FARSONS GROUP

Farsons

# SIMONDS FARSONS CISK plc ANNUAL REPORT 2014 for the year ended 31 January 2014

FARSONS GROUP

Farsons

## OUR VISION

**Our vision is to grow our local and international business to establish the Farsons group as a regional player within the food and beverage sector.**

## OUR MISSION

- *Create and nurture world class brands which inspire the trust and loyalty of consumers.*
- *Champion customer relationships and build meaningful partnerships.*
- *Engage talent and empower employees to deliver sustainable and quality driven operations.*
- *Connect with the community and embrace our social and environmental responsibilities.*
- *Provide a fair return to shareholders to ensure long-term investment and profitable growth.*

## OUR VALUES

Success
Teamwork
Respect
Integrity
Dynamism
Excellence

*Broadening our horizons, growing our business, everyone makes a difference.*

**SIMONDS FARSONS CISK PLC** The Brewery, Mdina Road, Mrieħel BKR 3000, Malta. Tel: (+356) 2381 4114 Telefax: (+356) 2381 4150 email: sfc@farsons.com
www.farsons.com

# **SIMONDS FARSONS CISK plc** ANNUAL REPORT 2014 for the year ended 31 January 2014

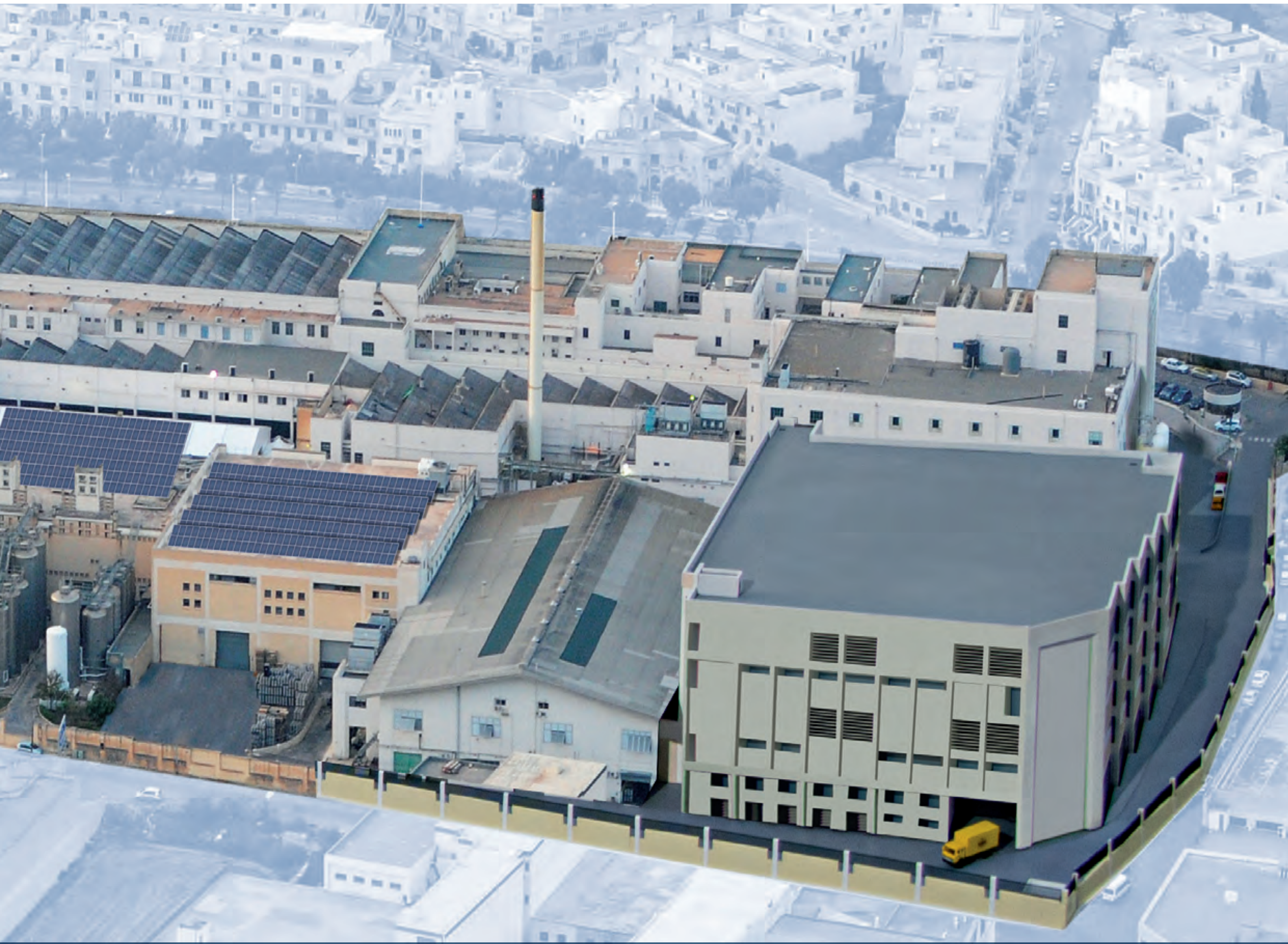
*An artist impression of the proposed Beer Packaging Facility*

## Contents


*A new point of view – an impression of the South facing Farsons facility, comprising, from left to right: Logistics & Distribution Centre; Brewhouse; Process Block; Soft Drinks Packaging Hall and the proposed Beer Packaging Facility.*

# A New Perspective

## From a locally-oriented traditional brewery, to a modern, state-of-the-art brewing and beverage facility with a regional perspective



# New Beer Packaging Facility
## An investment in the future

- The €27m packaging facility, as announced by the board in February 2014, will house a new glass line for returnable and one-way bottles and a new canning line.

- The new lines will be flexible and more efficient to operate through automation, energy and water reduction.

# Chairman's Statement

It is my pleasure to report on another year of progress of the Farsons group. Our results for the year to 31 January 2014 illustrate a steady and profitable year of trading and investment within the group.

Group turnover has reached a record €78.6 million, whilst group profit before tax amounted to €6.9 million, increases of 2% and 6% respectively. Looking back at the last five years' performance we report more than a doubling in profit before tax from €3.2 million in 2009/10 to €6.9 million last year. A credible performance indeed.

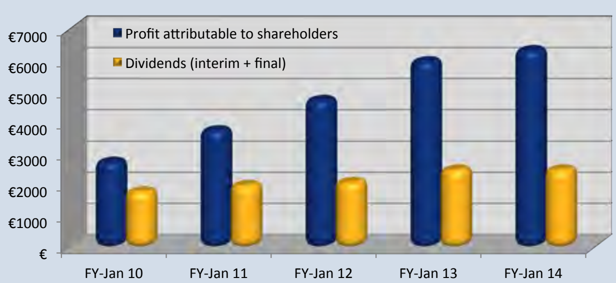
The year's results were influenced by a stable macro-economic environment, another record year of tourist arrivals, growth of our export volumes, and increased demand for our products during the run up to the election held in March 2013.

Details of the various business sector performances are well documented in the group Chief Executive's review in this annual report. Profitability increased across all business units. Besides the improved market successes, credit must be given to Norman Aquilina and his team of managers for the operating achievements made. Many initiatives have been taken to improve efficiencies and increase productivity which are so essential in today's very competitive environment.

Last year I reported that the significant investment of €12.5 million in a new brewhouse was reaping rewards for the group because of the increased efficiencies inherent in new technologies of a modern brewhouse. Your board has been firmly in favour of investing in the latest technologies; hence the significant investment of nearly €30 million made in our operations in the same last five years. The improvement in profitability is therefore no coincidence, and our operational improvements are due to this commitment to produce world-class products in the most efficient way possible.

In February of this year your board announced a further €27 million investment in a new beer packaging facility. This investment is planned to replace all current facilities that produce our bottle and can production as well as providing us with the additional option of producing 'one way' bottle packages designed for our export markets. This important decision implies a definite and firm commitment by your board towards export growth. Our recent success in our export volumes has encouraged us to take this bold step forward. Work on this project has started, and is expected to be completed by April 2016. In line with our recent investments this facility will also reap savings in operational costs and improve the quality of our finished product. Of course our efforts to export more products to nearby markets must be accompanied by improved marketing initiatives. We therefore need to invest further in such efforts as well as develop new products specifically designed for export markets. So our investment decision is part of an overall strategy

## DECLARED DIVIDENDS OVER THE LAST 5 YEARS




to grow through export revenues. Our aspiration to become a regional food and beverage player both in our local market and in nearby markets is clearly stated in the vision and values statement of the Farsons group, and carries the commitment of your board and the Farsons' group management team.

In this annual report you can also view a design of this new investment project and also view a site photograph which illustrates the brewery development over the last 20 years to the south of the original brewery with a photo montage of the new facility in place. The reader can immediately deduct that the company has in fact replaced all the original 1950 plant and buildings with 1990-2013 buildings, equipment and technology. As already explained, this is reaping benefits for our group, but it has also availed us of an opportunity to redevelop the original buildings by putting them to new uses.

As indicated at the last Annual General Meeting, during this past year we have been actively working on developing a master plan and working out what sort of development can be undertaken in this iconic building. I am pleased to report that progress has been made in that an international firm of architects has been appointed to work with us on the preparation of a master plan for this first phase of work on the 'Farsons Business Park'.

As I write this statement, I can confirm that the board will soon receive a first draft of a proposed master plan for the site. Once presented and approved, we shall publish the proposals at the appropriate time. A discussion will then ensue between stakeholders to assess how and when this project can be implemented.

For you shareholders this will be an opportunity to look at what options exist for us all to further participate in the development of this group. Your board will be submitting such options when our plans are more solidly defined.

Finally I am pleased to state that your board is recommending a final dividend of €1.5 million, bringing the total declared for the year to €2.5 million. This figure is equivalent to the amount declared last year.

I also wish to thank all group employees, many with long years of service, for their dedication to their work and loyalty to the group. Without this sense of belonging Farsons would not be the group of Companies that it is. I wish to thank my fellow directors for their constant attention and wise counsel, especially at a time of such investment and changes in the market place that we operate in. Finally, I wish to thank our previous Chairman, Bryan Gera, as Chairman of the Farsons Foundation who, I am glad to say, along with his fellow Farsons Foundation Trustees, still works in an honourable capacity in the interests of the Farsons group. We owe them all our sincere gratitude.
A special word of thanks to our legal advisors Mamo TCV and our auditors, PricewaterhouseCoopers for their continued valid advice.

*This important decision implies a definite and firm commitment by your board towards export growth.*

Louis Farrugia

Louis A. Farrugia – *Chairman*

# Group Chief Executive's Review

The year under review was another eventful one; though not without its difficulties, the Farsons group, once again, turned challenges into opportunities. Significantly, in an environment which was no less competitive and dynamic than previously, we have performed consistently, delivering an improved performance over last year's record results.

Early in our financial year, we experienced a change in Government. Nevertheless, a 'business as usual' climate prevailed with a generally good macro-economic performance. It was also another year of record-breaking tourist arrivals. However, as announced in the Government's November 2013 budget, we had to incur an increase in excise tax on alcohol, including beers.

Increases in any form of indirect taxation in a scenario where market surveillance and enforcement of fiscal and regulatory obligations are somewhat inconsistent and generally lacking, does occasionally place the Farsons group in a somewhat unfair competitive position. We will continue to maintain communication with Government and all the relevant authorities to ensure that any unfair competitive advantages and illicit practices are kept in check and that, as much as possible, a generally level and fair economic playing field prevails amongst all businesses.

During the year, we have maintained our strategic focus and determination to deliver improved results. Our ambitions for growth remain strong - a growth strategy, which apart from being supported by significant investments, is primarily being driven by innovation and exports.

Here, we have taken the opportunity of formalising our 'Vision & Values' which we will now be communicating to all stakeholders. We firmly believe that everyone within the Farsons group has a contributing role to play and through this initiative we aim at facilitating this by giving more clarity to our mission, direction to our vision and meaning to our values.

Ever since market liberalisation in January 2008, export-led growth has become more and more of a focused priority with significant growth ambitions based on a more competitive operation. Our steady results are highly encouraging and, indeed, the year under review was one of our best years for export. There still remain significant hurdles and challenges to overcome. We are seeking to address these in line with our long-term vision and business strategy, which should be achieved by 2020.

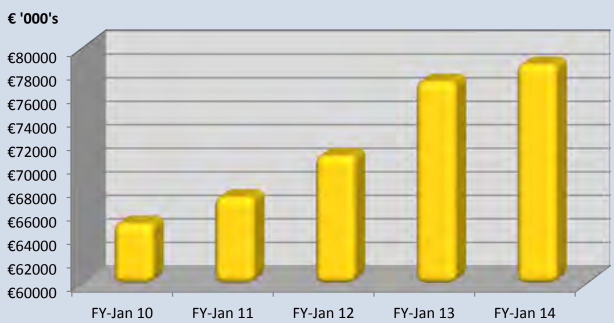
During the previous financial year we had successfully commissioned our new brewhouse. This was a milestone achievement which has now enabled us to realise a number of production and resource efficiencies, as well as carry out our brewing activities in a more environmentally sustainable manner.

As the future beckons and competition intensifies, our relentless efforts to modernize our operations, broaden our horizons and grow our business gain momentum. This strategic thrust is manifest across all areas of our group.

Of particularly significance is our decision to invest in a new €27 million beer packaging hall. Works have already commenced and are expected to be completed by April 2016. This will significantly strengthen our competitiveness, especially on the export front, and give us the ability to enhance our range of beer packaging options. All this falls firmly within our long-term aspiration to become a brewery and beverage producer with a wider regional perspective.

*"As the future beckons and competition intensifies, our relentless efforts to modernise our operations, broaden our horizons and grow our business gain momentum. This strategic thrust is manifest across all areas of our group."*

**GROUP TURNOVER**




*At €79 million, turnover exceeded the previous financial year by €1.4 million (2%).*


Within the context of further strengthening our competitiveness, we took on a number of additional initiatives during the year to continue with our regular KPI benchmarking aimed at improving our productivity and cost efficiency. These vary from overall equipment effectiveness and distribution cost per case, to payroll cost, energy consumption and water usage per hectolitre produced, amongst other lines of measure.

At the beginning of the year the sales force process was fully automated through an investment in 'cloud technology' which enabled us to have real-time order capturing along with all the necessary live information to better empower our sales force.

Our unwavering commitment to render our business more efficient, to ensure that we continue to build and improve on our competitive advantages and to strengthen our whole business model remain areas of focus as we further our vision of broadening our horizons and growing our business.

## KEY GROUP PERFORMANCE HIGHLIGHTS

| | €000's | Improvement vs Last Year | Improvement vs 5 Years |
|---|---|---|---|
| **Turnover** | € 78,622 | 2% | 21% |
| **Operating Profit** | € 8,387 | 5% | 68% |
| **Pre-tax Profit** | € 6,852 | 6% | 114% |
| **Post-tax Profit** | € 6,325 | 6% | 130% |
| **EBITDA** | € 14,193 | 2% | 39% |
| **Gearing** | 22.13% | 2.29 points | 9.31 points |

## FINANCIAL RESULTS

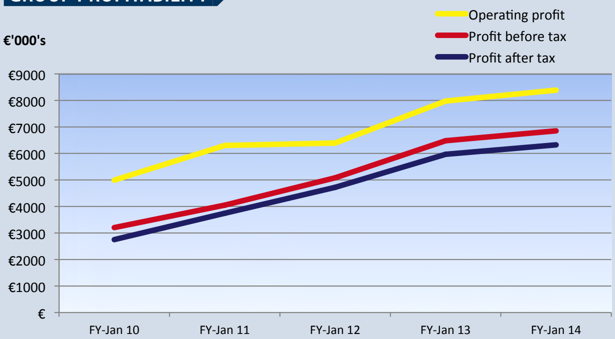
The group has registered yet another solid performance during the financial year ending 31 January 2014, with profit before tax surpassing €6.8 million, exceeding last year's record performance by almost 6%. Group turnover increased by 2%, also reaching a record figure of just under €79 million.

Gross profit is on a par with last year's figure at €27.7 million, while the operating profit improved by €400,000, to reach €8.4 million. Selling and distribution costs decreased by 9%, mainly because the increase in provision for doubtful debts reflected in last year's results were not reflected again in this year's results.

EBITDA (earnings before interest, tax, depreciation and amortisation) increased by €267,000 exceeding last year's record level to now reach €14.2 million. Our gearing improved by a further 2.29 percentage points to 22.13%.

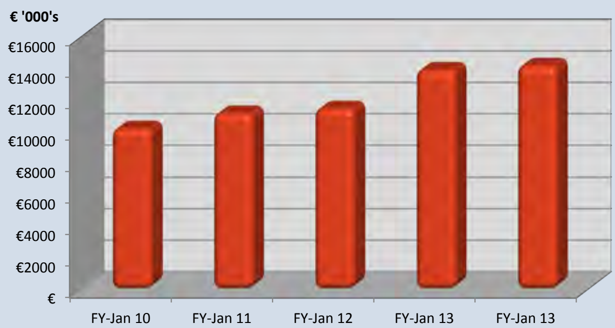
The segmental results of our businesses show that the core segments have improved their performance in terms of turnover and segmental results. While the turnover in the brewing and bottling business is flat compared to last year, the profitability of this segment improved by €260,000. The food and beverage importation segment registered the largest growth in turnover of €838,000 with the segment results improving by €108,000. The franchised food business registered a turnover in excess of €10 million, an increase of €438,000 over last year and an improved segment result reaching €577,000.

## GROUP PROFITABILITY




*Consistent improvement in our profitability levels.*

## GROUP EBITDA




*EBITDA increased by €267,000 over the previous financial year to reach €14.2 million.*

# Group Chief Executive's Review *continued*

## INNOVATION & OPERATIONAL EXCELLENCE

The new Brewhouse, which was inaugurated in September 2012, embodies our commitment to innovation and quality. During its first full year of operation, performance exceeded expectations. Our brewers, technicians and operators successfully mastered the new operation and it is worth noting that the Brewhouse consumes about a third of the energy required by our previous one. Apart from increased efficiency, there are also productivity gains as the ingredient yield has now also improved.

Through our membership in the two operating waste recovery schemes, and in line with our environmental obligations, we are recovering a substantial portion of packaging waste placed on the market.

As part of our drive for sustainable operational excellence, we have also embarked on energy and water treatment projects: the installation of 1,200 photo voltaic panels, generating some 0.5 million units of energy per annum; a new and more efficient refrigeration system with increased capacity; 4 new reverse osmosis plants which can supply 114 cubic meters of treated water per hour and also treat reject water. We are already seeing the benefits of these investments, achieving a reduction of 10% in electricity consumption and a reduction of 20% in water utilisation.

*"The Farsons group has always valued its employees and invested in enhancing their skills and competences"*

## THE EXPERTISE, COMMITMENT AND RESOURCEFULNESS OF OUR PEOPLE ARE KEY STRENGTHS AS THE GROUP CONTINUES TO MOVE FORWARD


An effective and focused team is a critical success factor; it is people who, ultimately, transform over-arching strategic missions into tangible, measurable results. Our continued success depends on motivated, committed, and professional individuals who all have a role to play as we broaden our horizons.

With a full time equivalent of some 750 people at the end of January 2014, our human resource strategy focuses on performance, productivity and innovation, seeking to raise levels of engagement and align our behavioural focus. New, improved procedures and initiatives were again undertaken during the year, notably:

> Enhanced understanding and commitment to performance management systems, in order to align employee performance with strategic objectives;

> Group-wide employee engagement workshops;

> Initiatives which encourage employees to seek improved efficiencies and effectiveness, such as our LEAN waste reduction programme;

> Schemes to support line management to develop high performing teams and individuals;

Initial preparatory work was undertaken on the new Beer Packaging Facility, including building design, preparation of the construction tender, submitting applications and obtaining all the necessary permits. Both Maltese and international consultants have been engaged for the structural design, mechanical and electrical services, health and safety aspects and the actual packaging plant itself.

The facility, which should come on stream by April 2016, will give Farsons a number of benefits:

> improved productivity for beer packaged for the Maltese market;
> the capability to fill 'one-trip' bottles suitable for export markets;
> a trebling of our can-filling capacity;
> further reduction in energy and water consumption and other process efficiencies.

**PERFORMANCE INDICATORS: Energy efficiency & water consumption**

| | Compared to FY ending Jan 2013 | Compared to FY ending Jan 2010 |
|---|---|---|
| **Specific energy consumption*** | -11.3% | -32.2% |
| **Water usage index*** | -2.7% | -38.7% |

** per hectolitre produced*

*New refrigeration plant consuming 33% less electricity than previous equipment.*

> Development of employee potential and competences through training with over 11,300 formal training hours delivered, and programmes such as AIM: Achievement In Management, providing growth opportunities for talented and committed employees;

> Restructuring of various functions and sections to meet the demands of a flexible, increasingly automated and professional work environment;

> Strengthening links with various partners including the University of Malta, MCAST, and the Education Department through various initiatives;

> Collaboration with employee representatives and trade unions to introduce the necessary changes;

> Enhanced communication across the group including the publication of our internal magazine, TEAM;

> Participation in national and internal activities which support our Corporate Social Responsibility, including our annual CSR activity.

# Group Chief Executive's Review *continued*

## MARKET TRENDS & DEVELOPMENTS

Internationally, beverage markets continue to evolve and become ever more competitive, and a number of these developments are also underway in Malta.

Beverage producers everywhere are, as a result, continually reviewing and renewing their offerings in order to remain not only relevant to the end consumers but also competitive with their trade customers. Some of the more relevant major trends include:

> Trade - the consolidation of major producers and of distributors and the proliferation of low-cost players and discounters;
> Products - so called 'speciality' or 'craft' premium beers are the ones which are driving growth in many markets;
> Regulation - increasingly impacting many markets, with a number of initiatives to curb excessive alcohol consumption being considered; moreover, a number of legislative bodies are considering introducing sugar-related anti-obesity taxes as health and wellness issues increase;
> Consumers - facing reducing spending power and becoming less brand loyal; young adults are drinking less beer and switching to spirits; increasing awareness of the effects of too much sugar, and yet wary of artificial sweeteners.

Undeterred, and ever mindful of the fact that change also creates market opportunity, Farsons also continues to evolve and adapt, in line with our legacy of market innovation. We are well placed to do so; we are highly-respected brewers with a strong industrial heritage, with plans to match our new, state-of-the-art brewing capability with modern and flexible packaging facilities.

During the year we consolidated our market leadership position through the many intensive programmes, campaigns, sponsorships and promotional drives implemented by our effective and results-driven marketing, selling and distribution teams.

## OUR BEERS

Cisk Lager beer, the flagship brand in the Company's beer portfolio, once again posted a strong set of results, maintaining its leadership position on the Maltese market.

Already the recipient of a number accolades over the years, Cisk Lager was also awarded a Silver Medal in one of world's most prestigious beer competitions, the International Beer Challenge (IBC) in August 2013. This latest award is yet another significant achievement for Cisk Lager, evidence of the consistency in excellent quality as well as of the unwavering commitment of Farsons and our brewers to delivering quality products.

Fittingly, Cisk is the Gold Partner of Malta's national football team and this sponsorship played a key role in the brand's promotional calendar, with a 360 degree campaign which also included innovative football themed cans, specially designed and launched to coincide with Malta's international World Cup Qualifiers played throughout 2013.


Cisk Excel, Malta's only low-carbohydrate beer, continues to exceed expectations and remains one of our fastest growing beer brands. Consumers appreciate this beer's refreshing taste and 'better for you' qualities and 2013 saw yet another successful year for Excel, with a striking new campaign, highlighting the brand's lifestyle character, launched ahead of the summer season.


*Cisk Excel: Now available on draught across selected outlets in Malta & Gozo.*

#cisktime – the 2014 campaign platform for our Cisk Lager brand, upon which a 360 degree communications campaign has been devised, starting from the digital friendly # to a range of above and below the line campaign executions, and point of sale and promotional applications.

## Group Chief Executive's Review *continued*


Cisk Chill, a lemon-flavoured lager beer, now in its third year, was launched in an attractive 33cl 'sleek can', in addition to the distinctive clear bottle. Chill has added an exciting dimension to the Cisk portfolio, and is appealing to those consumers seeking to add new flavours to their summer repertoire of beers.


The revival of the ales segment, previously in some decline, is being seen by many established international breweries as a means of compensating for flat growth in the lager segment. In Malta too, Blue Label, one of the first, original, brands in the Farsons' beer portfolio, is currently enjoying an increase in demand, appealing in particular to the more discerning beer consumers who seek out its smooth and distinctive taste and character. A new campaign with the tagline 'Smooth Blues' further emphasised the brands' smooth and cool characteristics.

Carlsberg, a truly global brand brewed by Farsons under license for over 35 years, this year announced their partnership with the English Premier League. As the Official Beer of the Barclays Premier League, there is opportunity to further elevating the brand's image and consumption not only in Malta, but across the many countries where the Premier League enjoys a huge following.

*"That fact that we are able to achieve a sustained positive performance demonstrates not only the resilience of our own brands and products, but also the entrepreneurial spirit and close collaborative teamwork within the Farsons group"*


Skol, also brewed by Farsons under the license awarded by Carlsberg, has become a major player in Malta, competing very successfully at the value end of the beer market. This year the brand was given a completely new look and it now sports modern and trendy graphics and packaging.

Global brand Budweiser plays an important role in the Company's beer portfolio. As the Official Beer of the 2014 edition of the FIFA World Cup™, the football platform remains a key area of activity for the brand with a number of exciting initiatives planned for the coming season.

## EXPORTS – BROADENING OUR HORIZONS

Exports currently represent around 6% by volume of Farsons' total production, and the group vision is to continue to grow this business by becoming a regional beverage player. It is therefore encouraging to report that our exports have delivered a good performance in terms of value, volume and profitability. This maintains the positive trends we achieved over the past few years.

It is heartening that, during the past twelve months, Farsons exported the equivalent of one container per day, affirming the world-class appeal of our quality products.

This positive outcome is the result of a two-pronged strategy to consolidate and grow in existing markets, such as Italy where Cisk has been present for a number of years, while also entering new markets. New export markets for Farsons in Europe include the Netherlands and Russia, where we are starting to export Kinnie.

This year's export performance in Europe was also supported by considerable sales growth in Asia and Australia. All this is, of course, by no means easy - exporting remains a formidable challenge with extremely tough domestic and international competitors, with strong brands, present in every export market where we operate.

In such a scenario, that fact that we are able to achieve a sustained positive performance demonstrates not only the resilience of our own brands and products, but also the entrepreneurial spirit and close collaborative teamwork within the Farsons group. Our internationalisation plans for the next two years include a renewed strategic focus on our flagship brands Cisk and Kinnie in a number of priority markets in Europe and North Africa in the run up to the commissioning of the new packaging facilities. These are expected to improve further our export competitiveness leading the way to future organic expansion in line with the group's long term vision.

FARSONS GROUP
Farsons
BREWERS & BOTTLERS

## Group Chief Executive's Review *continued*


*As a natural next step following on from previous communications for Kinnie, the 2014 campaign builds further on an uncompromising taste platform, whilst bringing the brand and product very much to the forefront in an appealing way.*


## NON-ALCOHOLIC BEVERAGES

Following full market liberalisation in 2008, the soft drinks market has become fiercely price-competitive with an increasing number of brands and packages all jostling for shelf-space, visibility and favour with the price-conscious, less brand-loyal shopper and end-consumer. With the demand for 'better for you' products increasing, it is fundamental for brands to innovate in order to remain relevant and successful.

Having celebrated its 60th Anniversary in 2012, Kinnie remains a key player in the soft drinks market. Facing stiff competition not only from discount and 'own-label' brands but also from global market leaders, our flagship brand continued to carve out its position as 'Malta's Own Favourite Soft Drink'. A new, lively advertising campaign, with the tagline 'Taste Refreshment', served to position Kinnie as more appealing to the younger generation, crucial for its long-term success. This campaign also included a new television commercial which was shot entirely on location in Malta and not only show-cased a number of Malta's more picturesque locations but also portrayed the brand with a much younger, more down-to-earth, personality. The campaign included innovative full-sleeved themed packaging, sporting fun and seasonal graphics, giving Kinnie a highly distinctive on shelf presence.

*"With the demand for 'better for you' products increasing, it is fundamental for brands to innovate in order to remain relevant and successful"*

## Group Chief Executive's Review *continued*


Pepsi-Cola this year partnered up with global superstar, Beyoncé, with a number of initiatives and promotions based on this unique partnership, allowing the brand to connect with target consumers on many touch-points. An innovative 33cl can 8-pack, featuring stunning Beyoncé pop-art graphics, was launched for the summer months making Malta the first country in the world to launch this package.

Whilst it is obviously crucial to nurture our existing brands, creating and developing new ones is an obvious strategic priority. Farsons is committed to the necessary investment in research and development which are at the basis of innovation. A key moment in 2013 was the launch of Fruvia, an all-natural sparkling juice drink which uses Stevia, a natural sweetener from the Stevia plant, and sugar thereby offering consumers a beverage with half the calories of a normal full-sugar soft drink and only natural ingredients. This launch further emphasised the Company's on-going commitment to seeking out and identifying consumers' needs and preferences and to providing a portfolio of beverages which offers choice and diversity, in line with the developing trends outlined earlier.

Going forward, the Company remains committed to creating and developing brands, promotions and initiatives which are relevant and in tune with rapidly changing life-styles. Today's consumers are digi-centric – they live their life 'on-line' and the more traditional forms of media and advertising are fast being replaced by digital platforms and on-line applications. Social media platforms are now part of everyday life for generations of consumers and it is imperative that brand owners recognize and embrace these developments.

During the year under review, we have accelerated our transition from traditional to digital media with more resources and initiatives, particularly for the flagship market-leading brands Cisk and Kinnie; digital advertising, online social networking sites and video-sharing portals are becoming key components of the communications mix for both these brands.

As the trend towards 'better for you' products accelerates, innovation and product development take on a more vital role in the Company's strategic priorities. In line with our mission, a number of new products, brand and packaging variants are in the pipeline for the years ahead as Farsons strives to remain relevant and competitive in the rapidly-changing landscape of the beverage market, not only in Malta, but also within the context of much broader horizons.

*Fruvia an all-natural sparkling juice drink with just 70 calories per can.*

*"Our quality in service and product gives us a competitive advantage in the business and domestic market segment"*

## ECOPURE

EcoPure registered a significant improvement in its performance over the previous year, with an increase in revenue and a reduction in expenditure which led to improved profitability.

We strengthened our management and our sales team, and introduced hand-held digital devices to achieve better controls and optimise sales. Our bottled water sales grew in the business, corporate and domestic sectors, thanks to our increased focus on customer retention, the acquisition of new clients in a number of sectors and improved vendor efficiency.

On the marketing front, we continued with our brand-building and promotional campaigns.

As in other markets worldwide, the bottled water systems are coming under increased pressure from reverse osmosis systems. Nevertheless, we believe that there is significant growth potential for EcoPure. Our quality in service and product gives us a competitive advantage in the business and domestic market segments that we need to further exploit to achieve that growth potential that the market still offers.


*San Michel–Pure refreshment...*
*delivered straight to your door step.*

FARSONS GROUP
EcoPure
BEVERAGE SERVICES

# Group Chief Executive's Review *continued*

## FARSONS BEVERAGE IMPORTS COMPANY (FBIC)

FBIC also recorded a positive year in terms of both sales and profitability. We managed to achieve growth throughout the brand portfolio our subsidiary represents, and across all customer market segments.

Organic growth was achieved through a series of plans combining effective marketing activities with good sales promotions. The full automation of the sales force process at the beginning of 2013 also permitted the sales team to increase its focus on the market and achieve a higher rate of penetration in outlets at all levels.

The strategic consolidation with Pernod Ricard, Gruppo Campari and Red Bull over the last few years, have, and continue to reap good dividends as the synergies arising from these arrangements are delivering that focused growth.

The new Britvic brands introduced at the beginning of the year – Robinsons, Fruit Shoot and J2O - have performed well, contributing to our good performance. Fruit Shoot in particular is gaining popularity as a cool juice-drink brand for active youngsters.

In the spirits sector, one must highlight the increase in the rate of excise duty announced in the Government's budget in November 2013, and which, inevitably, led to increased prices for consumers. In a sector characterised by a significant number of importers, the challenge for the authorities is to monitor the market closely so as to ensure an even playing field where all traders adhere to the proper fiscal and legal requirements.



Absolut vodka and Chivas, two of the premium spirits in our portfolio, both launched special edition bottles which were quickly snapped up by fans of these growing cult brands. Aperol Spritz led the growing interest in the aperitivo culture while Havana Club continued to increase its strong standing within the rum sector.

FARSONS GROUP
FBIC
BEVERAGE IMPORTERS

*"We managed to achieve growth throughout the brand portfolio our subsidiary represents, and across all customer market segments."*


*Red Bull continues to give our portfolio a new set of wings.*

Our portfolio of imported beers was involved in many sponsored activities and events, such as St Patrick's Day with Guinness, Cinco de Mayo with Corona, the FA Cup with Budweiser and St George's Day with John Smith. In the cider category, apart from an improved performance from Strongbow, the introduction of flavoured variants of Bulmers led to strong increases in sales and awareness of this fast-growing brand.


In the wines segment, our focused strategy led to more positive results. Regular promotions in retail outlets increased awareness and sales of our wine brands whilst, in restaurants, we organised a series of wine-tasting events, led by our wine manager, often supported by representatives of our principals.

FBIC shall remain focused on widening the availability of its portfolio in the market and further developing the prestigious brands which it represents.

## FARSONSDIRECT

Our Farsonsdirect retail outlet in Mrieħel continued to grow, attracting more regular patrons, both private clients and also trade customers. This outlet continues to play an integral part of our extended sales reach, also being highly active in supporting our suppliers to numerous events.

Farsonsdirect has gained a wider awareness as a 'one-stop shop' where one can find a wide selection of wines, including fine wines, a full range of other beverages and also related food items. A growing number of customers are also buying on-line through our website, which is regularly updated with product information and promotions.

*"Farsonsdirect has gained a wider awareness as a 'one-stop shop' where one can find a wide selection of wines, including fine wines, a full range of other beverages and also related food items."*

FARSONS GROUP
Farsonsdirect
BEVERAGES & MORE

# Group Chief Executive's Review *continued*

*"The Farsons Group is committed to supporting Quintano Foods, and will continue investing in this sector, remaining vigilant on potential acquisitions or extended brand representation opportunities."*

## QUINTANO FOODS

Competition in the food importation business continues to intensify, as retail shoppers are becoming more sophisticated and well-informed, adapting their shopping habits and patterns to accommodate new tastes and requirements.

Unwilling to compromise on the quality of food and groceries, shoppers now spend more time and effort to seek out the best value. Changes in consumer behaviour include better forward planning when shopping, keeping to stricter budgets, increasing consideration of private label ranges, comparing prices and looking out for promotions. This has also led to an intensification of promotional and sales activities in the trade.

Quintano Foods was adversely affected by merger and acquisition activity, as this subsidiary lost the representation of a key brand in the confectionery business. This impacted on the Company's revenue which had previously exhibited years of sustained growth.

This notwithstanding, there were a number of brands, especially those targeting consumers who opt to lead a healthier lifestyle, such as Quaker and Tropicana, which have registered double digit growth. Like for like sales have also grown for the On Premise channel which was driven by further market penetration.

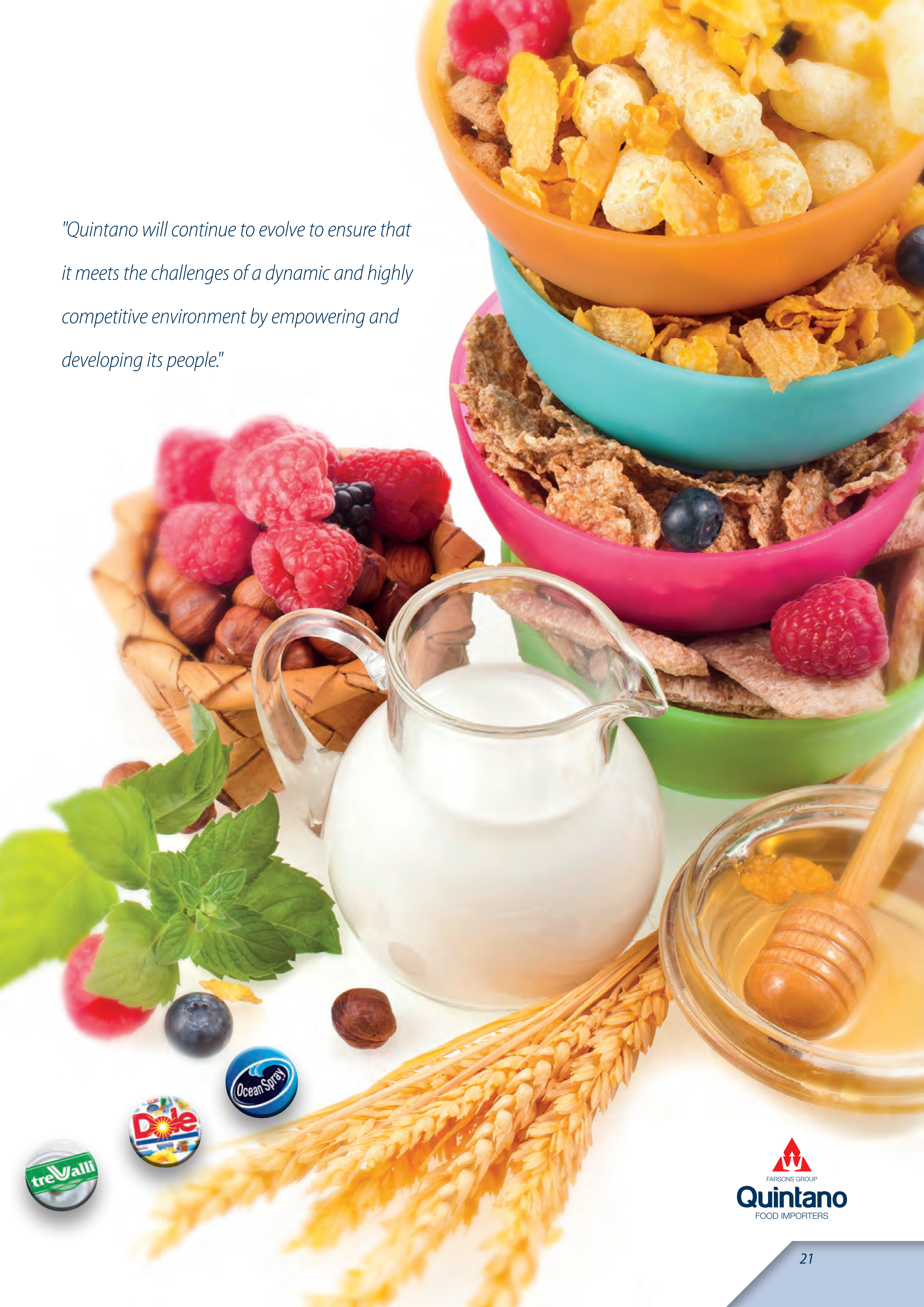
Quintano Foods has a line-up of very strong global brands such as Danone and Walker's, that are recognised and trusted by the Maltese consumer and it is where our largest competitive advantage lies. Quintano has further augmented its portfolio by securing the distributorship of Ocean Spray, the leading brand of cranberry fruit drinks.

The Farsons group is committed to supporting Quintano Foods, and will continue investing in this sector, remaining vigilant on potential acquisitions or extended brand representation opportunities to be able to grow this business.

We aim, therefore, to meet our ambitions for growth and bottom line improvement by growing the presence of all the brands Quintano represents in the market.

Operationally, the Company will continue to evolve to ensure that it meets the challenges of a dynamic and highly competitive environment by empowering and developing its people.

*"Quintano will continue to evolve to ensure that it meets the challenges of a dynamic and highly competitive environment by empowering and developing its people."*




FARSONS GROUP
Quintano
FOOD IMPORTERS

# Group Chief Executive's Review *continued*

*An artist impression of the first Burger King 'Drive Thru' restaurant in Qormi.*

## FOOD CHAIN

This has been yet another positive year; Food Chain registered strong increases in sales across all three of the brands we represent. Operating results and profitability have also continued to improve steadily. As we seek to grow this part of our business, we now plan to increase our market presence further with new restaurant openings. Early in the financial year, the Food Chain operation was reorganised; Pizza Operations Limited, operators of Pizza Hut®, Burger Operations Limited operators of Burger King® and Kentucky Operations Limited, operators of KFC® were merged into Food Chain (Holdings) Limited, which was renamed Food Chain Limited. This reorganisation further strengthened the operations of our food business and optimised efficiencies.

## PIZZA HUT

This was a busy year for Pizza Hut which saw the launch of a number of new innovative products on a limited time offer. These products increase consumer interest in the brand and further stimulate demand; many patrons who visit our restaurant do so specifically to try such products. This year marked the 20th anniversary of the first Pizza Hut restaurant opening in Malta. To celebrate this we had a number of anniversary promotions and offered patrons a number of gifts to thank them for their custom. Our focus on the delivery segment of the business has continued to intensify, with various initiatives focused solely on delivery. As a result, we are encouraged to report that both the number of deliveries as well as the number of new customers continued to grow. We have also extended our delivery zones in the central part of Malta.

## BURGER KING

It was also a very encouraging year for Burger King, with growth in sales as well as an increase in average ticket and ticket count; this has come about notwithstanding increased competition in the sector. During the year we were very active in launching various new sandwiches as well as new side items. This year also saw the launch of new co-branded ice-creams which were extremely popular and a new range of smoothies and frappes. New options will be added to the menu this summer. In June we upgraded all our kitchens with new equipment, further improving the quality of our products while further increasing efficiency and speed. This brought about changes in the build of a number of sandwiches, including the Whopper, our flagship sandwich. Following market research, we have also upgraded our fries, now offering a thicker cut fry. Comments following this change have been very positive.

We have recently acquired a site in Qormi for our first Burger King 'Drive Thru' restaurant. This flagship restaurant will offer a substantial outdoor area with a play area for children and will also have ample parking for patrons. We are confident that the outlet should be operational to gain the summer business.

## KFC

We delivered yet another very positive performance where we had substantial increases in both KFC outlets. Throughout the year we launched a number of limited time offer items as well as a number of box meals and grilled chicken variants which have now become a regular item on our menu. With regard to deliveries, KFC continued to increase its presence on the market and we also managed to introduce our service to a considerable number of new households.

## The Challenges & Opportunities Ahead

We are now well into another financial year. To one degree or another we are being continuously challenged by an increasingly competitive environment within all the sectors we operate in. For all this, within a matter of a few years, we have transformed our productive beverage operation into a leaner, more cost-efficient business, which in return is today more appropriately structured and equipped. The group is now more strategically focused, with ambitions and objectives for further profitable growth.

Given the results to date, our prospects for export growth are encouraging. Once the new bottling and canning facilities become operational in 2016, we will be in an even better position to follow through and further consolidate our dual strategy of growth through innovation and exports.

*The group is now more strategically focused, with ambitions and objectives for further growth.*

Of course, we must remain vigilant as there is so much more that still needs to be done. Our consistently positive results however, demonstrate that we are well on track.

We will therefore continue to rise to the occasion, taking on the opportunities and dealing with the challenges ahead of us with all the needed determination. We are making the necessary strategic investments, allocating adequate resources, and are devising the necessary strategies. This will ensure that the Farsons group continues to grow as a successful and Maltese-owned business with growing regional aspirations.

Norman Aquilina – *Group Chief Executive*
*30 April 2014*


**TRIDENT DEVELOPMENTS LIMITED – THE FARSONS BUSINESS PARK**

The Farsons Business Park is the main area of focus of the group's property arm, Trident Developments Limited.

As highlighted in the Chairman's report, during the year, a considerable amount of preparatory work has been carried out. Twelve Maltese and international architectural firms were invited to tender for the drawing up of a master plan and eventual stage-by-stage development of our landmark site. A British firm of architects has been appointed and tasked with a proposed master plan for the site.

In the meantime, various related detailed studies have been prepared, including a study of the office property market and business environment. These background studies will be taken into consideration when assessing how and when this project can be undertaken once the master planning phase is completed. Accordingly, the board will, in due course, be presenting the options to the shareholders for their consideration once the plans are firmly defined.

FARSONS GROUP
Trident
PROPERTY MANAGEMENT

# Directors, Board Committees, Group Executives & Senior Management

## THE BOARD OF DIRECTORS

Louis A. Farrugia – *Chairman*
Vincent Curmi – *Vice Chairman*
Roderick Chalmers
Michael Farrugia
Dr Max Ganado
Marina Hogg
Marquis Marcus John Scicluna Marshall
Marcantonio Stagno d'Alcontres
Antoinette Caruana – *Company Secretary*

## GROUP EXECUTIVE BOARD

Louis A. Farrugia – *Chairman*
Norman Aquilina – *Group Chief Executive*
Antoinette Caruana – *Group HR Manager and Company Secretary*
Ray Sciberras – *Chief Operations Officer*
Charles Xuereb – *Chief Financial Officer*
Arthur Muscat – *Secretary*

## CORPORATE GOVERNANCE COMMITTEE

Marcantonio Stagno d'Alcontres – *Chairman*
Marquis Marcus John Scicluna Marshall
Vincent Curmi
Dr Max Ganado

## RELATED PARTY TRANSACTIONS COMMITTEE

Vincent Curmi – *Chairman*
Dr Max Ganado
Marquis Marcus John Scicluna Marshall

## NEW VENTURES/ACQUISITIONS/MERGERS COMMITTEE

Vincent Curmi – *Chairman*
Dr Max Ganado
Marcantonio Stagno d'Alcontres

## BOARD PERFORMANCE EVALUATION COMMITTEE

Marcantonio Stagno d'Alcontres – *Chairman*
Michael Farrugia
Dr Max Ganado
Marquis Marcus John Scicluna Marshall

## REMUNERATION COMMITTEE

Louis A. Farrugia – *Chairman*
Roderick Chalmers
Vincent Curmi
Marina Hogg

## NOMINATION COMMITTEE

Louis A. Farrugia – Chairman
Dr Max Ganado
Marquis Marcus John Scicluna Marshall
Marcantonio Stagno d'Alcontres

## AUDIT COMMITTEE

Vincent Curmi – *Chairman*
Dr Max Ganado
Marina Hogg
Marquis Marcus John Scicluna Marshall

## FARSONS GROUP MANAGEMENT TEAM

Norman Aquilina – *Group Chief Executive*
John Bonello Ghio – *General Manager Food Chain Limited*
Chris Borg Cardona – *Head of Logistics*
Stefania Calleja – *Head of Sales and Customer Relations*
Antoinette Caruana – *Group HR Manager*
Eugenio Caruana – *Head of Production*
Dr Christopher Ciantar – *General Manager Trident Developments Limited (from March 2014)*
Claudio Farrugia – *General Manager Quintano Foods Limited*
Michael Farrugia – *Head of Business Support*
Philip Farrugia – *Head of I.T.*
Ray Sciberras – *Chief Operations Officer*
Pierre Stafrace – *General Manager Farsons Beverage Imports Company Limited*
Stephen Sultana – *Head of International Business Development*
Susan Weenink – *Head of Marketing and Communications*
Charles Xuereb – *Chief Financial Officer*

## FARSONS FOUNDATION BOARD OF TRUSTEES

Bryan A. Gera – *Chairman*
Antoinette Caruana
Franco Masini
Michael Farrugia
Mark Miceli-Farrugia
Arthur Muscat
Kenneth Pullicino – *Secretary*


# Financial Statements

# Directors' Report

The directors present their report and the audited consolidated financial statements for the year ended 31 January 2014.

## PRINCIPAL ACTIVITIES

The group is engaged in the brewing, production and sale of branded beers and beverages, the importation, wholesale and retail of food and beverages, including wines and spirits, the operation of franchised food retailing establishments and property management.

## REVIEW OF THE BUSINESS

The Farsons group registered another year of steady and profitable growth. Net profit before tax amounted to €6,852,000, an increase of 5.7% over the €6,481,000 achieved last year. Group turnover reached a record figure of €78,622,000, an increase of 1.9% over the previous year.

Group performance was influenced by a stable economic environment, another record year of tourist arrivals and the campaigning activities in the beginning of the year in the run-up to the general election held in March 2013.

Beer and water revenues exceeded the previous year's figures whereas soft drink volumes were flat. Exports of locally produced beverages increased further and now represent 6% of local production. Importation of beers, wines, spirits and non-alcoholic beverages registered further impressive results.

The food importation business faced another challenging year. Market dynamics continue to affect performance as private label categories are prompting the need for new strategies.

The franchised food business registered another successful year with improved turnover and profitability. Performance at Burger King and KFC surpassed expectations.

The gross profit of €27,670,000 for the group is on a par with last year, while the overhead costs compare favourably with last year. This resulted in an improved profit for the year of €356,000. The group's statement of financial position remains strong and the net asset base continued to improve by €3,349,000 to reach €95,274,000 (2013: €91,925,000). Shareholders' funds finance 63% (2013: 61%) of the group's total assets, while EBITDA (earnings before interest, tax, depreciation and amortisation) stands at €14,193,000, an improvement of €267,000 over last year.

## OUTLOOK FOR FINANCIAL YEAR ENDING 31 JANUARY 2015

While the market environment in which the group operates within remains extremely competitive, the board believes that sustainable growth can be achieved through continued investments. The announcement of a €27 million investment in a state-of-the-art beer packaging hall is witness to this. The board believes that the group manages a strong brand portfolio and has the required expertise to further develop its export business and become a regional beverage producer supplying external markets such as Italy and North Africa. The excavation and construction works for this project have now commenced, and it is envisaged that the investment will be completed by April 2016.

The board believes that the beverage importation arm has further potential to grow in the 'take home' and 'on-the-go' channels, and shall continue to further consolidate its leading position in this sector.

Food importation continues to face considerable challenges which are being addressed, and the board is confident that further growth in this segment will be achieved in the future.

The franchised food outlets are experiencing growth, and it is believed that the local market can absorb an additional number of outlets in strategically located positions. The group will be opening its first Burger King drive thru this summer which will further strengthen the brand's standing in the local market.

Going forward for the current year, positive local consumer confidence, growing tourism numbers, and the summer World Cup event remain important factors which will influence the group's business performance.

The board's strategic vision is to continue in its growth path by developing and investing in its core operations with the specific objective of increasing the sales of its locally produced beverages overseas.

A considerable amount of preparatory work, including detailed studies on the 'Farsons Business Park' project, have been carried out and an international firm of architects has been appointed to propose a masterplan. Once this plan is complete, the board will, in due course, be presenting the options available to the shareholders for their consideration.

## DIVIDENDS AND RESERVES

The income statements are set out on page 36.

The directors declared a net interim dividend of €1,000,000 which was paid on 13 October 2013 to the ordinary shareholders, and will recommend the payment of a final dividend of €1,500,000 at the Annual General Meeting scheduled for 18 June 2014. The interim dividend was paid out of tax exempt profits. If approved at the Annual General Meeting, the final dividend will be paid on 19 June 2014 (also out of tax exempt profits) to those shareholders included on the register of members of the company on 19 May 2014. As a result, total declared dividends relating to the financial year ending January 2014 would equate to €2,500,000 (2013: €2,500,000).

Dividends to the ordinary shareholders paid during the year ended 31 January 2014 amounted to €3,100,000 (2013: €2,100,000).

Retained profits carried forward at the reporting date amounted to €28,155,000 (2013: €24,930,000) for the group and €25,963,000 (2013: €23,584,000) for the company.

## DIRECTORS

The directors who held office during the year were:

Mr. Louis A. Farrugia F.C.A. – *Chairman*
Mr. Vincent Curmi C.P.A. – *Vice-Chairman*
Marquis Marcus John Scicluna Marshall
Mr. Marcantonio Stagno d'Alcontres
Dr. Max Ganado LL.D.
Mr. Roderick Chalmers M.A. Div. (Edin.) F.C.A., A.T.I.I., F.C.P.A., M.I.A.
Ms. Marina Hogg
Mr. Michael Farrugia M.A. (Edin.)

All directors, except for Mr. Michael Farrugia, whose terms of appointment expire, retire form the board and are eligible for re-election.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Simonds Farsons Cisk plc for the year ended 31 January 2014 are included in the Annual Report 2014, which is published in hard-copy printed form and is available on the parent company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the parent company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

- the financial statements give a true and fair view of the financial position of the group and the parent company as at 31 January 2014, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- the annual report includes a fair review of the development and performance of the business and the position of the group and the parent company, together with a description of the principal risks and uncertainties that the group and the parent company face.

## GOING CONCERN BASIS

After making enquiries, the directors, at the time of approving the financial statements, have determined that there is reasonable expectation that the group and the parent company have adequate resources to continue operating for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

## SHAREHOLDER REGISTER INFORMATION PURSUANT TO LISTING RULE 5.64

Share capital information of the company is disclosed in note 14 of the financial statements on page 57.

The issued share capital consists of one class of ordinary shares with equal voting rights attached and freely transferable.

The list of shareholders holding 5% or more of the equity share capital is disclosed in this annual report.

Every shareholder owning twelve and a half per cent (12.5%) of the ordinary issued share capital of the company or more shall be entitled to appoint one director for each and every twelve and a half per cent (12.5%) of the ordinary share capital owned by such shareholder and such shareholder may remove, withdraw or replace such director at any time. Any appointment, removal, withdrawal or replacement of a director to or from the board of directors shall take effect upon receipt by the board of directors or the company secretary of a notice in writing to that effect from the shareholder owning twelve and a half per cent (12.5%) of the ordinary issued share capital of the company or more. Any remaining fractions will be disregarded in the appointment of the said directors but may be used in the election of further directors at an Annual General Meeting. The chairman is appointed by the directors from amongst the directors appointed or elected to the board.

The rules governing the appointment, election or removal of directors are contained in the company's Articles of Association, Articles 93 to 101. An extraordinary resolution approved by the shareholders in the general meeting is required to amend the Articles of Association.

The powers and duties of directors are outlined in Articles 84 to 91 of the company's Articles of Association. In terms of Article 12 of the said Articles of Association, the company may, subject to the provisions of the Maltese Companies Act, 1995 acquire or hold any of its shares.

The Collective Agreement regulates redundancies, early retirement, resignation or termination of employment of employees. No employment contracts are in place between the company and its directors, except as disclosed in the Remuneration report.

It is hereby declared that, as at 31 January 2014, the company is not party to any significant agreement pursuant to Listing Rules 5.64.10.

Furthermore, the board declares that the information required under Listing Rules 5.64.5 and 5.64.7 is not applicable to the company.

## AUDITORS

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

By order of the board

Louis A. Farrugia
*Chairman*

Vincent Curmi
*Vice-Chairman*

Registered address:
The Brewery, Mdina Road, Mrieħel BKR 3000, Malta.
Telephone (+356) 2381 4172

Antoinette Caruana – *Company Secretary* – 30 April 2014

# Corporate Governance Statement

## A. INTRODUCTION

This statement is being made by Simonds Farsons Cisk plc (SFC) pursuant to Listing Rules 5.94 and 5.97 issued by the Listing Authority of the Malta Financial Services Authority and sets out the measures taken to ensure compliance with the Code of Principles of Good Corporate Governance (the code) contained in Appendix 5.1 to Chapter 5 of the said rules. In terms of Listing Rule 5.94, SFC is obliged to prepare a report explaining how it has complied with the code. For the purposes of the Listing Rules, SFC is hereby reporting on the extent of its adoption of the code.

SFC acknowledges that the code does not prescribe mandatory rules but recommends principles so as to provide proper incentives for the board of directors (the board) and SFC's management to pursue objectives that are in the interests of the company and its shareholders. Since its establishment in 1948 as a public limited liability company, SFC has always adhered to generally accepted standards of good corporate governance encompassing the requirements for transparency, proper accountability and the fair treatment of shareholders. The board of directors has therefore endorsed the code of principles and adopted it.

As demonstrated by the information set out in this statement, together with the information contained in the Remuneration report, SFC believes that it has, save as indicated in the section entitled Non-compliance with the code, throughout the accounting period under review, applied the principles and complied with the provisions of the code. In the Non-compliance section, the board indicates and explains the instances where it has departed from or where it has not applied the code, as allowed by the code.

## B. COMPLIANCE WITH THE CODE

### PRINCIPLE 1: THE BOARD

The board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. In terms of the Memorandum of Association of SFC, the affairs of the company are managed and administered by a board composed of eight directors.

The board is in regular contact with the Group Chief Executive through the Chairman in order to ensure that the board is in receipt of timely and appropriate information in relation to the business of SFC and management performance. This enables the board to contribute effectively to the decision making process, whilst at the same time exercising prudent and effective controls.

Directors are provided prior to each meeting with the necessary information and explanatory data as may be required by the particular item on the agenda. Comprehensive financial statements are also provided every month. The company has its own legal advisors, both internal and external. The directors are entitled to seek independent professional advice at any time at the company's expense where necessary for the proper performance of their duties and responsibilities.

The board delegates specific responsibilities to a number of committees, notably the Corporate Governance Committee, the Related Party Transactions Committee, the Audit Committee, the Board Performance Evaluation Committee, the Nomination Committee, the New Ventures/Acquisitions/Mergers Committee and the Remuneration Committee, each of which operates under formal terms of reference approved by the board. Further detail in relation to the committees and the responsibilities of the board is found in Principles 4 and 5 of this statement.

### PRINCIPLE 2: CHAIRMAN AND CHIEF EXECUTIVE

The statute of SFC provides for the board to appoint from amongst its directors a chairman and a vice-chairman.

The chairman is responsible to lead the board and set its agenda, ensure that the directors of the board receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the company, ensure effective communication with shareholders and encourage active engagement by all members of the board for discussion of complex or contentious issues.

In December 2001, the board established a Group Executive Board (GEB) to ensure effective overall management and control of group business and proper co-ordination of the diverse activities undertaken by the various business units and subsidiaries which make up the group. The GEB is responsible:

1. for the formulation and implementation of policies as approved by the board;
2. to achieve the objectives of the group as determined by the board; and accordingly
3. to devise and put into effect such plans and to organise, manage, direct and utilise the human resources available and all physical and other assets of the group so as to achieve the most economically efficient use of all resources and highest possible profitability in the interest of the shareholders and all other stakeholders.

All members of the GEB itself are senior SFC executives with experience of the group's business and proven professional ability, and each has a particular sphere of interest within his competence.

The company's current organisational structure includes a Chairman of the GEB and a Group Chief Executive, two positions which are occupied by Mr. Louis A. Farrugia and Mr. Norman Aquilina respectively.

The Group Chief Executive reports regularly to the board on the business and affairs of the group and the commercial, economic and other challenges facing it. He is also responsible to ensure that all submissions made to the board are timely, give a true and correct picture of the issue or issues under consideration, and are of high professional standards as may be required by the subject matter concerned.

The Group Chief Executive chairs a Farsons Group Management Meeting on a weekly basis, during which operational issues on a company and group basis are discussed. The company has an Operations Board which discusses operational issues on a monthly basis, a Group Receivables Review Board which monitors the collection of receivables, and a Quality Board which monitors quality levels and controls. These boards are composed of executive managers of the group. Each subsidiary has its own management structure and accounting systems and internal controls, and is governed by its own board, whose members comprise SFC directors and/or representatives of the GEB, and/or senior management of SFC.

The above arrangements provide sufficient delegation of powers to achieve effective management. The organisational structure ensures that decision making powers are spread wide enough to allow proper control and reporting systems to be in place and maintained in such a way that no one individual or small group of individuals actually has unfettered powers of decision.

### PRINCIPLE 3: COMPOSITION OF THE BOARD

The board is composed of a chairman who also acts as chairman of the GEB, a non-executive vice-chairman and six other non-executive directors.

***Executive Directors***
Mr. Louis A. Farrugia F.C.A. – *Chairman*

***Non-Executive Directors***
Mr. Vincent Curmi C.P.A. – *Vice-Chairman*
Marquis Marcus John Scicluna Marshall
Mr. Marcantonio Stagno d'Alcontres
Dr. Max Ganado LL.D.
Mr. Roderick Chalmers M.A. Div. (Edin.) F.C.A., A.T.I.I., F.C.P.A., M.I.A.
Ms. Marina Hogg
Mr. Michael Farrugia M.A. (Edin.)

The Group Chief Executive attends all board meetings, albeit without a vote, in order to ensure his full understanding and appreciation of the board's policy and strategy, and so that he can provide direct input to the board's deliberations.

The board considers that the size of the board, whilst not being large as to be unwieldy, is appropriate, taking into account the size of the company and its operations. The combined and varied knowledge, experience and skills of the board members provide a balance of competencies that are required, and add value to the functioning of the board and its direction to the company.

It is in the interest of each of the three major shareholders (who are the original promoters of the company) to nominate as directors knowledgeable, experienced and diligent persons. Apart from this, informal arrangements, which do not infringe on their rights as shareholders, exist for consultation prior to any changes in the membership of the board, as well as to assist in the identification of suitable persons who can be nominated for election by the other shareholders at general meetings, and who can bring in an independent viewpoint and particular knowledge to the deliberations of the board.

All directors, other than the chairman of the Group Executive Board and Mr. Michael Farrugia, are considered independent as no shareholder has a controlling interest and have no relationship with management.

The board has taken the view that the length of service on the board and the close family ties between board members who undertake an executive or senior management role in the company do not undermine any of the directors' ability to consider appropriately the issues which are brought before the board. Apart from possessing valuable experience and wide knowledge of the company and its operations, the board feels that the directors in question are able to exercise independent judgement and are free from any relationship which can hinder their objectivity. On the other hand, the board believes that by definition, employment with the company renders a director non-independent from the institution. This should not however, in any manner, detract from the non-independent director's ability to maintain independence of analysis, decision and action.

## PRINCIPLES 4 AND 5: THE RESPONSIBILITIES OF THE BOARD AND BOARD MEETINGS

The board meets regularly every month apart from other occasions as may be needed. Individual directors, apart from attendance at formal board meetings, participate in other ad hoc meetings during the year as may be required, and are also active in board sub-committees as mentioned further below, either to assure good corporate governance, or to contribute more effectively to the decision making process.

| | |
|---|---|
| **Meetings held:** | 14 |
| | |
| **Members Attended** | |
| Mr. Louis A. Farrugia – *Chairman* | 14 |
| Mr. Vincent Curmi – *Vice-Chairman* | 14 |
| Marquis Marcus John Scicluna Marshall | 13 |
| Mr. Marcantonio Stagno d'Alcontres | 13 |
| Dr. Max Ganado | 11 |
| Mr. Roderick Chalmers | 13 |
| Ms. Marina Hogg | 13 |
| Mr. Michael Farrugia | 13 |

The board, in fulfilling this mandate within the terms of the company's Memorandum and Articles of Association, and discharging its duty of stewardship of the company and the group, assumes responsibility for the following:

- reviewing and approving the business plan and targets that are submitted by management, and working with management in the implementation of the business plan;
- identifying the principal business risks for the group and overseeing the implementation and monitoring of appropriate risk management systems;
- ensuring that effective internal control and management information systems for the group are in place;
- assessing the performance of the group's executive officers, including monitoring the establishment of appropriate systems for succession planning, and for approving the compensation levels of such executive officers; and
- ensuring that the group has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

The board is ultimately responsible for the company's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material error, losses or fraud. Through the Audit Committee, the board reviews the effectiveness of the company's system of internal controls, which are monitored by the Internal Audit Department.

In fulfilling its responsibilities, the board regularly reviews and approves various management reports as well as annual financial plans, including capital budgets. The strategy, processes and policies adopted for implementation are regularly reviewed by the board using key performance indicators. To assist it in fulfilling its obligations, the board has delegated responsibility to the chairman of the Group Executive Board.

**Board Committees**

The board has set up the following sub-committees to assist it in the decision making process and for the purposes of good corporate governance. The actual composition of these committees are given in the annual report, but as stated earlier, each of the three major shareholders and the public shareholders are represented as far as possible.

***Corporate Governance Committee*** is presided over by a non-executive director. Its terms of reference are to monitor, review and ensure the best corporate practices and report thereon to the board. Directors and senior officers who want to deal in the company's listed securities, are obliged to give advance notice to the board through the chairman (or in his absence to the secretary of the board) and records are kept accordingly.

***Related Party Transactions Committee*** is presided over by the non-executive vice-chairman and deals with and reports to the board on all transactions with related parties. In the case of any director who is a related party with respect to a particular transaction, such director does not participate in the committee's deliberation and decision on the transaction concerned.

Control mechanisms relevant to the reporting of related party transactions are in place to ensure that information is vetted and collated on a timely basis, before reporting to the Related Party Transactions Committee for independent and final review of the transactions concerned.

The ***Audit Committee's*** primary objective is to assist the board in fulfilling its oversight responsibilities and to give advice on the effectiveness of the internal control systems and procedures, accounting policies, management of financial risks, financial reporting processes, as well as compliance with regulatory and legal requirements.

The Audit Committee also approves and reviews the internal audit plan prior to the commencement of every financial year. The Audit Committee oversees the conduct of the internal and external audits and acts to facilitate communication between the board, management, the external auditors and the group internal auditor.

The Audit Committee is chaired by the non-executive vice-chairman and comprises three other members all of whom are independent non-executive directors of the company. Mr. Vincent Curmi, the chairman of the Audit Committee, was appointed by the board in terms of Listing Rule 5.118 in view that he is a Certified Public Accountant and holder of a practising certificate in auditing.

Throughout the year ended 31 January 2014, the Audit Committee held four meetings. Audit Committee meetings are held mainly to discuss formal reports remitted by the Group Internal Auditor but also to consider the external auditors' audit plan, the six-monthly financial results and the annual financial statements.

The Group Internal Auditor, who also acts as secretary to the Audit Committees, is present at Audit Committee meetings. The external auditors are invited to attend specific meetings of the Audit Committee, and are also entitled to convene a meeting of the committee if they consider that it is necessary. The chairman of the Group Executive Board and the Chief Finance Officer are also invited to attend Audit Committee meetings. Members of management may be asked to attend specific meetings at the discretion of the Audit Committee.

# Corporate Governance Statement *continued*

Apart from these formal meetings, the Audit Committee Chairman and the Group Internal Auditor meet informally on a regular basis to discuss ongoing issues.

A group internal audit department was established in 1993 and has an independent status within the group. In fact, the Group Internal Auditor reports directly to the Audit Committee and has right of direct access to the chairman of the committee at all times.

The Group Internal Auditor works on the basis of an audit plan which focuses on areas of greatest risk as determined by a risk management approach. The audit plan is approved by the Audit Committee at the beginning of the financial year, and subsequent revisions to this plan in view of any ad hoc assignments arising throughout the year, would have to be approved by the Audit Committee chairman.

***New Ventures/Acquisitions/Mergers Committee***, presided over by the non-executive vice-chairman, examines and reports on any proposal made by the GEB for the setting up of any new ventures, the acquisition of other businesses and entering into mergers with other parties, as well as to recommend policy guidelines thereon.

The Board Performance Evaluation Committee and the Nomination Committee are dealt with under Principle 7 and Principle 8 respectively whilst the Remuneration Committee is dealt with under the Remuneration report, which also includes the Remuneration statement in terms of Code Provisions 8.A.3 and 8.A.4.

## PRINCIPLE 6: INFORMATION AND PROFESSIONAL DEVELOPMENT

The Group Chief Executive is appointed by the board and enjoys the full confidence of the board. The Group Chief Executive, although responsible for the recruitment and selection of senior management, consults with the board on the appointment of, and on a succession plan for, senior management.

Training (both internal and external) of management and employees is a priority, coordinated through the company's Human Resources Department.

On joining the board, a director is provided with briefings by the Chairman and the Group Chief Executive on the activities of the company's business areas. Furthermore, all new directors are offered a tailored induction programme.

Directors may, where they judge it necessary to discharge their duties as directors, take independent professional advice on any matter at the company's expense.

Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.

Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring adherence to board procedures, as well as good information flows within the board and its committees.

The chairman ensures that board members continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company provides the necessary resources for developing and updating its directors' knowledge and capabilities.

The company secretary is responsible for advising the board through the chairman on all governance matters.

## PRINCIPLE 7: EVALUATION OF THE BOARD'S PERFORMANCE

In 2009, a ***Board Performance Evaluation Committee*** chaired by a non-executive director, was set up. Its role is to deal with the board's performance evaluation and identify ways how to improve the board's effectiveness.

The evaluation exercise is conducted every two years through a Board Effectiveness Questionnaire prepared by the company secretary in liaison with the chairman of the committee. The company secretary discusses the results with the chairman of the committee who then presents the same to the board together with initiatives undertaken to improve the board's performance. During the intermediate year, the chairman undertakes to assess whether shortcomings identified during the board performance evaluation process have been addressed and reported accordingly to the board. The latest review has not resulted in any material changes in the company's internal organisation or in its governance structures. The non-executive directors are responsible for the evaluation of the chairman of the board.

## PRINCIPLE 8: COMMITTEES

The Remuneration Committee is dealt with under the Remuneration report, which also includes the Remuneration statement in terms of Code Provisions 8.A.3 and 8.A.4.

The Nomination Committee, chaired by a non-executive director was set up in March 2013 with the objective of leading the process for board appointments and to make recommendations to it. Any proposal for the appointment of a director whether by the three major shareholders or by the general meeting of shareholders should be accompanied by a recommendation from the board, based on the advice of the Nomination Committee.

Every shareholder owning twelve and a half percent (12.5%) ordinary issued share capital or more, is entitled to appoint and replace a director for each and every twelve and a half percent (12.5%) of such shares, and the remaining ordinary shares not so utilised are entitled to fill the remaining unfilled posts of directors. Thus, each of the three major shareholders who are named and whose holdings are listed in the notes to the financial statements (page 66), normally each appoint two directors for a total of six, the remaining two directors then being elected by the general public shareholders. Accordingly, no individual or small group of individuals will be in a position to dominate the board. The interests of the directors in the shares of the company are disclosed in this annual report.

## PRINCIPLES 9 AND 10: RELATIONS WITH SHAREHOLDERS AND WITH THE MARKET, AND INSTITUTIONAL SHAREHOLDERS

The company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood. The board is of the view that during the period under review the company has communicated effectively with the market through a number of company announcements and press releases.

The board endeavours to protect and enhance the interests of both the company and its shareholders, present and future. The chairman ensures that the views of shareholders are communicated to the board as a whole.

The board always ensures that all holders of each class of capital are treated fairly and equally. The board also acts in the context that its shareholders are constantly changing and, consequently, decisions take into account the interests of future shareholders as well.

Shareholders appreciate the significance of participation in the general meetings of the company and particularly in the election of directors. They hold directors to account for their actions, their stewardship of the company's assets and the performance of the company.

The agenda for general meetings of shareholders and the conduct of such meetings is arranged in such a manner to encourage valid discussion and decision-taking.

The chairman and the group chief executive also ensure that sufficient contact is maintained with major shareholders to understand issues and concerns.

The company also communicates with its shareholders through the company's Annual General Meeting (AGM) (further detail is provided under the section entitled General Meetings).

The chairman makes arrangements for the chairmen of the Audit and Remuneration Committees to be available to answer questions, if necessary.

Apart from the AGM, SFC communicates with its shareholders by way of the Annual Report and Financial Statements, by publishing and sending to the shareholders its results on an annual basis.

The company's website (www.farsons.com) also contains information about the company and its business, including an Investor Relations section.

In addition, the company holds a meeting for stockbrokers and financial intermediaries once a year to coincide with the publication of its financial statements.

The company secretary maintains two-way communication between the company and its investors. Individual shareholders can raise matters relating to their shareholdings and the business of the group at any time throughout the year, and are given the opportunity to ask questions at the AGM or submit written questions in advance.

In terms of article 51 of the Articles of Association of the company and article 129 of the Maltese Companies Act, the board may call an extraordinary general meeting on the requisition of shareholders holding not less than one tenth (1/10) of the paid up share capital of the company. Minority shareholders are allowed to formally present an issue to the board of directors.

In the event of conflicts arising between minority shareholders and the three major shareholders, who are also the original promoters of the company, every effort shall be made to seek mediation.

### PRINCIPLE 11: CONFLICTS OF INTEREST

The directors are strongly aware of their responsibility to act at all times in the interest of the company and its shareholders as a whole and of their obligation to avoid conflicts of interest. The latter may, and do arise on specific matters. In such instances:

- a director is obliged to make full and frank disclosure with respect to any matter where there is a potential or actual conflict, whether such conflict arises from personal interests or the interests of the companies in which such person is a director or officer;
- the said director is excused from the meeting and accordingly is not involved in the company's board discussion on the matter; and
- the said director does not vote on any such matter.

A director having a continuing material interest that conflicts with the interests of the company, is obliged to take effective steps to eliminate the grounds for conflict. In the event that such steps do not eliminate the grounds for conflict then the director should consider resigning.

On joining the board and regularly thereafter, the directors are informed of their obligations on dealing in securities of the company within the parameters of law, including the Listing Rules.

The directors' interests in the share capital of the company as at 31 January 2014 and as at 28 April 2014 are disclosed in the Shareholder Information.

### PRINCIPLE 12: CORPORATE SOCIAL RESPONSIBILITY

The principle objective of the company's commitment to Corporate Social Responsibility (CSR) is to provide support where possible in aspects that include social, occupational, financial, cultural and historical values. Having been in existence for more than 80 years, the company is very much rooted in local culture and as a company it endeavours to meet the expectations of the community by engaging among a host of other initiatives in the following:

- Corporate Social Responsibility (CSR) Day initiative – Together with other sponsoring companies employees volunteer to carry out turnkey projects involving one day's work during a public holiday;
- Sponsorships of major charitable events on a national level;
- Promoting the industrial heritage of the Maltese Islands;
- Co-operating with the University of Malta particularly in the areas of engineering, the built environment and history;
- Participation in recognised national student-exchange programmes for the benefit of local and foreign students;
- Assisting with environmental projects;
- Waste and energy conservation initiatives and policies;
- Liaising with NGOs and the provision of employment opportunity for groups of people with a disability on a yearly basis;
- Assisting employees encountering medical problems with obtaining overseas medical treatment;
- Supporting employees with a home loan interest subsidy scheme;
- Employee Assistance Programmes for employees needing support, rehabilitation, counselling and advice;
- The Farsons Foundation which was established in 1995 promotes and supports local initiatives and considers requests from a social, cultural and historical perspective at no commercial gain for the company. The Foundation is entirely funded by subventions authorised by the SFC board. The aims of the Foundation are to:
  - promote and assist the development and public manifestation of Maltese culture especially in the fields of art, music, literature and drama;
  - contribute research projects and assist in the publication of studies undertaken by any duly qualified person or persons, regarding Maltese disciplines relating to art, music and drama;
  - provide assistance to talented Maltese to enable them to obtain higher professional standard than those that can be obtained locally in disciplines relating to art, music and drama;
  - contribute by means of financial assistance towards the work of any private, voluntary and non-profit organisation or religious body engaged principally in fostering social solidarity.

## C. NON-COMPLIANCE WITH THE CODE

### PRINCIPLE 4 (CODE PROVISION 4.2.7):

This Code Provision recommends "the development of a succession policy for the future composition of the board of directors and particularly the executive component thereof, for which the chairman should hold key responsibility".

In the context of the appointment of directors being a matter reserved exclusively to SFC's shareholders (except where the need arises to fill a casual vacancy) as explained under Principle 3 in Section B, and on the basis of the directors non-executive role, the company does not consider it feasible to have in place such a succession policy. However, the recommendation to have in place such a policy will be kept under review. An active succession policy is however in place for senior executive positions in the company including that of the Group Chief Executive.

### PRINCIPLE 4 (CODE PROVISION 4.2.3):

This Code Provision requires that "The board should establish an Audit Committee in terms of Listing Rules 5.117 – 5.134". Listing rule 5.117 requires that at least one member of the audit committee shall be independent and shall be competent in accounting and/or auditing.

The board notes that the non-executive vice-chairman of the Audit Committee has been chairman of the Audit Committee for a period of 8 years. Although the length of service on the board of the chairman of the Audit Committee may appear to impair his independence, the board is of the opinion that since the non-executive vice-chairman is free from any business, family, or other relationship with the company and its management there are no conflicts of interest which may impair his judgement.

## D. INTERNAL CONTROL AND RISK MANAGEMENT

### INTERNAL CONTROL

The key features of the group's system of internal control are as follows:

***Organisation:***
The group operates through boards of directors of subsidiaries and associates with clear reporting lines and delegation of powers.

***Control Environment:***
The group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities. The group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve group objectives.

# Corporate Governance Statement *continued*

***Risk Identification:***
Group management is responsible together with each company's management, for the identification, evaluation, control and reporting of major risks applicable to their areas of business.

***Reporting:***
The group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management and internal audit.

On a monthly basis the board receives a comprehensive analysis of financial and business performance, including reports comparing actual performance with budgets as well as analysis of any variances.

## E. GENERAL MEETINGS

The manner in which the general meeting is conducted is outlined in Articles 49 to 52 of the company's Articles of Association, subject to the provisions of the Maltese Companies Act, 1995.

Within six months of the end of the financial year, an Annual General Meeting of shareholders is convened to consider the annual consolidated financial statements, the directors' and auditor's report for the year, to decide on dividends recommended by the board, to elect the directors and appoint the auditors. Prior to the commencement of the Annual General Meeting, a presentation is made to shareholders on the progress made and strategies adopted during the year in the light of prevailing market and economic conditions and the objectives set by the board, and an assessment on future prospects is given. The group's presence on the worldwide web (www.farsons.com) contains a corporate information section.

Apart from the above, the group publishes its financial results every six months and from time to time issues public notices regarding matters which may be of general interest or of material importance to shareholders and the market in general, or which may concern price sensitive issues.

At the time of the Annual General Meeting, the publication of the six monthly report or significant events affecting the group, public meetings are held to which institutional investors, financial intermediaries and inventory brokers are invited to attend. Press releases are also issued regularly on the business activities of the group.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Listing Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% of the voting issued share capital may request the company to include items on the agenda of a general meeting and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the company at least forty six (46) days before the date set for the relative general meeting.

A shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the company. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the general meeting and to have such questions answered by the directors or such persons as the directors may delegate for that purpose.

Approved by the board of directors on 30 April 2014 and signed on its behalf by:

Louis Farrugia

Louis A. Farrugia – *Chairman*

Vincent Curmi – *Vice-Chairman*

## 1. TERMS OF REFERENCE AND MEMBERSHIP

The Remuneration Committee is presided over by the chairman of the company. Its terms of reference are to review from time to time and to report and make recommendations on the non-executive directors' remuneration generally as well as the conditions of service of the chairman, group chief executive and senior management. In the case of the chairman or of any remuneration to an individual director for extra services, the interested director concerned including the chairman, apart from not voting in terms of the SFC statute, does not attend the meeting during the discussion at committee or board level and decisions are therefore taken in his absence.

## 2. MEETINGS

The Remuneration Committee met twice during the financial year ended 31 January 2014.

## 3. REMUNERATION STATEMENT

### 3.1 SENIOR EXECUTIVES

For the purposes of this Remuneration Statement, references to 'Senior Executives' shall mean the members of the GEB.

The group's human resources department is responsible (apart from normal staff administration and training and upgrading of proficiency of technical and managerial personnel and workforce in general), to carry out regular reviews of the compensation structure pertaining to senior management in the light of the group's performance, economic situation and market trends. One of the main objectives is to recruit and retain executives of high professional standards and competence who can enhance the group's performance and assure the best operational and administrative practices.

The group's human resources manager reports and makes recommendations periodically to the board on the remuneration package, including bonus arrangements for achieving pre-determined targets.

The Remuneration Committee is required to evaluate, recommend and report on any proposals made by the group human resources manager relating to management remuneration and conditions of service. The committee considers that the current executive management remuneration packages are based upon the appropriate local market equivalents, and are fair and reasonable for the responsibilities involved. The committee also believes that the remuneration packages are such as to enable the company to attract, retain and motivate executives having the appropriate skills and qualities to ensure the proper management of the organisation.

The committee is also charged with considering and determining any recommendations from management on requests for early retirement.

The terms and conditions of employment of senior executives are set out in their respective contracts of employment with the company. As a general rule, such contracts, with the exception of that pertaining to the Group Chief Executive, do not contain provisions for termination payments and other payments linked to early termination.

Senior management is eligible for an annual performance bonus which is linked to agreed performance targets and their achievement.

In the case of the Group Chief Executive, the Remuneration Committee is of the view that the linkage between fixed remuneration and performance bonus is reasonable and appropriate.

There are no profit sharing, share options or pension benefit arrangements.

The Group Chief Executive is eligible for an annual bonus entitlement by reference to the attainment of pre-established objectives and targets as approved by the Remuneration Committee.

Non-cash benefits to which Senior Executives are entitled are principally the use of a company car and health insurance.

### 3.2 DIRECTORS

The board is composed exclusively of executive and non-executive directors. The determination of remuneration arrangements for board members is a reserved matter for the board as a whole, following the submission of recommendations by the committee.

The chairman has an indefinite service contract which is periodically reviewed by the rest of the board. A fixed salary is payable, but at the beginning of each financial year, the board establishes a number of objectives against the achievement of which a performance bonus may be considered.

Except for the chairman and for Mr. Michael Farrugia no other director is employed or has a service contract with the company or any of its subsidiaries.

The remuneration of the other directors is determined on the basis of their responsibilities, time committed to the group's affairs, including attendance at regular board meetings, serving on boards of subsidiaries and jointly-controlled entities and work done in connection with the various sub-committees of which they are members.

There is no linkage between the remuneration and the performance of directors.

No director (including the chairman) is entitled to profit sharing, share options or pension benefits, and there are no outstanding loans or guarantees provided by the company or any of its subsidiaries to any director.

In terms of non-cash benefits, directors are entitled principally to health insurance and the use of a company car or equivalent.

### 3.3 TOTAL EMOLUMENTS

The maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders in the Annual General Meeting in terms of Article 81(i) of the company's Articles of Association. This amount was fixed at an aggregate sum of €500,000 per annum at the 64th Annual General Meeting held on 23 June 2011.

The following is an outline of the directors' remuneration for the financial year under review:

Directors' fees €192,000
Directors' other emoluments €221,000
Directors' salary €40,000

**Variable and Non Variable Emoluments of Directors and Senior Management**

| | Fixed Remuneration | Variable Remuneration | Share Options | Others |
|---|---|---|---|---|
| Senior Management | €337,000 | €132,000 | None | Non-cash benefits referred to above under 3.2 |
| Directors | €423,000 | €30,000 | None | Non-cash benefits referred to above under 3.2 |

# Independent Auditor's Report

To the shareholders of Simonds Farsons Cisk plc

## REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2014

We have audited the consolidated and stand-alone parent company financial statements of Simonds Farsons Cisk plc (together the "financial statements") on pages 35 to 67, which comprise the consolidated and parent company statements of financial position as at 31 January 2014, and the consolidated and parent company statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Directors' Responsibility for the Financial Statements***

As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on pages 26 and 27, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and the parent company as at 31 January 2014, and of their financial performance and their cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

***Report on the statement of compliance with the Principles of Good Corporate Governance***

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

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

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

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

In our opinion, the Corporate Governance Statement set out on pages 28 to 32 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

***Matters on which we are required to report by exception***

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

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

Under the Listing Rules, to review the statement made by the directors, set out on page 27, that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

PricewaterhouseCoopers
78 Mill Street, Qormi, Malta

Simon Flynn – *Partner*
30 April 2014

# Statements of Financial Position

| | | As at 31 January | | | |
|---|---|---|---|---|---|
| | | **GROUP** | | **COMPANY** | |
| | | **2014** | 2013 | **2014** | 2013 |
| | Notes | **€'000** | €'000 | **€'000** | €'000 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 5 | **73,587** | 73,978 | **59,019** | 58,742 |
| Investment property | 6 | **45,189** | 45,189 | **32,926** | 32,926 |
| Intangible assets | 7 | **1,078** | 1,104 | **-** | - |
| Investments in subsidiaries | 8 | **-** | - | **13,706** | 13,706 |
| Investments in jointly-controlled entities | 9 | **12** | 12 | **2** | 2 |
| Loans and receivables | 10 | **-** | 56 | **-** | - |
| Trade and other receivables | 12 | **1,727** | 2,202 | **1,727** | 2,202 |
| Total non-current assets | | **121,593** | 122,541 | **107,380** | 107,578 |
| **Current assets** | | | | | |
| Inventories | 11 | **10,437** | 11,090 | **6,753** | 7,780 |
| Loans and receivables | 10 | **104** | 118 | **-** | - |
| Trade and other receivables | 12 | **16,899** | 16,963 | **15,633** | 16,272 |
| Current tax assets | | **339** | 286 | **-** | - |
| Cash and cash equivalents | 13 | **1,163** | 533 | **634** | 40 |
| Total current assets | | **28,942** | 28,990 | **23,020** | 24,092 |
| **Total assets** | | **150,535** | 151,531 | **130,400** | 131,670 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves attributable to owners of the company** | | | | | |
| Share capital | 14 | **9,000** | 9,000 | **9,000** | 9,000 |
| Revaluation and other reserves | 16, 17 | **58,421** | 58,421 | **53,161** | 53,161 |
| Hedging reserve | 18 | **(302)** | (426) | **(302)** | (426) |
| Retained earnings | | **28,155** | 24,930 | **25,963** | 23,584 |
| **Total equity** | | **95,274** | 91,925 | **87,822** | 85,319 |
| **Non-current liabilities** | | | | | |
| Provisions for other liabilities and charges | 21, 22 | **11,282** | 11,144 | **5,786** | 5,648 |
| Derivative financial instruments | 19 | **308** | 368 | **308** | 368 |
| Borrowings | 20 | **24,198** | 25,915 | **24,198** | 25,915 |
| Total non-current liabilities | | **35,788** | 37,427 | **30,292** | 31,931 |
| **Current liabilities** | | | | | |
| Trade and other payables | 23 | **15,638** | 17,646 | **10,365** | 11,689 |
| Current tax liabilities | | **800** | 457 | **-** | - |
| Derivative financial instruments | 19 | **156** | 288 | **156** | 288 |
| Borrowings | 20 | **2,879** | 3,788 | **1,765** | 2,443 |
| Total current liabilities | | **19,473** | 22,179 | **12,286** | 14,420 |
| **Total liabilities** | | **55,261** | 59,606 | **42,578** | 46,351 |
| **Total equity and liabilities** | | **150,535** | 151,531 | **130,400** | 131,670 |

The notes on pages 39 to 67 are an integral part of these consolidated financial statements.

The financial statements on pages 35 to 67 were authorised for issue by the board on 30 April 2014 and were signed on its behalf by:

Louis Farrugia

Louis A. Farrugia – *Chairman*

Vincent Curmi – *Vice-Chairman*

Norman Aquilina – *Group Chief Executive*

# Income Statements

| | Notes | GROUP 2014 €'000 | GROUP 2013 €'000 | COMPANY 2014 €'000 | COMPANY 2013 €'000 |
|---|---|---|---|---|---|
| **Revenue** | 4 | **78,622** | 77,180 | **43,247** | 43,188 |
| Cost of sales | 24 | **(50,952)** | (49,518) | **(23,441)** | (22,965) |
| **Gross profit** | | **27,670** | 27,662 | **19,806** | 20,223 |
| Selling and distribution costs | 24 | **(9,500)** | (10,474) | **(7,140)** | (8,136) |
| Administrative expenses | 24 | **(9,783)** | (9,212) | **(5,883)** | (5,628) |
| **Operating profit** | | **8,387** | 7,976 | **6,783** | 6,459 |
| Investment gains | 27 | **14** | 14 | **163** | 91 |
| Finance costs | 28 | **(1,549)** | (1,509) | **(1,467)** | (1,430) |
| **Profit before tax** | | **6,852** | 6,481 | **5,479** | 5,120 |
| Tax expense | 29 | **(527)** | (512) | **-** | - |
| **Profit for the year** | | **6,325** | 5,969 | **5,479** | 5,120 |
| **Earnings per share for profit during the year** | 31 | **€0.211** | €0.199 | | |

Year ended 31 January

# Statements of Comprehensive Income

| | Note | GROUP 2014 €'000 | GROUP 2013 €'000 | COMPANY 2014 €'000 | COMPANY 2013 €'000 |
|---|---|---|---|---|---|
| **Profit for the year** | | **6,325** | 5,969 | **5,479** | 5,120 |
| **Other comprehensive income:** | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | |
| Cash flow hedges net of deferred tax | 18 | **124** | (130) | **124** | (130) |
| **Other comprehensive income for the year** | | **124** | (130) | **124** | (130) |
| **Total comprehensive income for the year** | | **6,449** | 5,839 | **5,603** | 4,990 |

Year ended 31 January

The notes on pages 39 to 67 are an integral part of these consolidated financial statements.

# Statements of Changes in Equity

| GROUP | Notes | Share capital €'000 | Hedging reserve €'000 | Revaluation and other reserves €'000 | Retained earnings €'000 | Total equity €'000 |
|---|---|---|---|---|---|---|
| Balance at 1 February 2012 | | 9,000 | (296) | 58,421 | 21,061 | 88,186 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | - | 5,969 | 5,969 |
| Other comprehensive income: | | | | | | |
| Cash flow hedges net of deferred tax | 18 | - | (130) | - | - | (130) |
| **Total comprehensive income** | | - | (130) | - | 5,969 | 5,839 |
| **Transactions with owners** | | | | | | |
| Dividends relating to 2012 and 2013 | 15 | - | - | - | (2,100) | (2,100) |
| **Balance at 31 January 2013** | | 9,000 | (426) | 58,421 | 24,930 | 91,925 |
| Balance at 1 February 2013 | | 9,000 | (426) | 58,421 | 24,930 | 91,925 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | - | 6,325 | 6,325 |
| Other comprehensive income: | | | | | | |
| Cash flow hedges net of deferred tax | 18 | - | 124 | - | - | 124 |
| **Total comprehensive income** | | - | 124 | - | 6,325 | 6,449 |
| **Transactions with owners** | | | | | | |
| Dividends relating to 2013 and 2014 | 15 | - | - | - | (3,100) | (3,100) |
| **Balance at 31 January 2014** | | **9,000** | **(302)** | **58,421** | **28,155** | **95,274** |

| COMPANY | | | | | | |
|---|---|---|---|---|---|---|
| Balance at 1 February 2012 | | 9,000 | (296) | 53,161 | 20,564 | 82,429 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | - | 5,120 | 5,120 |
| Other comprehensive income: | | | | | | |
| Cash flow hedges net of deferred tax | 18 | - | (130) | - | - | (130) |
| **Total comprehensive income** | | - | (130) | - | 5,120 | 4,990 |
| **Transactions with owners** | | | | | | |
| Dividends relating to 2012 and 2013 | 15 | - | - | - | (2,100) | (2,100) |
| **Balance at 31 January 2013** | | 9,000 | (426) | 53,161 | 23,584 | 85,319 |
| Balance at 1 February 2013 | | 9,000 | (426) | 53,161 | 23,584 | 85,319 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | - | 5,479 | 5,479 |
| Other comprehensive income: | | | | | | |
| Cash flow hedges net of deferred tax | 18 | - | 124 | - | - | 124 |
| **Total comprehensive income** | | - | 124 | - | 5,479 | 5,603 |
| **Transactions with owners** | | | | | | |
| Dividends relating to 2013 and 2014 | 15 | - | - | - | (3,100) | (3,100) |
| **Balance at 31 January 2014** | | **9,000** | **(302)** | **53,161** | **25,963** | **87,822** |

The notes on pages 39 to 67 are an integral part of these consolidated financial statements.

# Statements of Cash Flows

| | | Year ended 31 January | | | |
|---|---|---|---|---|---|
| | | GROUP | | COMPANY | |
| | Notes | 2014 €'000 | 2013 €'000 | 2014 €'000 | 2013 €'000 |
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 32 | **13,418** | 14,784 | **12,326** | 13,329 |
| Interest received | | **14** | 14 | **163** | 91 |
| Interest paid | | **(1,549)** | (1,509) | **(1,467)** | (1,430) |
| Income tax paid | | **(237)** | (267) | **-** | - |
| Net cash generated from operating activities | | **11,646** | 13,022 | **11,022** | 11,990 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | **(5,324)** | (7,691) | **(4,934)** | (7,118) |
| Additions to investment property | | **-** | (13) | **-** | - |
| Proceeds from disposal of property, plant and equipment | | **66** | 68 | **33** | 12 |
| Net cash used in investing activities | | **(5,258)** | (7,636) | **(4,901)** | (7,106) |
| **Cash flows from financing activities** | | | | | |
| Payments of current and non-current borrowings | | **(1,749)** | (1,750) | **(1,749)** | (1,750) |
| Dividends paid | | **(3,100)** | (2,100) | **(3,100)** | (2,100) |
| Net cash used in financing activities | | **(4,849)** | (3,850) | **(4,849)** | (3,850) |
| **Net movement in cash and cash equivalents** | | **1,539** | 1,536 | **1,272** | 1,034 |
| **Cash and cash equivalents at beginning of year** | | **(1,505)** | (3,041) | **(653)** | (1,687) |
| **Cash and cash equivalents at end of year** | 13 | **34** | (1,505) | **619** | (653) |

The notes on pages 39 to 67 are an integral part of these consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated 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 consolidated financial statements include the financial statements of Simonds Farsons Cisk plc and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, as modified by the fair valuation of the non-current asset categories of property, plant and equipment and investment property and except as disclosed in the accounting policies below. Unless otherwise stated, all financial information presented has been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the group's accounting policies (see note 3 - Critical accounting estimates and judgements).

*Standards, interpretations and amendments to published standards effective in 2014*
In 2014, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 February 2013. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Amendment to IAS 1, 'Financial statements presentation' relates to other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

*Standards, interpretations and amendments to published standards that are not yet effective*
Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the group's accounting periods beginning after 1 February 2013. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application.

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 two classification categories: amortised cost and fair value. 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. 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 adoption by the EU, IFRS 9 is effective for financial periods beginning on, or after, 1 January 2015. The group is considering the implications of the standard and its impact on the group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission, and will also consider the impact of the remaining phases of IFRS 9 when completed.

### 1.2 CONSOLIDATION

***(a) Subsidiaries***
Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share 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 (note 1.8).

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

A listing of the subsidiaries is set out in note 39 to the financial statements.

***(b) Jointly-controlled entities***
Jointly-controlled entities are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements, investments in jointly-controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in jointly-controlled entities includes goodwill identified on acquisition net of any accumulated impairment loss. See note 1.8 for the impairment of non-financial assets including goodwill.

# Notes to the Consolidated Financial Statements *continued*

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

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

A listing of the group's jointly-controlled entities is set out in note 39 to the financial statements.

### 1.3 FOREIGN CURRENCY TRANSLATION

***(a) Functional and presentation currency***

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

***(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.

All foreign exchange gains and losses are presented in the income statements within 'cost of sales' and 'administrative expenses'.

The group enters into foreign exchange forward contracts in order to manage its exposure to fluctuations in foreign currency rates on specific transactions (see note 1.27).

***(c) Group companies***

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to other comprehensive income. On disposal of a foreign entity, such translation differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 1.4 GROUP HOLDINGS OF LAND AND BUILDINGS

The group owns extensive holdings of land and buildings which are accounted for under two categories depending on their current or intended use:

(a) Properties used as business, manufacturing and operational premises by the group including factories, warehouses, offices and commercial buildings, are accounted for as property, plant and equipment and are included under non-current assets. Surplus properties previously employed in the group's operations, are classified as non-current assets held for sale;

(b) Other properties held by the group for capital appreciation and for long-term rental purposes are accounted for as investment property and are also included under non-current assets.

### 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 external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis, but at least every five years, unless the directors consider it appropriate to have an earlier revaluation, 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 stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. 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 directly in equity; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Freehold land, land held on perpetual emphyteusis and assets in the course of construction are not depreciated. Leased properties are depreciated over the period of the lease. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings 0.67% - 2.00%
- Plant, machinery and equipment 5.00% - 33.33%

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

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 (see note 1.8).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss. When revalued assets are sold, 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 is not occupied by the group, is classified as investment property. Investment property comprises freehold and leasehold land and buildings, and land and buildings held under long-term operating leases.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. 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 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 the information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

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

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

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

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

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

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

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

### 1.7 INTANGIBLE ASSETS

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/jointly-controlled entity or business concern at the date of acquisition. Goodwill on acquisitions of subsidiaries/business concerns is included in intangible assets. Goodwill on acquisitions of jointly-controlled entities is included in investments in jointly-controlled entities. Goodwill is recognised separately within intangible assets, and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. A cash-generating unit to which goodwill has been allocated is 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.

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

# Notes to the Consolidated Financial Statements *continued*

## 1.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets (including goodwill) that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 1.9 INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

In the company's separate financial statements, investments in subsidiaries and jointly-controlled entities are accounted for by the cost method of accounting, that is, at cost less impairment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The company gathers objective evidence that an investment is impaired using the same process disclosed in note 1.10.3. The results of associates are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

Loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, an extension of the company's investment in that subsidiary. Loans to subsidiaries for which settlement is planned are classified as loans and receivables in accordance with the requirements of IAS 39.

## 1.10 FINANCIAL ASSETS

### *1.10.1 Classification*

The group classifies its financial assets, (other than investments in jointly-controlled entities and, only in the company's case, investments in subsidiaries) in the loans and receivables category. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (notes 1.12 and 1.14).

### *1.10.2 Recognition and measurement*

The group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the company. 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.

Loans and receivables are initially recognised at fair value plus transaction costs and 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 financial assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

### *1.10.3 Impairment*

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The group first assesses whether objective evidence of impairment exists. The criteria that the group uses to determine that there is objective evidence of an impairment loss include:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

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

## 1.11 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Inventories of raw materials are determined using the first-in first-out method and those of spare parts on a weighted average basis. The cost of raw materials comprises the cost of direct materials and includes transport and handling charges. The cost of finished goods comprises raw materials, other direct costs and related production overheads. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. In the case of bottles, cases and kegs, the net realisable value is arrived at after providing for an annual charge calculated to write down the costs over their estimated useful lives.

## 1.12 TRADE AND OTHER RECEIVABLES

Trade receivables comprise amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (note 1.10.3). 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 against profit or loss.

### 1.13 CURRENT AND DEFERRED TAX

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is recognised 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 liabilities are not recognised if they arise from the initial recognition of goodwill; 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 income tax asset is realised or the deferred income tax liability is settled.

Under this method the group is required to make a provision for deferred income taxes on the revaluation and fair valuation of certain non-current assets and derivative contracts. Such deferred tax is charged or credited directly to the revaluation reserve and/or the unrealised fair value gains reserve and hedging reserve. Deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property is realised through the income statements.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the unutilised investment tax credits, tax losses and unabsorbed capital allowances can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income 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 income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 1.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statements of financial position at face value. In the statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statements of financial position.

### 1.15 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

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

### 1.16 BORROWINGS

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

### 1.17 PROVISIONS

Provisions (including restructuring costs) are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Restructuring provisions principally comprise termination benefits.

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 finance cost.

### 1.18 TERMINATION BENEFITS

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

### 1.19 TRADE AND OTHER PAYABLES

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

# Notes to the Consolidated Financial Statements *continued*

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

## 1.21 OFFSETTING FINANCIAL INSTRUMENTS
Financial assets and liabilities are offset and the net amount reported in the statements 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.

## 1.22 REVENUE RECOGNITION
Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax or other sales taxes, returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised as follows:

***(a) Sales of goods – wholesale***
Sales of goods are recognised when an entity has delivered products to the customer, the customer has accepted the products and collectibility of the related trade and other receivables is reasonably assured. Branded beers, beverages and food products are often sold with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

***(b) Sales of goods – retail***
Sales of goods are recognised when an entity sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. It is the group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

***(c) Sales of services***
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

***(d) Property related income***
Rentals and short-term lets receivable on immovable property are recognised in the period when the property is occupied.

***(e) Finance income***
Finance income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as finance income.

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

## 1.23 OPERATING LEASES
***Where a group company is a lessee***
Leases of assets where a significant portion of the risk 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.

***Where a group company is a lessor***
Assets leased out under operating leases are included in investment property in the statement of financial position. These assets are fair valued annually on a basis consistent with similarly owned investment property.

## 1.24 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 the group's interest-bearing borrowings.

## 1.25 EARNINGS PER SHARE
The group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the consolidated profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding at the end of the period.

## 1.26 SEGMENT REPORTING
The group determines and presents operating segments based on the information that internally is provided to the board of directors, which is the group's chief operating decision maker in accordance with the requirements of IFRS 8 'Operating Segments'.

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the board of directors to make decisions about resources to be allocated to the segment and to assess its performance executing the function of the chief operating decision maker.

## 1.27 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments, including forward foreign exchange contracts, interest rate swap agreements and combined bought call and written put options, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date. Fair values of combined bought call and written put options are mainly based on dealer quotes obtained at the reporting date from the company's counterparty. The fair value of interest rate swaps is mainly based on the present value of the estimated future cash flows.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The full fair value of hedging derivatives is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

On the date a derivative contract is entered into, the group designates certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met. In accordance with the requirements of IAS 39, the criteria for a derivative instrument to be accounted for as a cash flow hedge include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

Accordingly, the group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

***(a) Fair value hedge***

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statements of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

***(b) Cash flow hedge***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statements.

Amounts accumulated in equity are recycled in the income statements in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statements. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statements.

## 1.28 INSTITUTIONAL GRANTS

Grants that compensate the group for expenses incurred are recognised in the income statement on a systematic basis in the same reporting periods in which the expenses are incurred. This compensation is disclosed in the same reporting line as the related expense.

Institutional grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them.

Grants that compensate the group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge. Capital grants are recorded as deferred income and released to the income statement over the estimated life of the related assets.

# 2. FINANCIAL RISK MANAGEMENT

## 2.1 FINANCIAL RISK FACTORS

The group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. From time to time, the group enters into foreign exchange contracts and more recently into foreign exchange collars and interest rate swap agreements to hedge certain risk exposures during the current and preceding financial years. Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors.

**(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 group entity's functional currency. The group is exposed to foreign exchange risk arising primarily from the group's purchases, a part of which are denominated in the US dollar and the GB pound. Management does not consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions to be significant since balances are settled within very short periods in accordance with the negotiated credit terms.

The group's and company's loans and receivables, cash and cash equivalents and borrowings are denominated in euro.

# Notes to the Consolidated Financial Statements *continued*

On specific transactions the group uses forward contracts to manage its exposure to fluctuations in foreign currency exchange rates. For financial reporting purposes, the group designates contracts as fair value hedges or cash flow hedges, as appropriate.

The group hedges certain major contracted purchases that are made in foreign currency and are payable in a future period by entering into foreign exchange forward contracts covering the cash flow exposure arising from these transactions. Accordingly, the group meets the criteria for hedge accounting in accordance with the requirements of IAS 39.

At 31 January 2014, the settlement dates on open contracts ranged between two and ten months. These derivatives contracts have a notional amount of €2,125,000 (2013: €4,202,000). If as at year end, the above noted currencies had weakened or strengthened against the euro by 5% with all other variables held constant, equity would have been €112,000 (2013: €221,000) lower or higher, mainly as a result of fair value movements on these derivative financial instruments. Such losses or gains in respect of a weakening or a strengthening of the above noted currencies against the euro would mitigate, to the extent of an amount of currency purchases equivalent to the derivative contracts' notional amount as disclosed above, the equivalent gains or losses that would arise upon the actual purchases.

(ii) Cash flow and fair value interest rate risk
The group's income and operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from borrowings. Borrowings issued at variable rates, comprising bank borrowings (refer to note 20), expose the group to cash flow interest rate risk. The group's borrowings are subject to an interest rate that varies according to revisions made to the Bank's Base Rate. Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Interest rates on these financial instruments are linked with the Central Intervention Rate issued by the European Central Bank. Borrowings issued at fixed rates, consist primarily of bank loans and unsecured bonds which are carried at amortised cost (refer to note 20), and therefore do not expose the group to cash flow and fair value interest rate risk.

Significant exposure to cash flow interest rate risk arises in respect of interest payments relating to borrowings, in particular to a loan amounting to €6.5 million (2013: €7.5 million) that is subject to interest at floating rates linked to Euribor. The group entered into an interest-rate swap agreement, which provided a cash flow hedging relationship in respect of variability of future floating interest payments. This agreement covers interest payments on the total amount of this borrowing. Accordingly, this hedging instrument has been designated as cash flow hedges on the interest rate risk, that is, volatility in floating interest amounts. Up to the reporting date, the group did not have any hedging arrangements with respect to the exposure of interest rate risk on other interest-bearing liabilities.

Based on the above, 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.

**(b) Credit risk**
Credit risk arises from cash and cash equivalents, deposits with banks, loans and receivables, as well as credit exposures to customers, including outstanding receivables and committed transactions. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Carrying amounts** | | | | |
| Loans and receivables (note 10) | **104** | 174 | **-** | - |
| Trade and other receivables (note 12) | **17,692** | 18,089 | **15,969** | 17,797 |
| Cash and cash equivalents (note 13) | **1,163** | 533 | **634** | 40 |
| | **18,959** | 18,796 | **16,603** | 17,837 |

Group companies bank only with local financial institutions with high quality standing or rating. The group's operations are principally carried out in Malta and most of the group's revenues originate from clients based in Malta. The group has no concentration of credit risk that could materially impact on the sustainability of its operations. However, in common with similar business concerns, the failure of specific large customers could have a material impact on the group's results.

The group assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of products and services are effected to customers with an appropriate credit history in the case of credit sales. Sales to retail customers are made in cash or via major credit cards. The group monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the group's receivables taking into account historical experience in collection of accounts receivable.

Standard credit terms are in place for individual clients, however, wherever possible, new corporate customers are analysed individually for creditworthiness before the group's standard payment and service delivery terms and conditions are offered. The group's review includes external credit worthiness databases when available. The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance represents specific provisions against individual exposures.

The group's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any material losses from non-performance by these customers.

***Impairment losses***
*Trade and other receivables*
At group level, impairment provisions of €2,042,000 (2013: €1,911,000) were in existence at the year end in respect of trade receivables that were overdue and that were not expected to be recovered. Other overdue trade receivables that were not impaired amounted to €629,000 (2013: €680,000). These unsecured overdue amounts consisted of €502,000 (2013: €456,000) that were less than three months overdue and €127,000 (2013: €224,000) that were greater than three months overdue.

At company level, impairment provisions of €698,000 (2013: €669,000) were in existence at the year end in respect of trade receivables that were overdue and that were not expected to be recovered. Other overdue trade receivables that were not impaired amounted to €125,000 (2013: €92,000). These unsecured overdue amounts consisted of €125,000 (2013: €92,000) that were less than three months overdue.

*Other receivables*
As at year end, impairment provisions of €1,625,000 (2013: €1,631,000) for the group and the company were in existence at year end in respect of trade loans (disclosed under other receivables) that were overdue and that were not expected to be recovered. Other overdue trade loans that were not impaired amounted to €1,858,000 (2013: €1,709,000) for the group and the company. The group and company hold security of €2,248,000 (2013: €1,642,000) against trade loans of an equivalent amount.

The movement in the provision for impairment in respect of trade and other receivables during the year was as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Balance as at 1 February | **3,542** | 2,596 | **2,300** | 1,443 |
| Movement in provision for impairment | **125** | 946 | **23** | 857 |
| Balance as at 31 January | **3,667** | 3,542 | **2,323** | 2,300 |

The group's policy is to recognise impairment losses on all trade receivables exceeding one year, while it recognises impairment losses on other receivables which exceed the contract credit period and that are not expected to be recovered. The allowance accounts in respect of trade receivables are used to record impairment losses unless the group is satisfied that no recovery of the amount owing is possible; at this point the amounts considered irrecoverable are written off against trade receivables directly.

The group holds collateral as security for a considerable portion of its assets classified as loans and receivables. The group and company's receivables also include advances to subsidiaries within the group and jointly-controlled entities on which no credit risk is considered to arise.

*Derivative financial instruments*
Credit risk arising from derivative financial instruments lies in the insolvency of the contracting party and as a consequence, in the amount of the sum, on balance, of positive market values vis-à-vis the respective derivative counterparties. Derivative transactions are concluded with first rate local banking institutions.

**(c) Liquidity risk**
The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally borrowings and trade and other payables (refer to notes 20 and 23). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the group's obligations.

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period and ensures that adequate financing facilities are in place for the coming year. The carrying amounts of the group's assets and liabilities are analysed into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date in the respective notes to the financial statements.

The table below analyses the group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying amounts, as the impact of discounting is not significant.

| **GROUP** | Carrying amount €'000 | Contractual cash flows €'000 | Within one year €'000 | One to five years €'000 | Over five years €'000 |
|---|---|---|---|---|---|
| **31 January 2014** | | | | | |
| Borrowings | **27,077** | **29,170** | **3,472** | **7,510** | **18,188** |
| Trade and other payables | **15,638** | **15,638** | **15,638** | **-** | **-** |
| | **42,715** | **44,808** | **19,110** | **7,510** | **18,188** |
| **31 January 2013** | | | | | |
| Borrowings | 29,703 | 32,413 | 4,405 | 8,732 | 19,276 |
| Trade and other payables | 17,646 | 17,646 | 17,646 | - | - |
| | 47,349 | 50,059 | 22,051 | 8,732 | 19,276 |
| **Company** | | | | | |
| **31 January 2014** | | | | | |
| Borrowings | **25,963** | **28,056** | **2,358** | **7,510** | **18,188** |
| Trade and other payables | **10,365** | **10,365** | **10,365** | **-** | **-** |
| | **36,328** | **38,421** | **12,723** | **7,510** | **18,188** |
| **31 January 2013** | | | | | |
| Borrowings | 28,358 | 31,069 | 3,061 | 8,732 | 19,276 |
| Trade and other payables | 11,689 | 11,689 | 11,689 | - | - |
| | 40,047 | 42,758 | 14,750 | 8,732 | 19,276 |

# Notes to the Consolidated Financial Statements *continued*

The table below analyses the group's principal derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

| GROUP AND COMPANY | Within one year €'000 | One to five years €'000 | Over five years €'000 | **Total €'000** |
|---|---|---|---|---|
| **31 January 2014** | | | | |
| Interest rate derivative | | | | |
| – Interest-rate swap | 136 | 296 | 12 | **444** |
| Foreign exchange derivatives | | | | |
| – Combined bought call and written put options | 5 | - | - | **5** |
| | 141 | 296 | 12 | **449** |
| **31 January 2013** | | | | |
| Interest rate derivative | | | | |
| – Interest-rate swap | 129 | 320 | 48 | 497 |
| Foreign exchange derivatives | | | | |
| – Combined bought call and written put options | 20 | - | - | 20 |
| | 149 | 320 | 48 | 517 |

The group's derivatives that will be settled on a gross basis consist principally of forward foreign exchange contracts (note 19). The table below analyses the group's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| GROUP AND COMPANY | Within one year €'000 | One to five years €'000 | Over five years €'000 | **Total €'000** |
|---|---|---|---|---|
| **31 January 2014** | | | | |
| Foreign exchange derivatives | | | | |
| - Outflows | (1,566) | - | - | **(1,566)** |
| - Inflows | 1,551 | - | - | **1,551** |
| | (15) | - | - | **(15)** |
| **31 January 2013** | | | | |
| Foreign exchange derivatives | | | | |
| - Outflows | (3,487) | - | - | (3,487) |
| - Inflows | 3,348 | - | - | 3,348 |
| | (139) | - | - | (139) |

## 2.2 CAPITAL RISK MANAGEMENT

The group's objectives when managing capital are to safeguard the group'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.

The group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital.

Total capital is measured by reference to the amounts reflected in the financial statements where the group's property, plant and equipment and investment property are stated at revalued amounts and fair value amounts respectively.

Total borrowings include unsecured bonds issued by the company. The gearing ratios at 31 January 2014 and 2013 were as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Total borrowings (note 20) | **27,077** | 29,703 | **25,963** | 28,358 |
| Total equity | **95,274** | 91,925 | **87,822** | 85,319 |
| **Total capital** | **122,351** | 121,628 | **113,785** | 113,677 |
| **Gearing** | **22.13%** | 24.42% | **22.82%** | 24.95% |

### 2.3 FAIR VALUES

*Fair values of instruments not carried at fair value*

At 31 January 2014 and 2013 the carrying amounts of cash at bank, trade and other receivables, trade and other payables and current borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of amounts owed by subsidiaries and jointly-controlled entities which are current 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 group for similar financial instruments. The fair value of the group's non-current floating interest rate bank borrowings at the end of the reporting period is not significantly different from the carrying amounts.

*Fair values estimation in relation to financial instruments carried at fair value*

The group's financial instruments which are carried at fair value include derivative financial instruments designated as hedging instruments (note 19).

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

- 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).

| GROUP AND COMPANY | **2014 Level 2 €'000** | 2013 Level 2 €'000 |
|---|---|---|
| **Liabilities** | | |
| Interest rate derivative | | |
| – Interest-rate swap | **444** | 497 |
| Foreign exchange derivatives | | |
| – Currency forwards | **15** | 139 |
| – Combined bought call and written put options | **5** | 20 |
| | **464** | 656 |

## 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 company directors, the accounting estimates and judgements made in the course of preparing these financial statements, except as disclosed in notes 5 and 6 are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

## 4. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

The board of directors considers the group's business mainly from a productive and commercial perspective as geographically operations are carried out, predominantly, on the local market.

The group does not have any particular major customer, as it largely derives revenue from a significant number of consumers availing of its products and services. Accordingly, the group has not identified any relevant disclosures in respect of reliance on major customers.

The group's productive and commercial operations are segregated primarily into brewing, production and sale of branded beers and beverages, the importation, wholesale and retail of food and beverages, including wines and spirits, the operation of franchised food retailing establishments and property management.

The board of directors assesses the performance of the operating segments based on operating results adjusted for centralised costs. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group. Since the board of directors reviews adjusted operating results, the results of discontinued operations are not included in the measure of adjusted operating results.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the board of directors is measured in a manner consistent with that in the income statements.

The amounts provided to the board of directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Segment assets consist primarily of land and buildings, investment property, plant, machinery and equipment, intangible assets, inventories, loans, trade and other receivables and cash and cash equivalents. Taxation is not considered to be segment assets but rather is managed by the treasury function.

# Notes to the Consolidated Financial Statements *continued*

## 4. SEGMENT INFORMATION *continued*

The amounts provided to the board of directors with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. Segment liabilities comprise trade and other payables and exclude tax and borrowings. The group's interest-bearing liabilities and taxation are not considered to be segment liabilities but rather are managed by the treasury function.

| | Brewing, production & sale of branded beers & beverages €'000 | Importation, wholesale & retail of food & beverages, including wines & spirits €'000 | Operation of franchised food retailing establishments €'000 | Property management €'000 | **Group €'000** |
|---|---|---|---|---|---|
| **2014** | | | | | |
| **Revenue** | 44,474 | 29,250 | 10,052 | 900 | **84,676** |
| Less: inter-segmental sales | (1,305) | (4,134) | - | (615) | **(6,054)** |
| | 43,169 | 25,116 | 10,052 | 285 | **78,622** |
| Segment results | 6,075 | 1,641 | 577 | 94 | **8,387** |
| Net finance costs | | | | | **(1,535)** |
| **Profit before tax** | | | | | **6,852** |
| Tax expense | | | | | **(527)** |
| **Profit for the year** | | | | | **6,325** |
| Segment assets | 81,465 | 12,464 | 9,201 | 46,558 | **149,688** |
| Jointly-controlled entities | - | - | - | 508 | **508** |
| Unallocated assets | | | | | **339** |
| **Total assets** | | | | | **150,535** |
| Segment liabilities | 11,495 | 2,779 | 1,548 | 446 | **16,268** |
| Unallocated liabilities | | | | | **38,993** |
| **Total liabilities** | | | | | **55,261** |
| Additions to non-current assets | 4,997 | 136 | 187 | 4 | **5,324** |
| Depreciation | 4,747 | 290 | 475 | 117 | **5,629** |
| Amortisation | 32 | - | 26 | - | **58** |
| Impairment provision for trade receivables | (9) | 143 | - | (9) | **125** |
| **2013** | | | | | |
| **Revenue** | 44,371 | 28,628 | 9,614 | 946 | 83,559 |
| Less: inter-segmental sales | (1,431) | (4,350) | - | (598) | (6,379) |
| | 42,940 | 24,278 | 9,614 | 348 | 77,180 |
| Segment results | 5,817 | 1,533 | 517 | 109 | 7,976 |
| Net finance costs | | | | | (1,495) |
| **Profit before tax** | | | | | 6,481 |
| Tax expense | | | | | (512) |
| **Profit for the year** | | | | | 5,969 |
| Segment assets | 82,541 | 12,095 | 9,466 | 46,667 | 150,769 |
| Jointly-controlled entities | - | - | - | 476 | 476 |
| Unallocated assets | | | | | 286 |
| **Total assets** | | | | | 151,531 |
| Segment liabilities | 12,653 | 3,666 | 1,672 | 407 | 18,398 |
| Unallocated liabilities | | | | | 41,208 |
| **Total liabilities** | | | | | 59,606 |
| Additions to non-current assets | 7,251 | 266 | 172 | 15 | 7,704 |
| Depreciation | 4,064 | 282 | 470 | 107 | 4,923 |
| Amortisation | 32 | - | 26 | - | 58 |
| Impairment provision for trade receivables | 788 | 131 | (3) | 30 | 946 |

## 5. PROPERTY, PLANT AND EQUIPMENT

| GROUP | Land & buildings €'000 | Assets in course of construction €'000 | Plant, machinery & equipment €'000 | Total €'000 |
|---|---|---|---|---|
| **At 1 February 2012** | | | | |
| Cost or valuation | 47,001 | 7,197 | 100,982 | 155,180 |
| Accumulated depreciation and impairment | (2,809) | - | (81,121) | (83,930) |
| Net book amount | 44,192 | 7,197 | 19,861 | 71,250 |
| **Year ended 31 January 2013** | | | | |
| Opening net book amount | 44,192 | 7,197 | 19,861 | 71,250 |
| Additions | 134 | 5,661 | 1,896 | 7,691 |
| Commissioning of assets | 6,730 | (12,858) | 6,128 | - |
| Disposals | - | - | (274) | (274) |
| Depreciation | (794) | - | (4,129) | (4,923) |
| Depreciation released on disposals | - | - | 234 | 234 |
| Closing net book amount | 50,262 | - | 23,716 | 73,978 |
| **At 31 January 2013** | | | | |
| Cost or valuation | 53,865 | - | 108,732 | 162,597 |
| Accumulated depreciation and impairment | (3,603) | - | (85,016) | (88,619) |
| Net book amount | 50,262 | - | 23,716 | 73,978 |
| **Year ended 31 January 2014** | | | | |
| Opening net book amount | 50,262 | - | 23,716 | 73,978 |
| Additions | 1,709 | 181 | 3,434 | 5,324 |
| Disposals | (1) | - | (492) | (493) |
| Depreciation | (844) | - | (4,785) | (5,629) |
| Impairment of assets | (48) | - | (7) | (55) |
| Depreciation released on disposals | - | - | 462 | 462 |
| Closing net book amount | **51,078** | **181** | **22,328** | **73,587** |
| **At 31 January 2014** | | | | |
| Cost or valuation | 55,573 | 181 | 111,674 | 167,428 |
| Accumulated depreciation and impairment | (4,495) | - | (89,346) | (93,841) |
| Net book amount | 51,078 | 181 | 22,328 | 73,587 |

| COMPANY | Land & buildings €'000 | Assets in course of construction €'000 | Plant, machinery & equipment €'000 | Total €'000 |
|---|---|---|---|---|
| **At 1 February 2012** | | | | |
| Cost or valuation | 32,392 | 7,198 | 80,528 | 120,118 |
| Accumulated depreciation and impairment | (1,451) | - | (63,101) | (64,552) |
| Net book amount | 30,941 | 7,198 | 17,427 | 55,566 |
| **Year ended 31 January 2013** | | | | |
| Opening net book amount | 30,941 | 7,198 | 17,427 | 55,566 |
| Additions | 127 | 5,660 | 1,331 | 7,118 |
| Commissioning of assets | 6,730 | (12,858) | 6,128 | - |
| Disposals | - | - | (100) | (100) |
| Depreciation | (597) | - | (3,345) | (3,942) |
| Depreciation released on disposals | - | - | 100 | 100 |
| Closing net book amount | 37,201 | - | 21,541 | 58,742 |
| **At 31 January 2013** | | | | |
| Cost or valuation | 39,249 | - | 87,887 | 127,136 |
| Accumulated depreciation and impairment | (2,048) | - | (66,346) | (68,394) |
| Net book amount | 37,201 | - | 21,541 | 58,742 |
| **Year ended 31 January 2014** | | | | |
| Opening net book amount | 37,201 | - | 21,541 | 58,742 |
| Additions | 1,705 | 181 | 3,048 | 4,934 |
| Disposals | - | - | (332) | (332) |
| Depreciation | (638) | - | (4,013) | (4,651) |
| Depreciation released on disposals | - | - | 326 | 326 |
| Closing net book amount | **38,268** | **181** | **20,570** | **59,019** |
| **At 31 January 2014** | | | | |
| Cost or valuation | 40,954 | 181 | 90,603 | 131,738 |
| Accumulated depreciation and impairment | (2,686) | - | (70,033) | (72,719) |
| Net book amount | 38,268 | 181 | 20,570 | 59,019 |

Bank borrowings are secured by the group's and company's property, plant and equipment (note 20).

# Notes to the Consolidated Financial Statements *continued*

## 5. PROPERTY, PLANT AND EQUIPMENT *continued*

*Fair value of property*
On 31 January 2008, the directors approved revaluations of the owned property by the group and classified it under property, plant and equipment, after assessing the valuations made by duly appointed independent chartered architectural firms. These valuations were determined on the basis of open market values after considering the intrinsic value of the property and net potential returns. The directors have confirmed these values as at 31 January 2014.

As at 31 January 2012, assets in course of construction mainly related to works carried out on the development on the new brewhouse situated within the group's manufacturing and distribution complex in Mrieħel. During the financial year ended 31 January 2013, the group commissioned this new brewhouse and other infrastructural costs.

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

The group's land and buildings within property, plant and equipment, comprises properties as described in note 1.4(a), including the company's brewery. The group's investment property mainly comprises commercial properties leased out to third parties and property held for capital appreciation (refer to note 6) while the company's investment property mainly comprises property held for capital appreciation. All the recurring property fair value measurements at 31 January 2014 use significant unobservable inputs and are accordingly categorised within level 3 of the fair valuation hierarchy.

The group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 January 2014.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within level 3 of the value hierarchy, is reflected in the table above and in the table in note 6. The only movement in land and buildings classified as property, plant and equipment reflects additions and depreciation charge for the year ended 31 January 2014, while the only movement in investment property reflects additions and fair value movements which were recognised in profit or loss (if any).

*Valuation processes*
The valuations of the properties are performed regularly on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:
- information provided by the group which is derived from the group's financial systems and is subject to the group's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related. These are 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 the Chief Financial Officer (CFO). This includes a review of fair value movements over the period. When the CFO considers that the valuation report is appropriate, the valuation report is recommended to the board of directors. The board of directors considers the valuation report as part of its overall responsibilities.

*Valuation techniques*
The external valuations of the level 3 property have been performed using a variety of methods, including an adjusted sales comparison approach, capitalised rentals and, in the case of certain buildings, the replacement cost approach. Each property was valued using the method considered by the external valuers to be the most appropriate valuation method for that type of property; the method, together with the fair value measurements, was approved by the board of directors as described above.

In view of the limited number of sales of similar properties in the local market, the valuations have been performed using unobservable inputs. The significant input to the sales comparison approach is generally a sales price per square metre related to transactions in comparable properties located in proximity to the group's property, with significant adjustments for differences in the size, age, exact location and condition of the property.

In the case of the capitalised rentals approach, the significant unobservable inputs include a rental rate per square metre (also in respect of comparable properties as described in the case of the sales comparison approach), a capitalisation rate, and, if applicable, development or refurbishment costs which must be incurred before the property can earn the potential rental cash flows. Meanwhile, development costs are also the significant unobservable input in the case of the replacement cost approach.

*Information about fair value measurements using significant unobservable inputs (level 3)*

| Description by class based on highest and best use | Fair value at 31 January 2014 €'000 | Valuation technique | Significant unobservable input | Range of unobservable inputs € |
|---|---|---|---|---|
| Current use as manufacturing premises | **38,268** | Sales comparison approach | Sales price per square metre | 582 |
| | | Replacement cost approach | Development cost per square metre | 175 – 466 |
| Current use as commercial premises | **17,121** | Capitalised rentals approach | Rental rate per square metre | 61 – 349 |
| Developable as extended-commercial premises | **33,414** | Sales comparison approach | Sales price per square metre | 582 |
| | | Capitalised rentals approach | Rental rate per square metre | 58 – 143 |
| Developable land for mixed use/ commercial use | **7,464** | Sales comparison approach | Net sales price per square metre | 577 – 1035 |

In each case where properties were valued using the capitalised rentals approach, a capitalisation rate of 7% was applied.

## 5. PROPERTY, PLANT AND EQUIPMENT *continued*

In the case of the sales comparison approach and the capitalised rentals approach, the higher the sales price per square metre or the rental rate per square metre, the higher the resultant fair valuation. Conversely, the lower the required development cost per square metre or the rental capitalisation rate, the higher the resultant fair valuation.

In the case of the replacement cost approach, the higher the development cost per square metre, the higher the resultant fair valuation.

The highest and best use of properties which are developable as extended-commercial premises, as well as developable land for mixed use/commercial use differs from their current use. These assets mainly comprise properties which are currently partly used by the group or which are currently vacant, and which would require development or refurbishment in order to access the maximum potential cash flows that may be generated from the properties' highest and best use. Nevertheless, should the group vacate those properties which it currently partly uses, it would be required to find alternative premises to carry out those operations which are currently carried out in the group's properties which are earmarked for further development.

As at 31 January 2014, the carrying amount of land and buildings would have been €23,903,000 (2013: €23,087,000) had these assets been included in the financial statements at historical cost less depreciation.

The charges for depreciation and impairment as disclosed in note 24 are included in the income statements as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Cost of sales | **3,546** | 2,776 | **2,836** | 2,193 |
| Selling and distribution costs | **1,411** | 1,428 | **1,201** | 1,175 |
| Administration expenses | **727** | 719 | **614** | 574 |
| | **5,684** | 4,923 | **4,651** | 3,942 |

## 6. INVESTMENT PROPERTY

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Year ended 31 January** | | | | |
| Opening net book amount | **45,189** | 45,176 | **32,926** | 32,926 |
| Additions | **-** | 13 | **-** | - |
| Closing net book amount | **45,189** | 45,189 | **32,926** | 32,926 |
| **At 31 January** | | | | |
| Cost | **40,964** | 40,964 | **32,688** | 32,688 |
| Net fair value gains | **4,225** | 4,225 | **238** | 238 |
| Net book amount | **45,189** | 45,189 | **32,926** | 32,926 |

As at 1 February 2012, the cost and fair value gains attributable to the group's investment property amounted to €40,951,000 and €4,225,000 respectively.

Investment property is valued annually and approved by the directors on the basis of a professional valuation prepared by independent property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Fair values are determined on the basis of open market value taking cognisance of the specific location of the properties, their size and development potential and the availability of similar properties in the area and, whenever possible, having regard to recent market transactions for similar properties in the same location.

Investment property included above, comprising property leased out under operating leases, has a carrying amount of €1,094,000 (2013: €1,094,000). Bank borrowings are secured by the group's and company's investment property (note 20). Investment property comprises a number of commercial properties that are leased to third parties and land held for capital appreciation. The following amounts have been recognised in the income statements:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Rental income | **276** | 298 | **-** | - |
| Direct operating expenses | **(180)** | (179) | **-** | - |

# Notes to the Consolidated Financial Statements *continued*

## 6. INVESTMENT PROPERTY *continued*

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| **At 31 January** | | | | |
| Cost | **12,041** | 12,041 | **4,456** | 4,456 |
| Accumulated depreciation | **(324)** | (309) | **-** | - |
| Net book amount | **11,717** | 11,732 | **4,456** | 4,456 |

## 7. INTANGIBLE ASSETS

| **GROUP** | Goodwill €'000 | Franchise & agency rights €'000 | Total €'000 |
|---|---|---|---|
| **At 1 February 2012** | | | |
| Cost | 1,058 | 4,698 | 5,756 |
| Accumulated amortisation and impairment | (128) | (4,498) | (4,626) |
| Net book amount | 930 | 200 | 1,130 |
| **Year ended 31 January 2013** | | | |
| Opening net book amount | 930 | 200 | 1,130 |
| Amortisation | - | (26) | (26) |
| Closing net book amount | 930 | 174 | 1,104 |
| **At 31 January 2013** | | | |
| Cost | 1,058 | 4,698 | 5,756 |
| Accumulated amortisation and impairment | (128) | (4,524) | (4,652) |
| Net book amount | 930 | 174 | 1,104 |
| **Year ended 31 January 2014** | | | |
| Opening net book amount | 930 | 174 | 1,104 |
| Amortisation | - | (26) | (26) |
| Closing net book amount | **930** | **148** | **1,078** |
| **At 31 January 2014** | | | |
| Cost | 1,058 | 4,698 | 5,756 |
| Accumulated amortisation and impairment | (128) | (4,550) | (4,678) |
| Net book amount | 930 | 148 | 1,078 |

Amortisation of €26,000 (2013: €26,000) is included in cost of sales within the income statements.

**Impairment tests for goodwill**
Goodwill is allocated to the group's cash-generating units identified according to business segment. A segment-level summary of the goodwill allocation is presented below:

| | **2014 €'000** | 2013 €'000 |
|---|---|---|
| Brewing, production and sale of branded beers & beverages | **192** | 192 |
| Importation, wholesale and retail of food & beverages, including wines & spirits | **738** | 738 |
| Net book amount | **930** | 930 |

The recoverable amount of a cash-generating unit is determined based on value in use calculations, and is assessed annually. These calculations use cash flow projections based on financial information prepared by management covering a five-year period using the estimated growth rate of 1.5%. Cashflows beyond the five-year period are extrapolated using these estimated growth rates. These estimates assume net margins of between 18% and 32% and are discounted using a rate of 5.16%.

These assumptions have been used for the analysis of each cash-generating unit within the business segment. Management estimates net margins based on past performance and its expectations for market development. The discount rates are post-tax and reflect specific risks to the relevant segments.

## 8. INVESTMENTS IN SUBSIDIARIES

| | COMPANY | |
|---|---|---|
| | **2014** | 2013 |
| | **€'000** | €'000 |
| **Year ended 31 January** | | |
| Opening and closing net book amount | **13,706** | 13,706 |
| **At 31 January** | | |
| Cost | **17,787** | 17,787 |
| Impairment provision for investments | **(4,081)** | (4,081) |
| Net book amount | **13,706** | 13,706 |

The principal subsidiaries at 31 January 2014 all of which are unlisted, are disclosed in note 39 to these financial statements.

## 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Year ended 31 January** | | | | |
| Opening and closing net book amount | **12** | 12 | **2** | 2 |
| **At 31 January** | | | | |
| Cost | **102** | 102 | **102** | 102 |
| Share of jointly-controlled entities' results and reserves | **(90)** | (90) | **-** | - |
| Impairment provision for investments | **-** | - | **(100)** | (100) |
| Net book amount | **12** | 12 | **2** | 2 |

The principal jointly-controlled entities at 31 January 2014 all of which are unlisted, are disclosed in note 39 to these financial statements.

Summarised financial information of the principal jointly-controlled entities as at 31 January is as follows:

| | **Assets** | **Liabilities** | **Losses** |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| At 31 January 2013 | 912 | 931 | (257) |
| Movements | 166 | 62 | 105 |
| **At 31 January 2014** | **1,078** | **993** | **(152)** |

## 10. LOANS AND RECEIVABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Year ended 31 January** | | | | |
| Opening net book amount | **174** | 540 | **-** | - |
| Repayments | **(70)** | (366) | **-** | - |
| Closing net book amount | **104** | 174 | **-** | - |
| **At 31 January** | | | | |
| Cost and net book amount | **104** | 174 | **-** | - |

Loans and receivables relate to dues from third parties on termination of long-term rental agreements.

As at 31 January 2014, the weighted average effective interest rate for the group at the end of the reporting period was 7% (2013: 7%).

# Notes to the Consolidated Financial Statements *continued*

## 10. LOANS AND RECEIVABLES *continued*

Maturity of loans and receivables as at the end of the reporting period was:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Non-current** | | | | |
| Between 1 and 2 years | **-** | 56 | - | - |
| | **-** | 56 | - | - |
| **Current** | **104** | 118 | - | - |
| | **104** | 174 | - | - |

The group's exposure to credit and liquidity rate risks related to these loans and receivables is disclosed in note 2. As at 31 January 2014, these financial assets were fully performing and hence do not contain impaired assets.

## 11. INVENTORIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Raw materials and consumables | **2,882** | 3,476 | **2,601** | 3,243 |
| Finished goods and goods for resale | **5,307** | 5,249 | **2,039** | 2,299 |
| Containers and other stocks | **2,248** | 2,365 | **2,113** | 2,238 |
| | **10,437** | 11,090 | **6,753** | 7,780 |

The amount of inventory write-downs recognised in the income statements categories is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Cost of sales | **753** | 1,119 | **621** | 952 |
| Selling, distribution and administrative expenses | **164** | 61 | **164** | 61 |
| | **917** | 1,180 | **785** | 1,013 |

## 12. TRADE AND OTHER RECEIVABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Non-current** | | | | |
| Other receivables | **1,727** | 2,202 | **1,727** | 2,202 |
| **Current** | | | | |
| Trade receivables | **12,061** | 11,747 | **6,588** | 6,570 |
| Amounts due from subsidiaries | **-** | - | **4,315** | 5,636 |
| Amounts due from jointly-controlled entities | **496** | 464 | **496** | 464 |
| Indirect taxation | **52** | 69 | **-** | - |
| Other receivables | **3,356** | 3,607 | **2,843** | 2,925 |
| Prepayments and accrued income | **934** | 1,076 | **1,391** | 677 |
| | **16,899** | 16,963 | **15,633** | 16,272 |
| **Total trade and other receivables** | **18,626** | 19,165 | **17,360** | 18,474 |

Trade and other receivables are stated net of impairment provision as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Trade and other receivables | **3,667** | 3,542 | **2,323** | 2,300 |

The impairment provision for trade and other receivables is disclosed in note 24 and is included under selling and distribution costs in the income statements.

Amounts due to the company by subsidiaries and jointly-controlled entities are unsecured and repayable on demand. Included in these balances are year-end amounts of €3,143,000 (2013: €3,338,000) which are subject to an average interest rate of 4.75% (2013: 4.75%). Other balances within amounts due from subsidiaries and jointly-controlled entities are interest free.

The group's and company's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in note 2. The other classes within receivables do not contain impaired assets.

## 13. CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flows, the cash and cash equivalents at the end of the reporting period comprise the following:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Cash at bank and in hand | **1,163** | 533 | **634** | 40 |
| Bank overdrafts | **(1,129)** | (2,038) | **(15)** | (693) |
| | **34** | (1,505) | **619** | (653) |

## 14. SHARE CAPITAL

| | COMPANY | |
|---|---|---|
| | **2014** | 2013 |
| | **€'000** | €'000 |
| **Authorised:** | | |
| 30,000,000 ordinary shares of €0.30 each | **9,000** | 9,000 |
| 21,000,000 preference shares of €1.00 each | **21,000** | 21,000 |
| | **30,000** | 30,000 |
| **Issued and fully paid:** | | |
| 30,000,000 ordinary shares of €0.30 each | **9,000** | 9,000 |
| | **9,000** | 9,000 |

## 15. DIVIDENDS PAID

| | COMPANY | |
|---|---|---|
| | **2014** | 2013 |
| | **€'000** | €'000 |
| Interim dividend | **1,000** | 400 |
| Final dividend | **2,100** | 1,700 |
| Total net dividend | **3,100** | 2,100 |
| Euro per share (net) | **€0.10** | €0.07 |

The final dividend of €2,100,000 in respect of the year ended 31 January 2013 was announced to the ordinary shareholders on 20 June 2013. These final dividends were paid out of tax exempt profits.

A net interim dividend of €1,000,000 in respect of the year ended 31 January 2014 was announced on 25 September 2013, and paid to the ordinary shareholders on 13 October 2013. At the forthcoming Annual General Meeting, a final net dividend of €1,500,000 in respect of the financial year ended 31 January 2014 is to be proposed.

These financial statements do not reflect the final dividend for 2014 of €1,500,000 which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 January 2015.

## 16. REVALUATION RESERVE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Property, plant and equipment** | | | | |
| At beginning of year, before deferred tax | **54,009** | 54,009 | **46,677** | 46,677 |
| Deferred taxation (note 21) | **(11,151)** | (11,151) | **(5,782)** | (5,782) |
| **At 31 January** | **42,858** | 42,858 | **40,895** | 40,895 |

The revaluation reserve was created upon the revaluation of the group's and company's properties classified within non-current assets. Related deferred tax is debited to this reserve. The revaluation reserve is a non-distributable reserve.

# Notes to the Consolidated Financial Statements *continued*

## 17. OTHER RESERVES

| GROUP | Share premium €'000 | Unrealised fair value gains reserve €'000 | Incentives and benefits reserve €'000 | Capital redemption reserve €'000 | Total €'000 |
|---|---|---|---|---|---|
| At 1 February 2013 and 31 January 2014 | **2,078** | **3,507** | **2,515** | **7,463** | **15,563** |
| **COMPANY** | | | | | |
| At 1 February 2013 and 31 January 2014 | **2,078** | **210** | **2,515** | **7,463** | **12,266** |

The unrealised fair value gains reserve represents changes in fair value of investment property, net of deferred tax movements, which are unrealised at financial reporting dates. These amounts are transferred from retained earnings to this reserve since these gains are not considered by the directors to be available for distribution. Upon disposal of the respective investment property, realised fair value gains are transferred to retained earnings. The unrealised gain reserve is a non-distributable reserve.

The incentives and benefits reserve represents profits set aside for re-investment in terms of Sections 6(1) and 36(2) of the Business Promotion Act. Amounts included in this reserve can only be distributed by way of capitalisation of profits.

The capital redemption reserve represents amounts set aside as a result of the redemption of cumulative redeemable preference shares. In accordance with the Maltese Companies Act, 1995, this reserve is only available for distribution to ordinary shareholders by way of a bonus share issue.

## 18. HEDGING RESERVE

The changes in fair values of hedging instruments qualifying as cash flow hedges are recorded in a separate category of equity in the hedging reserve as shown below:

| GROUP AND COMPANY | Currency derivatives €'000 | Interest rate swap €'000 | Total €'000 |
|---|---|---|---|
| **At 31 January 2012** | | | |
| Gross amounts of losses | - | 455 | 455 |
| Deferred income taxes (note 21) | - | (159) | (159) |
| | - | 296 | 296 |
| **Movement for the year ended 31 January 2013** | | | |
| Losses from changes in fair value | 90 | 213 | 303 |
| Deferred income taxes (note 21) | (32) | (75) | (107) |
| | 58 | 138 | 196 |
| Transferred to statement of comprehensive income (note 28) | 69 | (171) | (102) |
| Deferred income taxes (note 21) | (24) | 60 | 36 |
| | 45 | (111) | (66) |
| **At 31 January 2013** | | | |
| Gross amounts of losses | 159 | 497 | 656 |
| Deferred income taxes (note 21) | (56) | (174) | (230) |
| | 103 | 323 | 426 |
| **Movement for the year ended 31 January 2014** | | | |
| (Gains)/losses from changes in fair value | (114) | 126 | 12 |
| Deferred income taxes (note 21) | 40 | (44) | (4) |
| | (74) | 82 | 8 |
| Transferred to statement of comprehensive income (note 28) | (25) | (179) | (204) |
| Deferred income taxes (note 21) | 9 | 63 | 72 |
| | (16) | (116) | (132) |
| **At 31 January 2014** | | | |
| Gross amounts of losses | 20 | 444 | 464 |
| Deferred income taxes (note 21) | (7) | (155) | (162) |
| | **13** | **289** | **302** |

## 18. HEDGING RESERVE *continued*

The net fair value losses recognised in equity at 31 January 2014 on the interest-rate swap contract will be transferred from the hedging reserve to the income statements during the remaining term of the contract up to June 2020. As at the reporting period date, this contract is designated as hedging anticipated variable interest payments which will also accrue over the term of the derivative contract.

The net fair value losses recognised in equity at 31 January 2014 on foreign exchange derivative contracts will be transferred from the hedging reserve to the income statements when the forecast transactions occur, up to twelve months from the reporting period date.

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments held for hedging at the end of the reporting period are as follows:

| FAIR VALUES LIABILITIES | Group & Company €'000 |
|---|---|
| **At 31 January 2013** | |
| Interest rate derivative | |
| - interest-rate swap | 497 |
| Foreign exchange derivatives | |
| - currency forwards | 139 |
| - combined bought call and written put options | 20 |
| Total recognised derivative liabilities | 656 |
| **At 31 January 2014** | |
| Interest rate derivative | |
| - interest-rate swap | 444 |
| Foreign exchange derivatives | |
| - currency forwards | 15 |
| - combined bought call and written put options | 5 |
| **Total recognised derivative liabilities** | **464** |

The above are included in the statements of financial position under the following classifications:

| DERIVATIVES FINANCIAL LIABILITIES | 2014 €'000 | 2013 €'000 |
|---|---|---|
| Non-current | **308** | 368 |
| Current | **156** | 288 |
| | **464** | 656 |

***(a) Interest rate derivatives***

During the financial year ended 31 January 2011, the company entered into a receive floating, pay fixed interest rate swap arrangement with a notional amount of €10 million matching the principal amount of this specific loan. The company has designated this derivative contract as a hedging instrument in a cash flow hedge with the hedged risk being the company's exposure to cash flow interest rate risk arising on the variable interest amounts payable with respect to this loan. Under the interest rate swap arrangement, the company will at three monthly intervals exchange fixed interest amounts payable determined at the fixed interest rate of 2.74% with variable interest amounts receivable based on the 3 month floating Euribor rate. The derivative expires in 2020, thus matching with the terms of loan. Fair value changes arising on this instrument are recognised in other comprehensive income directly in the cash flow hedging reserve.

Gains and losses recognised in the hedging reserve in equity (note 18) on the interest rate swap contracts as of 31 January 2014 will be released to the income statements over the period until maturity of the contracts.

The swap has been designated as a cash flow hedge for the interest rate risk relating to variable interest outflows on the borrowings.

The terms of the interest rate swap agreements provide a continuation of the cash flow hedging relationship in respect of variability of future floating interest payments. Accordingly, this instrument has been treated as a cash flow hedge instrument in terms of the hedge accounting rules as prescribed by IAS 39.

***(b) Foreign exchange derivatives***

*Currency forwards*

The currency forward contracts outstanding as at 31 January 2014 have a notional value of USD2,092,000 (2013: USD2,250,000 and GBP1,488,000) with an average contracted rate of €1:USD1.3524 (2013: €1:USD1.3234 and €1:GBP0.8142 respectively). The related fair value of outstanding forward contracts as at year end amounted to a net liability of €15,000 (2013: €139,000).

These contracts mature within a period of two to ten months from the end of the reporting period and within the same period of time the forecast transactions designated as items being hedged by these contracts are expected to affect the income statements.

# Notes to the Consolidated Financial Statements *continued*

## 19. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

*Combined bought call and written put options*
The terms and approximate notional amounts of the foreign exchange combined options held for hedging purposes outstanding at 31 January 2014 are as follows:

| Contract cover | Notional amount | Strike price range<br>Call Put | Fair value liabilities €'000 |
|---|---|---|---|
| Period to 31 December 2013 | USD1,100,000 | $1.29 – $1.41 | **(20)** |
| Period to 31 December 2014 | USD775,000 | $1.32 – $1.43 | **(5)** |

These hedging derivative contracts would typically have monthly exercise or settlement dates and upon monthly net cash settlements, amounts recognised in equity in respect of these contracts would be released to the income statements as the forecast hedged transactions would simultaneously affect the results of the group.

## 20. BORROWINGS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| **Non-current** | | | | |
| 6.0% Bonds 2017-2020 | **14,760** | 14,728 | **14,760** | 14,728 |
| Bank loans | **9,438** | 11,187 | **9,438** | 11,187 |
| | **24,198** | 25,915 | **24,198** | 25,915 |
| **Current** | | | | |
| Bank overdrafts | **1,129** | 2,038 | **15** | 693 |
| Bank loans | **1,750** | 1,750 | **1,750** | 1,750 |
| | **2,879** | 3,788 | **1,765** | 2,443 |
| **Total borrowings** | **27,077** | 29,703 | **25,963** | 28,358 |

The bonds are disclosed at the value of the proceeds less the net book amount of the issue costs as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| **Face value of bonds** | | | | |
| 6.0% Bonds 2017-2020 | **15,000** | 15,000 | **15,000** | 15,000 |
| | **15,000** | 15,000 | **15,000** | 15,000 |
| Issue costs | **384** | 384 | **384** | 384 |
| Accumulated amortisation | **(144)** | (112) | **(144)** | (112) |
| Net book amount | **240** | 272 | **240** | 272 |
| **Amortised cost** | **14,760** | 14,728 | **14,760** | 14,728 |

Following the board decision taken on 1 April 2010, the company issued an aggregate principal amount of €15 million Bonds (2017-2020), having a nominal value of €100 each, bearing interest at the rate of 6.0% per annum. These bonds are unsecured pursuant and subject to the terms and conditions in the prospectus dated 10 May 2010. The quoted market price as at 31 January 2014 for the 6.0% Bonds 2017-2020 was 105.01 (2013: 107.50).

As contemplated in the prospectus dated 10 May 2010, the group's bank issued a bank guarantee for an amount of €500,000 (2013: €250,000) in fulfilment of the company's reserve account obligations as per clause 26.9 of the above noted prospectus.

The group's and the company's banking facilities as at 31 January 2014 and 2013 amounted to €27,734,000 and €30,415,000 for the group, and €19,403,000 and €22,152,000 for the company respectively.

The bank overdrafts and loans are secured by special and general hypothecs over the group's assets and pledges over the group's merchandise.

Interest rate exposure:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| At floating rates | **7,630** | 9,538 | **6,516** | 8,193 |
| At fixed rates | **19,447** | 20,165 | **19,447** | 20,165 |
| Total borrowings | **27,077** | 29,703 | **25,963** | 28,358 |

## 20. BORROWINGS *continued*

Borrowings at floating rates mainly comprise a loan entered into by the group and the company during the financial year ended 31 January 2008, which interest rate is computed using a margin over the three month Euribor rate. Interest rates on this loan are hedged through an interest rate swap agreement entered into in financial year ended 31 January 2011 (note 19).

The weighted average effective interest rates at the end of the reporting period were as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **%** | % | **%** | % |
| Bank overdrafts | **4.50** | 4.69 | **4.60** | 4.75 |
| Bank loans | **3.66** | 3.61 | **3.66** | 3.61 |
| Bonds 2017-2020 | **6.00** | 6.00 | **6.00** | 6.00 |

This note provides information about the contractual terms of the group's and the company's loans and borrowings. For more information about the group's and the company's exposure to interest rate and liquidity risk, see note 2.

## 21. DEFERRED TAXATION

The movement in the deferred tax account is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| At beginning of year | **11,048** | 11,087 | **5,552** | 5,623 |
| Charged to income statements (note 29) | **-** | 32 | **-** | - |
| Net tax effect of re-measurement of derivatives | **68** | (71) | **68** | (71) |
| **At end of year** | **11,116** | 11,048 | **5,620** | 5,552 |

Deferred 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, that is, tax effect of 12% of the transfer value.

The movements in the deferred taxation elements and the balance at 31 January represent:

| **Liabilities/(assets)** | Fixed assets €'000 | Investment tax credits €'000 | Fair value (gain)/loss €'000 | Net tax losses €'000 | Revaluation surplus €'000 | Provisions on assets €'000 | **Total €'000** |
|---|---|---|---|---|---|---|---|
| **GROUP** | | | | | | | |
| At 1 February 2012 | 4,368 | (4,051) | 348 | 59 | 11,151 | (788) | 11,087 |
| Income statements | 316 | (3) | - | 23 | - | (304) | 32 |
| Equity | - | - | (71) | - | - | - | (71) |
| At 31 January 2013 | 4,684 | (4,054) | 277 | 82 | 11,151 | (1,092) | 11,048 |
| At 1 February 2013 | 4,684 | (4,054) | 277 | 82 | 11,151 | (1,092) | 11,048 |
| Income statements | (325) | 380 | - | 12 | - | (67) | - |
| Equity | - | - | 68 | - | - | - | 68 |
| **At 31 January 2014** | **4,359** | **(3,674)** | **345** | **94** | **11,151** | **(1,159)** | **11,116** |
| **COMPANY** | | | | | | | |
| At 1 February 2012 | 4,840 | (4,051) | (131) | 93 | 5,782 | (910) | 5,623 |
| Income statements | 283 | (3) | - | - | - | (280) | - |
| Equity | - | - | (71) | - | - | - | (71) |
| At 31 January 2013 | 5,123 | (4,054) | (202) | 93 | 5,782 | (1,190) | 5,552 |
| At 1 February 2013 | 5,123 | (4,054) | (202) | 93 | 5,782 | (1,190) | 5,552 |
| Income statements | (350) | 380 | - | - | - | (30) | - |
| Equity | - | - | 68 | - | - | - | 68 |
| **At 31 January 2014** | **4,773** | **(3,674)** | **(134)** | **93** | **5,782** | **(1,220)** | **5,620** |

# Notes to the Consolidated Financial Statements *continued*

## 21. DEFERRED TAXATION *continued*

Deferred taxation is principally composed of deferred tax assets and liabilities which are to be recovered and settled after more than twelve months.

At 31 January 2014, the group and the company had unrecognised deferred tax assets consisting of unutilised tax credits arising from:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Unutilised investment tax credits | **15,469** | 15,669 | **15,469** | 15,669 |
| Unabsorbed tax losses | **18** | 18 | **-** | - |
| Unabsorbed capital allowances | **631** | 631 | **-** | - |
| | **16,118** | 16,318 | **15,469** | 15,669 |

Whereas tax losses have no expiry date, unabsorbed capital allowances and unutilised investment tax credits are forfeited upon cessation of trade.

## 22. OTHER PROVISIONS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| **Termination benefit provisions** | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| At 1 February | **96** | 188 | **96** | 188 |
| Charged to profit and loss | **139** | 24 | **139** | 24 |
| Utilised during the year | **(69)** | (116) | **(69)** | (116) |
| **At 31 January** | **166** | 96 | **166** | 96 |

The company has offered early retirement in exchange for a termination benefit to selected employees. This has been communicated to the selected employees, together with the amounts payable. The staff restructuring and termination costs charged for 2014 total €139,000 while for 2013 total €24,000 (note 25). It is anticipated that €118,000 (2013: €78,000) of the provision will be paid during the financial year ending 31 January 2015.

## 23. TRADE AND OTHER PAYABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| **Current** | | | | |
| Trade payables | **3,690** | 4,659 | **1,589** | 1,915 |
| Capital and other payables | **3,356** | 3,216 | **2,732** | 2,602 |
| Indirect taxes and social security | **1,851** | 2,105 | **1,287** | 1,410 |
| Accruals and deferred income | **6,741** | 7,666 | **4,757** | 5,762 |
| | **15,638** | 17,646 | **10,365** | 11,689 |

The group's and company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 2.

In 2014, other payables include institutional grants amounting to €538,000 relating to funds advanced directly by the Government of Malta or other institutions to the group, co-financing its capital expenditure on the property, plant and equipment. Such funds are treated as deferred income and are credited to profit or loss on a systematic basis over the useful lives of the assets.

## 24. EXPENSES BY NATURE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Depreciation of property, plant and equipment (note 5) | **5,629** | 4,923 | **4,651** | 3,942 |
| Impairment of property, plant and equipment (note 5) | **55** | - | **-** | - |
| Profit on disposal of property, plant and equipment (note 5) | **(35)** | (28) | **(27)** | (12) |
| Employee benefit expense (note 25) | **15,621** | 14,143 | **9,408** | 8,269 |
| Termination benefits (note 25) | **139** | 24 | **139** | 24 |
| Raw materials, imported goods and consumables | **38,900** | 36,751 | **11,682** | 11,121 |
| Changes in inventories of finished goods and work in progress (note 11) | **58** | 766 | **(260)** | 581 |
| Increase in impairment provisions for trade and other receivables (note 12) | **125** | 946 | **23** | 857 |
| Impairment of trade receivables | **85** | 55 | **69** | 30 |
| Amortisation of intangible assets (note 7) | **26** | 26 | **-** | - |
| Other expenses | **9,632** | 11,598 | **10,779** | 11,917 |
| **Total cost of sales, selling and distribution costs and administrative expenses** | **70,235** | 69,204 | **36,464** | 36,729 |

## 24. EXPENSES BY NATURE *continued*

*Auditor's fees*

Fees charged by the auditor for services rendered during the financial periods ended 31 January 2014 and 2013 relate to the following:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Annual statutory audit | **110** | 109 | **47** | 47 |
| Other assurance services | **7** | 7 | **7** | 7 |
| Tax advisory and compliance services | **14** | 5 | **9** | 2 |
| Other non-assurance services | **51** | 12 | **51** | 12 |
| | **182** | 133 | **114** | 68 |

## 25. EMPLOYEE BENEFIT EXPENSE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Wages and salaries | **14,533** | 13,151 | **9,782** | 8,686 |
| Social security costs | **1,044** | 949 | **722** | 638 |
| Other pension costs | **44** | 43 | **44** | 43 |
| | **15,621** | 14,143 | **10,548** | 9,367 |
| Recharged to subsidiaries | **-** | - | **(1,140)** | (1,098) |
| | **15,621** | 14,143 | **9,408** | 8,269 |
| Termination benefits | **139** | 24 | **139** | 24 |
| | **15,760** | 14,167 | **9,547** | 8,293 |

The average number of full time equivalents employed during the year:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Brewing, production and sale of branded beers and beverages | **508** | 441 | **491** | 423 |
| Importation, wholesale and retail of food and beverages, including wines and spirits | **80** | 83 | **-** | - |
| Operation of franchised food retailing establishments | **197** | 191 | **-** | - |
| | **785** | 715 | **491** | 423 |

In 2013, the above employee benefit expense excluded capitalised payroll expenses in relation to the new brewhouse project amounting to €71,000, which were included in property, plant and equipment.

On 1 February 2013, the group took on sixty employees previously employed by two distribution sub-contractors. Despite the fact that these employees are engaged by a subsidiary, they render distribution related services to the company and hence are classified as company employees.

## 26. NET EXCHANGE DIFFERENCES

The net exchange differences charged and credited to the income statements include:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Foreign exchange differences | **(64)** | 32 | **(61)** | (6) |
| Fair value (losses)/gains on derivative instruments: | | | | |
| - Foreign exchange forward contracts | **(25)** | 69 | **(25)** | 69 |
| | **(89)** | 101 | **(86)** | 63 |

## 27. INVESTMENT GAINS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Interest on loans and receivables | **14** | 14 | **7** | - |
| Interest on amounts owed by subsidiaries | **-** | - | **156** | 91 |
| | **14** | 14 | **163** | 91 |

# Notes to the Consolidated Financial Statements *continued*

## 28. FINANCE COSTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Bank loans and overdrafts | **454** | 413 | **359** | 321 |
| Bonds | **894** | 900 | **894** | 900 |
| Fair value loss on derivative financial instruments | **179** | 171 | **179** | 171 |
| Other finance costs | **22** | 25 | **35** | 38 |
| | **1,549** | 1,509 | **1,467** | 1,430 |

During the year ended 31 January 2014, the company was granted net interest subsidy amounting to €137,000 (2013: €246,000) from Malta Enterprise related to approved investment loans of €9.5 million (2013: €9.5 million). A net effective interest rate of 2.70% (2013: 2.70%) was applied, representing the borrowing cost of the loans utilised to finance capital projects. This rate is net of an interest rate subsidy provided by Malta Enterprise.

During the year ended 31 January 2013, borrowing costs amounting to €109,000 arising on the financing of the new brewhouse project, were capitalised and included in assets in course of construction (note 5). The respective net capitalisation rate was 5.2%.

## 29. TAX EXPENSE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Current tax expense | **527** | 480 | **-** | - |
| Deferred tax expense (note 21) | **-** | 32 | **-** | - |
| **Tax expense** | **527** | 512 | **-** | - |

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| Profit before tax | **6,852** | 6,481 | **5,479** | 5,120 |
| Tax on profit at 35% | **2,398** | 2,268 | **1,918** | 1,792 |
| Tax effect of: | | | | |
| Benefits available under the Business Promotion Act, comprising investment tax credits and allowances | **(1,714)** | (1,263) | **(1,714)** | (1,263) |
| Unrecognised deferred tax assets | **(200)** | (844) | **(200)** | (844) |
| Differences related to termination benefits | **24** | 40 | **24** | 40 |
| Over provision in unrecognised and recognised deferred tax related to prior years | **(7)** | 253 | **-** | 254 |
| Non allowable expenses and other differences | **26** | 58 | **(28)** | 21 |
| Tax expense | **527** | 512 | **-** | - |

## 30. DIRECTORS' EMOLUMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 €'000** | 2013 €'000 | **2014 €'000** | 2013 €'000 |
| *Amounts paid* | | | | |
| Fees | **192** | 192 | **192** | 192 |
| Salaries | **40** | 40 | **40** | 40 |
| Other emoluments | **221** | 217 | **221** | 217 |
| Total directors remuneration | **453** | 449 | **453** | 449 |

A number of directors availed themselves of an allowance for the use of company cars during the year. The estimated value of this benefit has been included within the directors' emoluments, which also includes other allowances.

## 31. EARNINGS PER SHARE

Earnings per share is based on the profit for the financial year attributable to the shareholders of Simonds Farsons Cisk plc divided by the weighted average number of ordinary shares in issue during the year and ranking for dividend.

| | GROUP | |
|---|---|---|
| | **2014** | 2013 |
| Profit attributable to shareholders on continuing operations (€'000) | **6,325** | 5,969 |
| Weighted average number of ordinary shares in issue (thousands) | **30,000** | 30,000 |
| Earnings per share on profit from continuing operations | **€0.211** | €0.199 |

## 32. CASH GENERATED FROM OPERATIONS

Reconciliation of operating profit to cash generated from operations:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** **€'000** | 2013 €'000 | **2014** **€'000** | 2013 €'000 |
| Operating profit | **8,387** | 7,976 | **6,783** | 6,459 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment (note 5) | **5,629** | 4,923 | **4,651** | 3,942 |
| Impairment of property, plant and equipment (note 5) | **55** | - | **-** | - |
| Profit on disposal of property, plant and equipment | **(35)** | (28) | **(27)** | (12) |
| Amortisation of intangible assets (note 7) | **26** | 26 | **-** | - |
| Amortisation of bond issue costs (note 20) | **32** | 32 | **32** | 32 |
| Increase in provision for impairment of trade and other receivables (note 12) | **125** | 946 | **23** | 857 |
| Provision for termination benefits (note 22) | **139** | 24 | **139** | 24 |
| | **14,358** | 13,899 | **11,601** | 11,302 |
| Changes in working capital: | | | | |
| Inventories | **653** | (286) | **1,027** | (234) |
| Trade and other receivables | **484** | (1,570) | **1,091** | 577 |
| Trade and other payables | **(2,077)** | 2,741 | **(1,393)** | 1,684 |
| **Cash generated from operations** | **13,418** | 14,784 | **12,326** | 13,329 |

## 33. COMMITMENTS

**Capital commitments**

Commitments for capital expenditure not provided for in these financial statements are as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** **€'000** | 2013 €'000 | **2014** **€'000** | 2013 €'000 |
| Authorised but not contracted | **5,160** | 1,391 | **3,493** | 839 |
| Contracted but not provided for | **850** | 1,209 | **850** | 1,209 |
| | **6,010** | 2,600 | **4,343** | 2,048 |

On 21 February 2014, the board of directors approved an investment of €27 million in a new beer packaging facility. The construction of the facility started in April 2014 and is expected to be completed by April 2016.

**Operating lease commitments - where a group company is a lessee**

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** **€'000** | 2013 €'000 | **2014** **€'000** | 2013 €'000 |
| Not later than 1 year | **202** | 202 | **-** | - |
| Later than 1 year and not later than 5 years | **828** | 825 | **-** | - |
| Later than 5 years and not later than 30 years | **1,302** | 1,539 | **-** | - |
| | **2,332** | 2,566 | **-** | - |

# Notes to the Consolidated Financial Statements *continued*

## 33. COMMITMENTS *continued*

**Operating lease commitments - where a group company is a lessor**

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Not later than 1 year | **303** | 288 | **-** | - |
| Later than 1 year and not later than 5 years | **1,175** | 1,172 | **-** | - |
| Later than 5 years | **1,390** | 1,677 | **-** | - |
| | **2,868** | 3,137 | **-** | - |

## 34. CONTINGENT LIABILITIES

At 31 January 2014, the group and the company had contingent liabilities amounting to €1,730,000 (2013: €1,791,000) and €498,000 (2013: €523,000) respectively, with regards to guarantees mainly in favour of the Comptroller of Customs issued by the bank on behalf of the group and company in the ordinary course of business and capital expenditure.

At 31 January 2014, guarantees amounting to €7,931,000 (2013: €6,863,000) were given by the company with regards to bank facilities of subsidiaries.

At 31 January 2014, a guarantee amounting to €500,000 (2013: €250,000) was issued by the company's bank in fulfilment of the company's reserve account obligations as contemplated in the prospectus dated 10 May 2010.

## 35. RELATED PARTY TRANSACTIONS

The following companies (and their respective subsidiaries and jointly-controlled entities) are related parties by virtue of their shareholding in the company:

| | Percentage of shares held | |
|---|---|---|
| | **2014** | 2013 |
| Farrugia Investments Limited | **26.50** | 26.50 |
| M.S.M. Investments Limited | **26.50** | 26.50 |
| Sciclunas Estates Limited | **26.32** | 26.32 |

The remaining 20.68% (2013: 20.68%) of the shares are widely held. The following transactions were carried out with related parties:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Income from goods and services** | | | | |
| - Sales of goods to subsidiaries | **-** | - | **1,285** | 1,418 |
| - Sales of goods to related parties | **25** | 20 | **-** | - |
| - Recharge of costs to subsidiaries | **-** | - | **979** | 915 |
| - Recharge of payroll costs to subsidiaries | **-** | - | **1,467** | 1,472 |
| - Finance income on loans to subsidiaries | **-** | - | **156** | 91 |
| | **25** | 20 | **3,887** | 3,896 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **€'000** | €'000 | **€'000** | €'000 |
| **Expenditure for goods and services** | | | | |
| - Purchases of goods from subsidiaries | **-** | - | **538** | 897 |
| - Purchases of goods and services from related parties | **544** | 580 | **530** | 567 |
| - Finance costs on loans from subsidiaries | **-** | - | **34** | - |
| | **544** | 580 | **1,102** | 1,464 |

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in note 30 to the financial statements.

Amounts due from subsidiaries and jointly-controlled entities, in connection with sales and purchases transactions, are disclosed in note 12 to these financial statements.

## 36. STATUTORY INFORMATION

Simonds Farsons Cisk plc is a public limited company and is incorporated in Malta.

## 37. COMPARATIVE INFORMATION

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's disclosure format for the purpose of fairer presentation.

## 38. SUBSEQUENT EVENTS

On 21 February 2014, the board of directors approved an investment of €27 million in a new beer packaging facility. The construction of the facility started in April 2014 and is expected to be completed by April 2016.

## 39. SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

The principal subsidiaries at 31 January 2014 are shown below:

| | Registered office | Principal activities | Percentage of shares held 2014 | 2013 |
|---|---|---|---|---|
| Burger Operations Limited (merged into Food Chain Limited) | The Brewery, Mdina Road, Mrieħel | Operation of franchised food retailing establishments | - | 100 |
| EcoPure Limited | The Brewery, Mdina Road, Mrieħel | Sale and distribution of bottled water | **100** | 100 |
| Farsons Distribution Services Limited | The Brewery, Mdina Road, Mrieħel | Non-operating | **100** | 100 |
| Farsons Beverage Imports Company Limited | The Brewery, Mdina Road, Mrieħel | Importation and wholesale of beverages, wines and spirits | **100** | 100 |
| Farsons Italia S.r.l. (in liquidation) | Via del Concilio 17, 20045 Lissone, Milan - Italy | Non-operating | **100** | 100 |
| Food Chain Limited (formerly Food Chain [Holdings] Limited) | The Brewery, Mdina Road, Mrieħel | Intermediate investment management and property holding | **100** | 100 |
| Galleria Management Limited | The Brewery, Mdina Road, Mrieħel | Non-operating | **100** | 100 |
| Kentucky Operations Limited (merged into Food Chain Limited) | The Brewery, Mdina Road, Mrieħel | Operation of franchised food retailing establishments | - | 100 |
| Mensija Catering Company Limited | The Brewery, Mdina Road, Mrieħel | Property leasing | **100** | 100 |
| Pizza Operations Limited (merged into Food Chain Limited) | The Brewery, Mdina Road, Mrieħel | Operation of franchised food retailing establishments | - | 100 |
| Portanier Warehouses Limited | The Brewery, Mdina Road, Mrieħel | Property leasing | **100** | 100 |
| Quintano Foods Limited | 303, Qormi Road, Marsa | Importation and wholesale of food products | **100** | 100 |
| Sliema Fort Company Limited | The Brewery, Mdina Road, Mrieħel | Property leasing | **100** | 100 |
| Trident Developments Limited | The Brewery, Mdina Road, Mrieħel | Intermediate investment management and property holding | **100** | 100 |

The principal jointly-controlled entities at 31 January 2014 are shown below:

| | Registered office | Principal activities | Percentage of shares held 2014 | 2013 |
|---|---|---|---|---|
| FSG Company Limited | The Brewery, Mdina Road, Mrieħel | Investment holding | **50** | 50 |
| Malta Deposit and Return System Limited (in liquidation) | Mizzi House, National Road, Blata l-Bajda | Waste management activities | **56** | 56 |
| Food-Serv Limited (in liquidation) | The Brewery, Mdina Road, Mrieħel | Non-operating | **22.5** | 22.5 |

# Shareholder Information

**Directors' interests in the share capital of the company**

| | Ordinary shares held as at 31 January 2014 | Ordinary shares held as at 28 April 2014 |
|---|---|---|
| Louis A. Farrugia | 22,764 | 22,764 |
| Vincent Curmi | 6,067 | 6,067 |
| Michael Farrugia | 5,552 | 5,552 |
| Marina Hogg | 12,698 | 12,698 |
| Marquis Marcus John Scicluna Marshall | 5,857 | 5,857 |

Directors' interests listed above are inclusive of shares held in the name of the relative spouse and minor children as applicable.

Mr. Marcantonio Stagno d'Alcontres has a beneficial interest in M.S.M. Investments Limited. Besides having a beneficial interest in Farrugia Investments Limited, Mr. Louis A. Farrugia has a beneficial interest in a further 42,916 Ordinary shares registered in the name of Farrugia Holdings Limited. Marquis Marcus John Scicluna Marshall has a beneficial interest in Sciclunas Estates Limited. Mr. Vincent Curmi has a beneficial interest in a further 5,250 Ordinary shares registered in the name of the Estate of the late Marquis John Scicluna. There has been no movement in the above stated shareholdings during the period from 31 January 2014 to 28 April 2014.

**Shareholders holding 5% or more of the equity share capital as at 28 April 2014**
Ordinary shares

| | Number of shares | Percentage holding |
|---|---|---|
| M.S.M. Investments Limited | 7,948,862 | 26.50 |
| Farrugia Investments Limited | 7,948,862 | 26.50 |
| Sciclunas Estates Limited | 7,896,164 | 26.32 |

**Shareholding details**
As at 28 April 2014, the company's issued share capital was held by the following shareholders:

| | Number of shareholders |
|---|---|
| Ordinary shares of €0.30 each | 1,796 |

The holders of the Ordinary shares have equal voting rights.

**Number of shareholders as at 28 April 2014**

| | Number of shareholders | Number of shares | Percentage holding |
|---|---|---|---|
| Ordinary shares of €0.30 each | | | |
| Up to 500 shares | 561 | 131,067 | 0.44 |
| 501 - 1,000 shares | 351 | 250,026 | 0.83 |
| 1,001 - 5,000 shares | 671 | 1,537,499 | 5.12 |
| More than 5,000 shares | 213 | 28,081,408 | 93.60 |
| | 1,796 | 30,000,000 | 100.00 |

**Antoinette Caruana**
*Company Secretary*

The Brewery, Mdina Road, Mrieħel BKR 3000.
Telephone: (+356) 2381 4172

# Five Year Summarised Group Results

| | | 2014<br>€'000 | 2013<br>€'000 | 2012<br>€'000 | 2011<br>€'000 | 2010<br>€'000 |
|---|---|---|---|---|---|---|
| Revenue | | **78,622** | 77,180 | 70,851 | 67,354 | 65,111 |
| Operating costs | | **(70,235)** | (69,204) | (64,425) | (61,054) | (60,119) |
| **Operating profit** | | **8,387** | 7,976 | 6,426 | 6,300 | 4,992 |
| Changes in fair value of investment property | | **-** | - | - | (661) | - |
| Net finance costs | | **(1,535)** | (1,495) | (1,346) | (1,588) | (1,788) |
| **Profit before taxation** | | **6,852** | 6,481 | 5,080 | 4,051 | 3,204 |
| Tax | | **(527)** | (512) | (358) | (307) | (454) |
| **Profit attributable to Ordinary shareholders** | | **6,325** | 5,969 | 4,722 | 3,744 | 2,750 |
| **Net dividends paid on Ordinary shares** | | **3,100** | 2,100 | 2,000 | 1,900 | 1,100 |
| Shareholders' funds | | **95,274** | 91,925 | 88,186 | 85,760 | 83,916 |
| Borrowings | | **27,077** | 29,703 | 32,988 | 31,848 | 38,484 |
| **Total capital employed** | | **122,351** | 121,628 | 121,174 | 117,608 | 122,400 |
| Fixed Assets | | **119,854** | 120,271 | 117,556 | 113,414 | 113,682 |
| Non-current Assets | | **1,739** | 2,270 | 2,108 | 3,337 | 2,480 |
| Current assets | | **28,942** | 28,990 | 28,209 | 28,221 | 29,749 |
| Assets held for sale | | **-** | - | - | - | 77 |
| Liabilities (excluding borrowings) | | **(28,184)** | (29,903) | (26,699) | (27,364) | (23,588) |
| **Total assets less liabilities** | | **122,351** | 121,628 | 121,174 | 117,608 | 122,400 |
| Shares in issue during the financial year: | | | | | | |
| - Ordinary shares | **'000** | **30,000** | 30,000 | 30,000 | 30,000 | 25,714 |
| Number of Ordinary shareholders | | **1,796** | 1,790 | 1,781 | 1,773 | 1,756 |
| Earnings per Ordinary share (reference note 31) | | **€0.211** | €0.199 | €0.157 | €0.125 | €0.092 |
| Return on average capital employed | **percentage** | **6.9** | 6.6 | 5.4 | 4.7 | 4.0 |
| Dividend cover | **times** | **2.04** | 2.84 | 2.36 | 1.97 | 2.50 |
| Dividends per Ordinary share (net of tax) | | **€0.103** | €0.070 | €0.067 | €0.063 | €0.037 |
| Net asset value per Ordinary share | | **€3.18** | €3.06 | €2.94 | €2.86 | €2.80 |
| Gearing | **percentage** | **22.1** | 24.4 | 27.2 | 27.1 | 31.4 |

**Comparative figures** have been changed to conform with this year's presentation of the financial statements.

**Ordinary shares** are equivalent to the weighted average number of shares in issue during the financial year.

**Return on average capital employed** is calculated by dividing profit for the year before finance costs and tax by the average of the opening and closing total capital employed for the relevant year.

**Dividend cover** is calculated by dividing the profit attributable to the Ordinary shareholders by the total net dividends paid during the year.

**Net asset value per Ordinary share** is calculated by dividing shareholders' funds attributable to the Ordinary shareholders by the number of Ordinary shares in issue at the end of the year.

**Gearing** is calculated by dividing total borrowings by total capital employed.

**Earnings per Ordinary share, dividends per Ordinary share** and **net asset value per Ordinary share** have been restated in 2009 to reflect the increase in the number of shares brought about through a bonus issue made in 2010.

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