | 9,394,431 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment (Note 4) | **4,959,031** | 4,999,473 |
| Profit on disposal of property, plant and equipment | **(286,369)** | (317,312) |
| Movement in provisions for impairment of trade and other receivables | **305,142** | 1,339,846 |
| Amounts written off in respect of receivables from other related parties | **-** | 27,265 |
| Movement in provisions for other liabilities and charges | **(15,140)** | - |
| Gains from changes in fair value of investment property (Note 5) | **(3,290,652)** | (2,785,296) |
| Changes in working capital: | | |
| Inventories | **(2,588,562)** | 3,616,466 |
| Trade and other receivables | **1,049,297** | 984,609 |
| Trade and other payables | **2,603,807** | (1,618,388) |
| Cash generated from operations | **13,363,143** | 15,641,094 |

## 34. Commitments

*Capital commitments*

Commitments for capital expenditure in relation to property development (Notes 4, 5 and 12) not provided for in these financial statements are as follows:

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| Authorised but not contracted | **12,000,000** | 80,000 |
| Contracted but not provided for | **-** | 260,000 |
| | **12,000,000** | 340,000 |

**34. Commitments** - continued

*Operating lease commitments – where an undertaking is the lessor*

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Not later than one year | **723,870** | 779,542 |
| Later than one year and not later than five years | **2,464,427** | 2,719,784 |
| Later than five years | **931,569** | 1,400,082 |
| | **4,119,866** | 4,899,408 |

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Not later than one year | **938,441** | 975,510 |
| Later than one year and not later than five years | **2,032,157** | 2,122,783 |
| Later than five years | **59,538** | 41,753 |
| | **3,030,136** | 3,140,046 |

*Operating lease commitments – where an undertaking is the lessee*

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

| | **2014** | 2013 |
|---|---|---|
| | **€** | € |
| Not later than one year | **410,399** | 519,818 |
| Later than one year and not later than five years | **1,405,009** | 1,458,334 |
| Later than five years | **6,344,702** | 6,687,009 |
| | **8,160,110** | 8,665,161 |

## 35. Contingencies

(a) At 31 December 2014, the Organisation had contingent liabilities amounting to €6,454,085 (2013: €5,764,964) in respect of guarantees issued by the bank on behalf of entities forming part of the Mizzi Organisation in favour of third parties in the ordinary course of business. This includes a guarantee for the amount of €300,000 issued by the bank on behalf of Mizzi Holdings Limited, which was utlised to align the sinking fund attributable to the bonds issued by a company forming part of the Organisation with targeted commitments (refer to Note 11).

(b) No provision has been made in these combined accounts for disputed income tax amounting to €403,715 (2013: €403,715) arising from assessments raised in terms of Section 44 of the Income Tax Act, Cap. 123. Objections have been filed on the said assessments. The directors of the respective entities are confident that no material future liability will arise beyond the amounts which are acknowledged as properly due, which amounts have been fully provided for.

Objections have been filed by the Organisation with the Commissioner of Inland Revenue over assessments raised relating to basis years from 1985 to 1996 amounting to €28,541 (2013: €28,541), in respect of which no provision has been made in these accounts.

## 36. Related party transactions

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

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

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

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

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

The transactions referred to above were carried out on commercial terms. Year-end balances with related parties are disclosed in Notes 8, 10, 18 and 19 to these combined financial statements.

Key management personnel compensation, consisting of directors' remuneration, is disclosed in Note 30.