

MELITE FINANCE P.L.C.

Unaudited Consolidated Financial Statements
31 December 2018

	Pages
Statement of financial position	1
Statement of comprehensive income	2
Statement of changes in equity	3
Statement of cash flows	4
Notes to the financial statements	5 - 26

Statements of financial position

		As at 31 December 2018	
		Group	Company
		€	€
	Notes		
ASSETS			
Non-current assets			
Intangible assets	4	10,215,268	-
Property, plant and equipment	5	618,692	-
Investment in subsidiary	6	-	8,624,406
Deferred tax asset	12	53,472	56,058
Equity instruments at fair value through other comprehensive income	7	587,181	-
Loans receivable	8	-	5,930,000
Total non-current assets		11,474,613	14,610,464
Current assets			
Trade and other receivables	9	999,658	140,910
Cash and cash equivalents	10	3,300,798	370,836
Total current assets		4,300,456	511,746
Total assets		15,775,069	15,122,210
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	5,874,406	5,874,406
Retained earnings		101,222	82,458
Total equity		5,975,628	5,956,864
Non-current liabilities			
Borrowings	13	8,943,416	8,943,416
Current liabilities			
Trade and other payables	14	856,025	221,930
Total current liabilities		856,025	221,930
Total liabilities		9,799,441	9,165,346
Total equity and liabilities		15,775,069	15,122,210

The notes on pages 5 to 26 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 1 to 26 were authorised for issue by the board on 24 April 2019 and were signed on its behalf by:


Paul Mercieca
Director


Stanley Portelli
Director

Statements of comprehensive income

	Notes	Period from 27 September to 31 December 2018	
		Group €	Company €
Rental income		723,201	-
Other income		-	45,000
Cost of sales		(461,854)	-
Gross profit		261,347	45,000
Administrative expenses	17	(162,886)	(28,215)
Operating profit		98,461	16,785
Finance costs	16	(50,711)	(50,673)
Finance income	15	-	60,288
Profit before tax		47,750	26,400
Tax credit	19	53,472	56,058
Profit for the period - total comprehensive income		101,222	82,458
Attributable to:			
Owners of the parent		101,222	82,458

The notes on pages 5 to 26 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group

	Note	Share capital €	Retained earnings €	Total €
Balance at 27 September 2018		-	-	-
Comprehensive income				
Profit for the period - total comprehensive income		-	101,222	101,222
Transactions with owners				
Issue of share capital	11	5,874,406	-	5,874,406
Balance at 31 December 2018		5,874,406	101,222	5,975,628

Company

	Note	Share capital €	Retained earnings €	Total €
Balance at 27 September 2018		-	-	-
Comprehensive income				
Profit for the period - total comprehensive income		-	82,458	82,458
Transactions with owners				
Issue of share capital	11	5,874,406	-	5,874,406
Balance at 31 December 2018		5,874,406	82,458	5,956,864

The notes on pages 5 to 26 are an integral part of these consolidated financial statements.

Statements of cash flows

		Period from 27 September to 31 December 2018	
		Group €	Company €
	Notes		
Cash flows from operating activities			
Cash generated from operations	20	5,702,813	5,722,211
Finance costs	16	(45,515)	(45,477)
Finance income	15	-	60,288
Net cash generated from operating activities		5,657,298	5,737,022
Cash flows from investing activities			
Purchase of intangible assets	4	(10,307,020)	-
Purchase of property, plant and equipment	5	(650,519)	-
Acquisition of subsidiary	6	-	(8,624,406)
Advances to subsidiary	8	-	(5,930,000)
Purchase of equity instruments at fair value through other comprehensive income	7	(587,181)	-
Net cash used in investing activities		(11,544,720)	(14,554,406)
Cash flow from financing activities			
Proceeds from the issuance of ordinary shares	11	250,000	250,000
Proceeds from the issuance of bonds	13	9,250,000	9,250,000
Payments for bond issue costs	13	(311,780)	(311,780)
Net cash generated from financing activities		9,188,220	9,188,220
Net movement in cash and cash equivalents		3,300,798	370,836
Cash and cash equivalents at beginning of period	10	-	-
Cash and cash equivalents at end of period	10	3,300,798	370,836

The notes on pages 5 to 26 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act (Cap. 386). The financial statements have been prepared under the historical cost convention, as modified by the fair valuation of equity investments at fair value through other comprehensive income.

The Company was incorporated on 27 September 2018 in terms of the Maltese Companies Act (Cap. 386). Accordingly, the financial statements reflect the period from date of incorporation up to 31 December 2018. As this is the Group's and Company's first period of accounts since incorporation, no comparative figures have been presented.

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 judgment in the process of applying the Group's accounting policies (see Note 3 – Critical accounting estimates and judgments).

Standards, interpretations and amendments to published standards effective in the current financial period

On incorporation, the Group adopted standards, amendments and interpretations that are mandatory for the Group's accounting period beginning on 27 September 2018.

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, that are mandatory for the Group's accounting periods beginning after 27 September 2018. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group'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.

Under IFRS 16, 'Leases', a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to endorsement by the EU, and subject to the Group also adopting IFRS 15. The company is assessing the impact of IFRS 16.

1. Summary of significant accounting policies - continued

1.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the 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 applies the acquisition method of accounting to account for business combinations that fall within the scope of IFRS 3. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. 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 (identifiable net assets) 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 recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as 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. If this is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Upon consolidation, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

In the company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Cost includes directly attributable costs of the investment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1. Summary of significant accounting policies - continued

1.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

1.4 Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably.

Intangible assets are initially measured at cost. Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria.

The useful life of intangible assets is assessed to determine whether it is finite or indefinite. Intangible assets with a finite useful life are amortised. Amortisation is charged to profit or loss so as to write-off the cost of intangible assets less any estimated residual value, over the estimated useful lives. The amortisation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising on derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Premium paid on leasehold property are shown at historical cost. Premium paid on outlets held under a *contratto di locazione* have an indefinite useful life. Therefore, such premia are not amortised but are subject to an annual impairment test at the end of each financial year (Note 1.6). Premium paid on outlets held under a *contratto d'affitto di ramo d'azienda* are amortised on a straight-line basis over the lease term of the leasehold property.

1.5 Property, plant and equipment

Property, plant and equipment comprising furniture, fittings and fixtures is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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.

1. Summary of significant accounting policies - continued

1.5 Property, plant and equipment - continued

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

	%
Furniture, fittings and fixtures	12 - 15

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. The cost of motor vehicles is written down to a value which, in the opinion of the directors, is the value which the assets would realise in the ordinary course of business.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with carrying amount and are recognised within 'operating expenses' in the statement of comprehensive income.

1.6 Impairment of non-financial assets

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

1.7 Financial assets

1.7.1 Classification

The Group classifies its financial assets in the following measurement categories;

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

1.7.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses).

Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

1.7.3 Measurement - continued

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

1.7.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

1.8 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 1.7.3). 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. Impairment of financial assets is described in Note 1.7.4 above.

1.9 Cash and cash equivalents

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

1.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1. Summary of significant accounting policies - continued

1.11 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 the consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.12 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.

Issue costs incurred in connection with the issue of the bonds include professional fees, publicity, printing, listing, registration, underwriting, management fees, selling costs and other miscellaneous costs.

1.13 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.

1.14 Offsetting financial instruments

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

1.15 Provisions

Provisions for legal claims 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. Provisions are not recognised for future operating losses.

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

1. Summary of significant accounting policies - continued

1.16 Current and deferred tax

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

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

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

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

1.17 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, returns, rebates and discounts.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below.

(a) Sales of services

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

(a) Rental income

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

(c) Interest income

Interest income is recognised for all interest-bearing instruments using the effective interest method.

1. Summary of significant accounting policies - continued

1.18 Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

1.19 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment are capitalised as part of its cost. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. 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 ready for their intended use or sale and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of interest-bearing borrowings.

1.20 Interest income and expense

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

1. Summary of significant accounting policies - continued

1.21 Dividend distribution

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

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 foreign exchange risk, price risk and cash flows and fair value 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. The Group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

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

(a) Market risk

(i) *Foreign exchange risk*

The Group is not exposed to foreign exchange risk because its principal assets and liabilities, are denominated in euro. The Group's interest income, interest expense and other operating expenses are also denominated in euro. Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

(ii) *Price risk*

The group is exposed to equity securities price risk because of investments held by the group amounting to €587,181 and classified in the statement of financial position as equity investments at fair value through other comprehensive income. The directors manage this risk by reviewing on a regular basis investment and market performance.

The sensitivity analysis for equity risk illustrates how changes in fair value of equity securities will fluctuate because of changes in market prices, whether these changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market. As at 31 December 2018, should the equity prices increase/decrease by 10%, with all other variables held constant, the impact on equity would be €58,718.

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

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its financing position and cash flows. As at the reporting date, the Company has fixed rate interest-bearing assets comprising of amounts owed by subsidiary. Accordingly, its revenue and operating cash flows are substantially independent of changes in market interest rates.

As at the statement of financial position date, the Group's exposure to changes in interest rates on bank accounts held with financial institutions and on interest bearing liabilities was limited as the Group is predominantly subject to fixed interest rates.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(iii) *Cash flow and fair value interest rate risk - continued*

Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

(b) Credit risk

Credit risk arises from loans receivable from subsidiary, cash and cash equivalents and credit exposures to customers, including outstanding receivables and committed transactions.

The maximum credit exposure to credit risk at the end of the reporting period in respect of the Group's financial assets is equivalent to their carrying amount, which is analysed as follows:

	Group 2018 €	Company 2018 €
Loans and receivables category:		
Loans receivable from fellow subsidiary (Note 8)	-	5,930,000
Other receivables (Note 9)	999,658	140,910
Cash and cash equivalents (Note 10)	3,300,798	370,836
	4,300,456	6,441,746

Loans receivable

The Company's other financial assets at amortised cost include loans due from subsidiary undertaking. The Company monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of its overall liquidity management.

The loss allowances for these financial assets are based on assumptions about risk of default and expected loss rates. The Company's management uses judgement in making these assumptions, based on the counterparty's past history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

As at year-end, based on the directors' assessments of these factors, the equity position of the respective counterparty, and the lapse of time from the origination of the financial asset, no impairment charge is considered necessary.

Cash at bank

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was insignificant.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally the bonds issued to the general public and other payables (refer to Notes 13 and 14 respectively). Prudent liquidity risk management includes maintaining sufficient cash and liquid assets to ensure the availability of an adequate amount of funding to meet the Group's obligations.

The Group's liquidity risk is managed actively by ensuring that cash inflows arising from expected maturities of the Group's advances to related parties effected out of the bond issue proceeds, together with any related interest receivable, match the cash outflows in respect of the Group's bond borrowings, covering principal and interest payments, as referred to in Note 12 and reflected in the table below.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group	Carrying amount €	Contractual cash flows €	Within 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €
At 31 December 2018						
Borrowings	8,943,416	18,222,500	448,625	448,625	1,345,875	15,979,375
Payables	856,025	856,025	856,025	-	-	-
	9,799,441	19,078,525	1,304,650	448,625	1,345,875	15,979,375
<hr/>						
Company	Carrying amount €	Contractual cash flows €	Within 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €
At 31 December 2018						
Borrowings	8,943,416	18,222,500	448,625	448,625	1,345,875	15,979,375
Payables	221,930	221,930	221,930	-	-	-
	9,165,346	18,444,430	670,555	448,625	1,345,875	15,979,375

2. Financial risk management - continued

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. The ratio is calculated as net debt divided by total capital. Structural borrowings include borrowings, less cash and cash equivalents. The gearing ratios at 31 December 2018 were as follows:

	Group 2018 €	Company 2018 €
Total borrowings (Note 13)	8,943,416	8,943,416
Less: Cash in hand and in bank (Note 10)	(3,300,798)	(370,836)
Net borrowings	5,642,618	8,572,580
Total equity	5,975,628	5,900,806
Total capital	11,618,246	14,473,386
 Gearing	 48.6%	 59.2%

2.3 Fair values of financial instruments

At 31 December 2018 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

The fair values of the interest bearing loans receivable were not significantly different from their carrying amounts at the end of the reporting period based on discounted cash flows using market interest rates prevailing at 31 December 2018. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2 within the fair value measurement hierarchy required by IFRS 7, 'Financial instruments: Disclosures'. Information on the fair value of the Group's bonds issued to the general public is disclosed in Note 13 to the financial statements. The fair value estimate in this respect is deemed Level 1 as it constitutes a quoted price in an active market.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

2. Financial risk management - continued

2.3 Fair values of financial instruments - continued

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018.

Group	Level 1 €
At 31 December 2018	
Assets	
Available-for-sale financial investments:	
- Listed equity securities	587,181
Total financial assets at fair value	<u>587,181</u>
Liabilities	
Borrowings:	
- 4.85% Secured Bonds 2028	8,943,416
Total financial liabilities at fair value	<u>8,943,416</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price and has been obtained directly from the custodian. These instruments are included in level 1.

3. Critical accounting estimates and judgments

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

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

4. Intangible assets

Group	Premia paid on leasehold property €	Total €
Year ended 31 December 2018		
Additions	10,307,020	10,307,020
Amortisation	(91,752)	(91,752)
Net book amount	10,215,268	10,215,268
At 31 December 2018		
Cost	10,307,020	10,307,020
Accumulated amortisation	(91,752)	(91,752)
Net book amount	10,215,268	10,215,268

Intangible assets primarily represent premiums paid on leasehold property.

5. Property, plant and equipment

Group	Fixtures, furniture and fittings €	Total €
Year ended 31 December 2018		
Additions	650,519	650,519
Depreciation charge	(31,827)	(31,827)
Closing net book value	618,692	618,692
At 31 December 2018		
Cost	650,519	650,519
Accumulated depreciation	(31,827)	(31,827)
Net book amount	618,692	618,692

6. Investment in subsidiary

Company

	2018 €
Year ended 31 December	
Additions	8,624,406
Closing carrying amount	<u>8,624,406</u>
At 31 December	
Cost and carrying amount	<u>8,624,406</u>

The subsidiary at 31 December 2018, whose results and financial position affected the figures of the group, is shown below:

	Registered office	Class of shares held	Percentage of shares held 2018 %
Melite Properties Srl	Vittor Pisani 20, 20124, Milan, Italy	Ordinary shares	100

7. Equity investments at fair value through other comprehensive income

	Group €
Year ended 31 December 2018	
Additions	587,181
Closing net book amount	<u>587,181</u>

These financial assets are held as security on bank borrowings.

8. Loans receivable

	Company 2018 €
Non-current	
Loans to subsidiary	<u>5,930,000</u>

The loans to subsidiary are subject to interest at a fixed interest rate of 6.1%, are unsecured and repayable by not later than 23 November 2028.

9. Trade and other receivables

	Group 2018 €	Company 2018 €
Current		
Amounts due from subsidiary	-	105,288
Accrued income	804,697	-
Other receivables and indirect taxation	194,961	35,622
	999,658	140,910

Amounts due from subsidiary are unsecured, interest free and repayable on demand.

10. Cash and cash equivalents

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

	Group 2018 €	Company 2018 €
Cash at bank and in hand	3,300,798	370,836

11. Share capital

	Group and Company 2018 €
Authorised	
10,000,000 ordinary shares of €1 each	10,000,000
Issued and fully paid	
5,874,406 ordinary shares of €1 each	5,874,406

On 27 September 2018, the Company was incorporated with an issued share capital of €250,000 made up of 250,000 ordinary shares of €1 each.

On 5 November 2018, a further 5,624,406 shares of €1 each were issued and allotted to the company's parent as consideration for an amount due by the Company to its parent.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

12. Deferred taxation

	Liability €	Asset €	Total €
Group			
At 31 December 2018			
Credited/(charged) to profit and loss (Note 19)	(2,586)	56,058	53,472
At end of year	(2,586)	56,058	53,472
Company			
At 31 December 2018			
Credited to profit and loss (Note 19)	-	56,058	56,058
At end of year	-	56,058	56,058

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of each of the jurisdictions in which the group's companies operate.

The balance at 31 December represents:

	Group 2018 €	Company 2018 €
Temporary differences arising on:		
- property, plant and equipment	(2,586)	-
- unutilised tax losses	56,058	56,058
At 31 December	53,472	56,058

13. Borrowings

	Group and Company 2018 €
Non-current	
4.85% Secured Bonds 2028	8,943,416

13. Borrowings - continued

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

	2018 €
Original face value of bonds issued	9,250,000
Bond issue costs	311,780
Accumulated amortisation	(5,196)
Closing net book amount of bond issue costs	306,584
Amortised cost and closing carrying amount	8,943,416

By virtue of an offering memorandum dated 12 November 2018, the Group issued €9,250,000 bonds with a face value of €100 each. The bonds have a coupon interest of 4.85% which is payable annually in arrears, on 23 November of each year. The bonds are redeemable at par and are due for redemption on 23 November 2028. The bonds were admitted on the Official List of the Malta Stock Exchange on 12 November 2018. The quoted market price as at 31 December 2018 for the bonds was €106.97, which in the opinion of the directors fairly represents the fair value of these financial liabilities.

In accordance with the provisions of the prospectus, the proceeds from the bond issue have been advanced by the Group to group related parties.

14. Trade and other payables

	Group 2018 €	Company 2018 €
Current		
Trade and other payables	32,764	27,679
Amounts owed to parent	121,929	121,929
Amounts owed to related parties	36,377	22,845
Accrued interest and expenses	664,955	49,477
	856,025	221,930

Amount owed to parent and related parties are unsecured, interest free and repayable on demand.

15. Finance income

	Period from 27 September to 31 December 2018	
	Group €	Company €
Interest income on loans advanced to subsidiary	-	60,288

16. Finance costs

	Period from 27 September to 31 December 2018	
	Group €	Company €
Bond interest expense	45,477	45,477
Amortisation of bond issue costs	5,196	5,196
Other finance costs	38	-
	50,711	50,673

17. Expenses by nature

	Period from 27 September to 31 December 2018	
	Group €	Company €
Directors' fees (Note 18)	4,000	4,000
Depreciation and amortisation (Notes 4 and 5)	123,579	-
Listing and related compliance costs	10,417	10,417
Recharged payroll costs	11,092	11,092
Rental costs	461,854	-
Other expenses	13,798	2,706
Total administrative expenses	624,740	28,215

18. Directors' emoluments

	Period from 27 September to 31 December 2018	
	Group €	Company €
Directors' fees	4,000	4,000

19. Tax credit

	Period from 27 September to 31 December 2018	
	Group €	Company €
Deferred tax credit	(53,472)	(56,058)

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

	Period from 27 September to 31 December 2018	
	Group €	Company €
Profit before tax	47,750	26,400
Tax on profit @ 35%	16,713	9,240
Tax effect of:		
Disallowed expenditure	2,277	7,164
Bond issue costs	(72,462)	(72,462)
Tax credit	(53,472)	(56,058)

20. Cash generated from operations

	Period from 27 September to 31 December 2018	
	Group €	Company €
Operating profit	98,461	16,785
Adjustments:		
Depreciation and amortisation (Notes 4 and 5)	123,579	-
Changes in working capital:		
Trade and other receivables	(999,658)	(140,910)
Trade and other payables	6,480,431	5,846,336
Cash generated from operations	5,702,813	5,722,211

Non-cash transactions include the issue and allotment of 5,624,406 shares of €1 each to the company's parent as consideration for an amount due by the Company to its parent.

21. Net debt reconciliation

All the movements in the Group's net debt relate only to cash flow movements and disclosed as part of the financing activities in the statement of cash flows on page 4.

22. Operating lease commitments

The group leases retail outlets under long-term non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group	2018 €
Not later than one year	2,279,910
Later than one year and not later than five years	8,285,587
Later than five years	8,051,053
	<hr/>
	18,616,550
	<hr/>

23. Related parties

The Group forms part of the Melite Retail Group of Companies. All companies forming part of the Melite Retail Group, which are all ultimately owned by Melite Retail Limited, are considered to be related parties in view of common ultimate shareholding.

The principal transactions carried out by the Group with related parties during the period ended 31 December 2018 are outlined below:

- Rental income from companies within the Melite Retail Group amounting to €631,000.
- Expenses paid by parent on behalf of the group amounting to €121,929
- Management fees charged by related party amounting to €8,333
- Payroll costs recharged by related party amounting to €11,092

Amounts due to or from related parties are disclosed in Notes 9 and 14 to the financial statements.

Key management personnel compensation, consisting of remuneration to the company's directors, has been disclosed in Note 18.

24. Statutory information

The Melite Finance p.l.c. is a limited liability company and is incorporated in Malta.

The immediate parent company of Melite Finance p.l.c. is Melite Retail Limited Limited, a company registered in Malta, with its registered address at Flat 4, St Anne's Court, Triq Bisazza, Sliema, SLM 1642. The ultimate controlling parties of Melite Retail Limited are Alec Mizzi and Andrew Ganado.