Company Registration Number: C22952

BROWN'S PHARMA LIMITED
Consolidated Financial Statements

31 December 2018

Contents

Directors' Report

The directors present their report and the consolidated financial statements of the group for the year ended 31 December 2018.

Principal activities

The parent company operates pharmacies in Qormi, Fleur De Lys, Naxxar, Pieta', Paola, Zebbug, Hamrun, Gudja, at the Tigné Point Shopping Complex, in Sliema, Mellieha and in Kalkara. The subsidiary companies held a pharmacy licence under their name, however, the right to operate the licence was held by the parent company.

Review of the business

The group has reported a profit before income tax of €1,494,523 (2017: €1,100,978). The level of business and the group's financial position remain satisfactory, and the directors expect that the present level of activity will be improved in the foreseeable future.

Results and dividends

The consolidated statement of comprehensive income is set out on page 6. The directors have recommended the payment of a final dividend resulting in a total net dividend to the ordinary shareholders of €385,702 equivalent to €2.24 per share.

Directors

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

Mr Alexander Fenech
Mr Robert Spiteri
Mr Benjamim Muscat
Mr Joseph Caruana

In accordance with the group's Articles of Association, the present directors shall remain in office.

Statement of directors' responsibilities

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

In preparing the consolidated financial statements, the directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgments and estimates;

- the consolidated financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the European Union;

Directors' Report – continued

Statement of directors' responsibilities – continued

- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the group will continue in business as a going concern.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the consolidated financial statements comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

A resolution to reappoint the firm Busuttil & Micallef as auditor of the group will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Mr Robert Spiteri
Director

Mr Alexander Fenech
Director

Registered address:
Triq l-Industrija
Qormi

23 August 2019

Independent Auditor's Report

To the Members of BROWN'S PHARMA LIMITED

Report on the Audit of the Consolidated Financial Statements

We have audited the consolidated financial statements of Brown's Pharma Limited, set out on pages 6 to 40, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRSs) and have been prepared in accordance with the requirements of the Companies Act (Cap. 386).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report. Our opinion on the consolidated financial statements does not cover this information, including the directors' report. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386). Based on the work we have performed, in our opinion:

- the information given in the directors' report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap.386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report. We have nothing to report in this regard.

Independent Auditor's Report – continued

Responsibilities of the Directors

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with EU IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report – continued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – continued

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Under the Maltese Companies Act (Cap. 386) we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit.
- 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 consolidated financial statements are not in agreement with the accounting records and returns.

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

David Busuttil
Partner

For and on behalf of
Busuttil & Micallef
Certified Public Accountants

Nr. 11, "L-Ufficcji"
Misrah 28 ta' Frar 1883
Birkirkara
BKR1501
Malta

23 August 2019

Consolidated Statement of Comprehensive Income

		Year ended 31 December			
	Notes	**The group 2018 €**	The group 2017 €	**The company 2018 €**	The company 2017 €
Revenue	2	**11,078,069**	9,898,791	**11,078,069**	9,898,791
Cost of sales	3	**(6,283,414)**	(5,813,247)	**(6,283,414)**	(5,813,247)
Gross profit		**4,794,655**	4,085,544	**4,794,655**	4,085,544
Administrative expenses	3	**(3,906,181)**	(3,212,036)	**(3,906,181)**	(3,212,036)
Selling and distribution expenses	3	**(313,153)**	(208,320)	**(313,153)**	(208,320)
Other income	6	**145,362**	116,114	**145,362**	116,114
Net income from other trading activities		**866,978**	440,040	**866,978**	440,040
Operating profit		**1,587,661**	1,221,342	**1,587,661**	1,221,342
Investment income	5	**20**	109	**20**	109
Finance costs	7	**(93,158)**	(120,473)	**(93,158)**	(120,473)
Profit before income tax		**1,494,523**	1,100,978	**1,494,523**	1,100,978
Income tax	8	**(501,322)**	(396,895)	**(501,322)**	(392,106)
Profit for the financial year		**993,201**	704,083	**993,201**	708,872
Other comprehensive income					
Revaluation surplus on intangible assets	10	**8,059,428**	5,902,056	**8,059,428**	5,902,056
Provision for diminution in value of the intangible assets		**(121,357)**	-	**(121,357)**	-
Income tax relating to components of other comprehensive income		**(2,778,325)**	(2,065,720)	**(2,778,325)**	(2,065,720)
Total comprehensive income for the financial year		**6,152,947**	4,540,419	**6,152,947**	4,545,208
Attributable to:					
Equity holders of the parent		**6,148,025**	4,536,787	**-**	-
Non-controlling interests		**4,922**	3,632	**-**	-
		6,152,947	4,540,419	**-**	-

Consolidated Statement of Financial Position

		As at 31 December			
	Notes	**The group 2018 €**	The group 2017 €	**The company 2018 €**	The company 2017 €
ASSETS					
Non-current assets					
Intangible assets	10	**23,066,169**	15,123,125	**23,066,169**	15,123,125
Goodwill	11	**3,445**	3,445	**-**	-
Tangible assets					
Property, plant and equipment	12	**1,148,115**	1,136,414	**1,148,115**	1,136,414
Financial assets					
Investments in subsidiaries	13	**-**	-	**5,742**	5,742
		24,217,729	16,262,984	**24,220,026**	16,265,281
Current assets					
Inventories	14	**1,187,378**	1,300,970	**1,187,378**	1,300,970
Trade and other receivables	15	**4,459,500**	1,829,996	**4,485,726**	1,856,967
Cash in hand and at bank		**319,561**	330,429	**312,271**	322,920
		5,966,439	3,461,395	**5,985,375**	3,480,857
Total assets		**30,184,168**	19,724,379	**30,205,401**	19,746,138

Consolidated Statement of Financial Position – continued

	Notes	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
		As at 31 December			
EQUITY					
Capital and reserves					
Share capital	16	**400,233**	400,233	**400,233**	400,233
Retained earnings	17	**2,692,627**	2,090,050	**2,733,631**	2,126,132
Revaluation reserve	18	**13,129,876**	7,970,130	**13,129,876**	7,970,130
Equity attributable to equity holders of the parent		**16,222,736**	10,460,413	**16,263,740**	10,496,495
Non-controlling interests		**13,296**	8,374	**-**	-
Total Equity		**16,236,032**	10,468,787	**16,263,740**	10,496,495
LIABILITIES					
Non-current liabilities					
Interest-bearing borrowings	19	**1,035,410**	1,188,935	**1,035,410**	1,188,935
Deferred taxation	20	**7,046,437**	4,268,112	**7,046,437**	4,268,112
Redeemable preference shares	21	**11**	11	**-**	-
		8,081,858	5,457,058	**8,081,847**	5,457,047
Current liabilities					
Interest-bearing borrowings	19	**456,439**	1,808,005	**456,439**	1,808,005
Trade and other payables	21	**5,202,833**	1,865,352	**5,196,369**	1,859,414
Current taxation	22	**207,006**	125,177	**207,006**	125,177
		5,866,278	3,798,534	**5,859,814**	3,792,596
Total liabilities		**13,948,136**	9,255,592	**13,941,661**	9,249,643
Total equity and liabilities		**30,184,168**	19,724,379	**30,205,401**	19,746,138

The consolidated financial statements on pages 6 to 40 were approved and authorised for issue by the Board of Directors on 23 August 2019 and were signed on its behalf by:

Mr Robert Spiteri
Director

Mr Alexander Fenech
Director

Consolidated Statement of Changes in Equity

The company	Share capital €	Retained earnings €	Revaluation reserve €	Total €
Balance at 1 January 2017	400,233	1,800,456	4,133,794	6,334,483
Comprehensive income				
Total comprehensive income for the financial year	-	708,872	3,836,336	4,545,208
Transactions with owners				
Dividends paid		(383,196)	-	(383,196)
Balance at 31 December 2017	**400,233**	**2,126,132**	**7,970,130**	**10,496,495**
Balance at 1 January 2018	400,233	2,126,132	7,970,130	10,496,495
Comprehensive income				
Total comprehensive income for the financial year	-	993,201	5,159,746	6,152,947
Transactions with owners				
Dividends paid	-	(385,702)	-	(385,702)
Balance at 31 December 2018	**400,233**	**2,733,631**	**13,129,876**	**16,263,740**

Consolidated Statement of Changes in Equity - continued

The Group	**Attributable to the equity holders of the parent**					
	Share capital €	**Retained earnings €**	**Revaluation reserve €**	**Total €**	**Non-controlling interests €**	**Total Equity €**
Balance at 1 January 2017	400,233	1,772,795	4,133,794	6,306,822	4,742	6,311,564
Comprehensive income						
Total comprehensive income for the financial year	-	700,451	3,836,336	4,536,787	3,632	4,540,419
Transactions with owners						
Dividends paid	-	(383,196)	-	(383,196)	-	(383,196)
Balance at 31 December 2017	**400,233**	**2,090,050**	**7,970,130**	**10,460,413**	**8,374**	**10,468,787**
Balance at 1 January 2018	400,233	2,090,050	7,970,130	10,460,413	8,374	10,468,787
Comprehensive income						
Total comprehensive income for the financial year	-	988,279	5,159,746	6,148,025	4,922	6,152,947
Transactions with owners						
Dividends paid	-	(385,702)	-	(385,702)	-	(385,702)
Balance at 31 December 2018	**400,233**	**2,692,627**	**13,129,876**	**16,222,736**	**13,296**	**16,236,032**

Consolidated Statement of Cash Flows

	Notes	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
		As at 31 December			
Operating activities					
Cash generated from operations	23	**2,513,614**	1,357,650	**2,513,833**	1,357,887
Interest paid		**(93,158)**	(120,473)	**(93,158)**	(120,473)
Tax paid		**(429,574)**	(386,517)	**(429,574)**	(386,517)
Tax refund		**10,081**	-	**10,081**	
Net cash generated from operating activities		**2,000,963**	850,660	**2,001,182**	850,897
Investing activities					
Purchase of property, plant and equipment		**(189,946)**	(324,626)	**(189,946)**	(324,626)
Purchase of website costs		**(1,685)**	-	**(1,685)**	-
Transaction costs upon purchase of pharmacy licence		**(3,709)**	-	**(3,709)**	-
Net cash used in investing activities		**(195,340)**	(324,626)	**(195,340)**	(324,626)
Financing activities					
Movements in short and long-term borrowings		**(178,865)**	(276,241)	**(178,865)**	(276,241)
Increase/(Decrease) in shareholders' loan		**74,302**	(259,097)	**74,302**	(259,097)
Dividends paid		**(385,702)**	(383,196)	**(385,702)**	(383,196)
Net cash used in financing activities		**(490,265)**	(918,534)	**(490,265)**	(918,534)
Movement in cash and cash equivalents		**1,315,358**	(392,500)	**1,315,577**	(392,263)
Cash and cash equivalents at beginning of year		**(1,115,867)**	(723,367)	**(1,123,376)**	(731,113)
Cash and cash equivalents at end of year	24	**199,491**	(1,115,867)	**192,201**	(1,123,376)

Notes to the Consolidated Financial Statements

1. Accounting policies

The principal accounting policies adopted 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.

a. Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and comply with the Companies Act, 1995. The consolidated financial statements are prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. However, in the opinion of the directors, there are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

Standards, interpretations and amendments to published standards effective in 2018

The company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on or after 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies.

These consolidated financial statements have been drawn up in accordance with IFRSs as adopted by the European Union. The change from IFRSs issued by the International Accounting Standards Board to IFRSs as adopted by the European Union did not result in any changes to the company's accounting policies.

All references in these consolidated financial statements to IAS, IFRS and/or SIC/IFRIC interpretations refer to those adopted by the European Union.

1. **Accounting policies** – continued

b. **Application of new and revised International Financial Reporting Standards as adopted by the EU (IFRSs)**

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Additionally, the group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:
1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

The group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

• debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;

• debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

1. **Accounting policies** – continued

b. **Application of new and revised International Financial Reporting Standards as adopted by the EU (IFRSs)** - continued

Impact of initial application of IFRS 9 Financial Instruments – continued

Specifically:

• all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the aforegoing, the group may make the following irrevocable election/designation at initial recognition of a financial asset:

• the group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and

• the group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Group reviewed and assessed the group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 did not have any impact on the group's financial assets as regards their classification and measurement.

1. **Accounting policies** – continued

b. **Application of new and revised International Financial Reporting Standards as adopted by the EU (IFRSs)** - continued

Impact of initial application of IFRS 9 Financial Instruments – continued

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the group to recognise a loss allowance for expected credit losses on:
(1) Debt investments measured subsequently at amortised cost or at FVTOCI;
(2) Lease receivables;
(3) Trade receivables and contract assets; and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

1. **Accounting policies** – continued

b. **Application of new and revised International Financial Reporting Standards as adopted by the EU (IFRSs)** - continued

Impact of initial application of IFRS 9 Financial Instruments – continued

(c) Classification and measurement of financial liabilities – continued

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has had no impact on the classification and measurement of the group's financial liabilities.

Please refer to (d) below for further details regarding the change in classification upon the application of IFRS 9.

(d) Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

As at 1 January 2018, the following IFRS as adopted by the EU have become effective, however do not impact these consolidated financial statements.

IFRS 15	Revenue from Contracts with Customers
IFRS 2	Share Based Payment Transactions
IAS 40 (Amendments)	Transfers of Investment Property
IAS 28 (Amendments)	Investments in Associates and Joint Ventures
IFRIC 22	Foreign currency transactions and Advance Consideration

1. **Accounting policies** – continued

c. **New and revised IFRSs in issue but not yet effective**

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and (in some cases) had not yet been adopted by the EU:

IFRS 16	Leases
IFRS 17	Insurance Contracts
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRS Standards 2015-2017 Cycle Costs	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

d. **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquire at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquire.

1. Accounting policies – continued

d. Business combinations and goodwill - continued

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of comprehensive income.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all the liabilities assumed and reviews the procedure used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposal operation and the portion of the cash-generating unit retained.

e. Revenue recognition

Revenue is recognised upon delivery of products and is reported in the consolidated financial statements as revenue, net of VAT and discounts. Other revenues earned by the group are recognised on the following basis:

Interest income – as it accrues, unless collectability is in doubt.

Dividend income – when the shareholder's right to receive payment is established.

f. Foreign currencies

(i) Functional and presentation currency

Items included in the group's consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates. The Euro is the group's functional and presentation currency.

1. **Accounting policies** – continued

f. **Foreign currencies** – continued

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency (Euro) 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 recognized in the consolidated statement of comprehensive income.

g. **Intangible assets**

Intangible assets comprise of pharmacy licences and website costs.

Acquired website is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of 4 years. Costs associated with maintaining the website are recognised as an expense incurred.

The licences are initially measured at cost. After initial recognition, the licences are carried at revalued amount, being its fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. 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 carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation reserve. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit of loss.

If the carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The licenses have an indefinite useful life thus should not be amortised. An asset is considered as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The useful life should be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to definite should be accounted for as a change in an accounting estimate.

Where an indication of impairment exists, in that the carrying amount of an intangible asset is greater than its estimated recoverable amount, a charge is made to write down the value of the asset to its estimated recoverable amount (Accounting policy (j)).

1. **Accounting policies** – continued

h. Property, plant and equipment

Property, plant and equipment, comprising improvements to premises, computer equipment, furniture and fittings, electrical installations and shop equipment are initially recorded at cost and are subsequently stated at cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of 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. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

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

• Improvements to premises	1%
• Computer equipment	33%
• Furniture and fittings	10%
• Shop equipment	15%
• Electrical installations	6.66%

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

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount, and are taken into account in determining operating profit.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Accounting policy (j)).

i. Investment in subsidiaries

In the group's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting. The dividend income from such investments is included in the statement of comprehensive income in the accounting period in which the group's rights to receive payment of any dividend is established. The group gathers objective evidence that an investment is impaired using the same process disclosed in accounting policy (j). On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of comprehensive income.

1. Accounting policies – continued

j. Impairment of non-financial assets

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.

k. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

l. Trade and other receivables

Trade and other receivables are 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 carried at original invoice amount less provisions made for impairment of these receivables. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the set original terms. Bad debts are written off during the year in which they are identified.

m. Trade and other payables

Trade and other payables are 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.

n. Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated statement of financial position at face value. For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. In the consolidated statement of financial position, bank overdraft is included as borrowings under current liabilities.

1. **Accounting policies** – continued

o. **Current and deferred taxation**

The tax expense for the period comprises current and deferred taxation.

Taxation 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 equity, respectively.

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

p. **Share capital and dividends**

Ordinary shares are classified as equity.

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.

q. **Preference share capital**

Preference share capital that provides for mandatory redemption by the group for a fixed or determinable amount at a fixed or determinable future date, or at the option of the holder, contains a financial liability as the issuer has an obligation to transfer financial assets to the holder of the share.

r. **Borrowings**

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months from the end of the reporting period.

2. **Revenue**

All the group's revenue is generated from the local sales and export of pharmaceutical products.

3. Expenses by nature

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Depreciation of property, plant and equipment (Note 12)	**178,245**	181,551	**178,245**	181,551
Amortisation of intangible assets (Note 10)	**421**	691	**421**	691
Staff costs (Note 4)	**1,779,535**	1,646,667	**1,779,535**	1,646,667
Foreign exchange differences	**444**	308	**444**	308
Directors' remuneration	**178,002**	184,699	**178,002**	184,699
Auditor's remuneration	**8,810**	8,400	**8,810**	8,400
Bad debts	**20,000**	15,413	**20,000**	15,413
Cost of goods sold	**6,283,414**	5,813,247	**6,283,414**	5,813,247
Other expenses	**2,073,877**	1,382,627	**2,073,877**	1,382,627
Reversal of provision for bad debts	**(20,000)**	-	**(20,000)**	-
Total cost of sales, selling and distribution expenses and administrative expenses	**10,502,748**	9,233,603	**10,502,748**	9,233,603

4. Staff costs

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Wages and salaries	**1,709,681**	1,578,620	**1,709,681**	1,578,620
Social security costs	**69,854**	68,047	**69,854**	68,047
	1,779,535	1,646,667	**1,779,535**	1,646,667

Average number of full time equivalents employed by the group during the year:

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Direct	**91**	74	**91**	74

5. Investment income

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Interest receivable on bank balances	**20**	109	**20**	109

6. Other income

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Management fee receivable	**96,000**	96,000	**96,000**	96,000
Other income	**21,785**	1,203	**21,785**	1,203
Reimbursement of salaries	**27,577**	10,556	**27,577**	10,556
Reversal of bad debts	**-**	8,355	**-**	8,355
	145,362	116,114	**145,362**	116,114

7. Finance costs

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Interest payable on bank loans	**83,653**	105,298	**83,653**	105,298
Interest payable on bank overdraft	**1,505**	4,311	**1,505**	4,311
Interest payable on third party loan	**8,000**	8,000	**8,000**	8,000
Interest payable on CIR late payment	**-**	2,864	**-**	2,864
	93,158	120,473	**93,158**	120,473

8. Income tax

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Current tax:				
At 15%	**3**	16	**3**	16
At 35%	**538,425**	395,282	**538,425**	395,282
Utilisation of tax credit-pharmacy of your choice	**(28,948)**	-	**(28,948)**	-
Deferred tax charge/(credit)	**-**	(5,627)	**-**	(5,627)
(Over)/under provision in prior year	**(8,158)**	7,224	**(8,158)**	2,435
	501,322	396,895	**501,322**	392,106

The tax expense and the result of accounting profit multiplied by the statutory domestic income tax rate is reconciled as follows:

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Profit before tax	**1,494,523**	1,100,978	**1,494,523**	1,100,978
Tax on accounting profit at 35% thereon	**523,083**	385,342	**523,083**	385,342
Tax effect of:				
Income subject to reduced rates of tax	**(4)**	(22)	**(4)**	(22)
Non-allowable expenses	**11,159**	5,411	**11,159**	5,411
Temporary difference	**4,190**	4,567	**4,190**	4,567
(Over)/under provision in prior year	**(8,158)**	7,224	**(8,158)**	2,435
Utilisation of tax credit-pharmacy of your choice	**(28,948)**	-	**(28,948)**	-
Movement in deferred tax	**-**	(5,627)	**-**	(5,627)
Income tax	**501,322**	396,895	**501,322**	392,106

9. Dividends

	2018	2017
	€	€
Ordinary shares		
Final dividend	**385,702**	383,196
Cents per share	**2.24**	2.23

The directors have recommended the payment of a final dividend resulting in a total net dividend to the ordinary shareholders of €385,702 equivalent to €2.24 per share. These dividends are being paid out of taxable profits. Net dividends to the ordinary shareholders with respect to the year end 31 December 2017 amounted to €383,196, equivalent to €2.23 per share.

10. Intangible assets

The company/The group

	Pharmacy Licences €	Website Costs €	Total €
At 1 January 2017			
Cost	2,861,386	2,770	2,864,156
Accumulated depreciation	-	(2,079)	(2,079)
Revaluation surplus	6,359,683	-	6,359,683
Net book amount	9,221,069	691	9,221,760
Movements for the year ended 31 December 2017			
Opening net book amount	9,221,069	691	9,221,760
Amortisation charge	-	(691)	(691)
Revaluation surplus	5,902,056	-	5,902,056
Closing net book amount	15,123,125	-	15,123,125
At 31 December 2017			
Cost	2,861,386	2,770	2,864,156
Accumulated depreciation	-	(2,770)	(2,770)
Revaluation surplus	12,261,739	-	12,261,739
Net book amount	**15,123,125**	**-**	**15,123,125**
Movements for the year ended 31 December 2018			
Opening net book amount	15,123,125	-	15,123,125
Additions	3,709	1,685	5,394
Amortisation charge	-	(421)	(421)
Revaluation surplus	8,059,428	-	8,059,428
Provision for diminution in value	(121,357)	-	(121,357)
Closing net book amount	23,064,905	1,264	23,066,169
At 31 December 2018			
Cost	2,865,095	4,455	2,869,550
Amortisation charge	-	(3,191)	(3,191)
Revaluation surplus	20,321,167	-	20,321,167
Provision for diminution in value	(121,357)	-	(121,357)
Net book amount	**23,064,905**	**1,264**	**23,066,169**

The pharmacy licences were valued by the directors as at 31 December 2018.

11. Goodwill

Cost/Net book value	€
At 1 January 2017/ 31 December 2017	3,445
At 1 January 2018/ 31 December 2018	3,445

12. Property, plant and equipment

The company/The group

	Improvements to Premises	Computer Equipment	Furniture and Fittings	Shop Equipment	Electrical Installations	Motor Vehicle	Total
	€	€	€	€	€	€	€
At 1 January 2017							
Cost	426,464	182,108	812,721	212,352	187,587	19,555	1,840,787
Accumulated Depreciation	(24,452)	(156,851)	(475,008)	(115,098)	(60,395)	(15,644)	(847,448)
Net Book Amount	402,012	25,257	337,713	97,254	127,192	3,911	993,339
Movement for the year ended 31 December 2017							
Opening net book amount	402,012	25,257	337,713	97,254	127,192	3,911	993,339
Additions	19,283	58,742	91,898	143,943	10,760	-	324,626
Depreciation	(4,457)	(34,700)	(80,854)	(44,419)	(13,210)	(3,911)	(181,551)
Closing net book amount	416,838	49,299	348,757	196,778	124,742	-	1,136,414
At 31 December 2017							
Cost	445,747	240,850	904,619	356,295	198,347	19,555	2,165,413
Accumulated Depreciation	(28,909)	(191,551)	(555,862)	(159,517)	(73,605)	(19,555)	(1,028,999)
Net Book Amount	**416,838**	**49,299**	**348,757**	**196,778**	**124,742**	**-**	**1,136,414**
Movement for the year ended 31 December 2018							
Opening net book amount	416,838	49,299	348,757	196,778	124,742	-	1,136,414
Additions	5,633	36,329	7,094	140,890	-	-	189,946
Depreciation	(4,513)	(41,821)	(72,106)	(46,595)	(13,210)	-	(178,245)
Closing net book amount	417,958	43,807	283,745	291,073	111,532	-	1,148,115
At 31 December 2018							
Cost	451,380	277,179	911,713	497,185	198,347	19,555	2,355,359
Accumulated Depreciation	(33,422)	(233,372)	(627,968)	(206,112)	(86,815)	(19,555)	(1,207,244)
Net Book Amount	**417,958**	**43,807**	**283,745**	**291,073**	**111,532**	**-**	**1,148,115**

13. Investments in subsidiaries

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Movements for the year ended 31 December				
Opening/closing net book amount	**-**	-	**5,742**	5,742
At 31 December				
Cost/net book amount	**-**	-	**5,742**	5,742

The subsidiaries, all of which are unlisted, at 31 December are shown below:

Name	Registered office	Principal activities	Percentage of shares held **2018**	Percentage of shares held 2017
Brown's Pharmacy Zebbug Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy Paola Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy Pieta Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy Fleur-De-Lys Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy Sliema Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%

13. **Investments in subsidiaries** – continued

Name	Registered office	Principal activities	Percentage of shares held **2018**	2017
Brown's Pharmacy Rahal Gdid Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy Hamrun Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy Qormi Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy M1 Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy M2 Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%
Brown's Pharmacy Kalkara Ltd.	Brown's Pharmacies, Triq l-Industrija, Qormi	The company pharmacy licence. The rights to operate the licence were given to a related party.	**99.92%**	99.92%

14. Inventories

	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
Goods held for resale	**1,187,378**	1,300,970	**1,187,378**	1,300,970

15. Trade and other receivables

	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
Current				
Trade receivables	**2,376,039**	514,809	**2,376,039**	514,809
Amounts due from related parties (Note)	**1,049,338**	852,064	**1,049,055**	852,061
Other receivables	**16,419**	16,894	**16,419**	16,894
Prepayments and accrued income	**743,577**	290,026	**743,579**	290,026
Amounts due from shareholder (Note)	**274,127**	156,203	**274,127**	156,203
Amounts due from subsidiaries (Note)	**-**	-	**26,507**	26,974
	4,459,500	1,829,996	**4,485,726**	1,856,967

Note:

Amounts due from related parties, subsidiaries and shareholder are unsecured, interest free and are repayable on demand.

	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
Receivables that are stated net of impairment charges are:				
Amounts due from related parties	**-**	20,000	**-**	20,000

16. Share capital

	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
Authorised				
200,000 Ordinary Shares of €2.329373 each	**465,875**	465,875	**465,875**	465,875
Issued and fully paid				
171,820 Ordinary Shares of €2.329373 each	**400,233**	400,233	**400,233**	400,233

17. Retained earnings

Retained earnings represent accumulated losses or profits.

18. Revaluation reserve

The revaluation reserve comprises revaluation gains on intangible assets used in the production and supply of goods and services, net of deferred tax.

The revaluation reserve is not available for distribution to the group's shareholders.

19. Interest-bearing borrowings

	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
Non-current				
Bank loans	**1,035,410**	1,188,935	**1,035,410**	1,188,935
Current				
Bank overdraft	**120,070**	1,446,296	**120,070**	1,446,296
Bank loans	**236,369**	261,709	**236,369**	261,709
Other loans	**100,000**	100,000	**100,000**	100,000
	456,439	1,808,005	**456,439**	1,808,005
Total borrowings	**1,491,849**	2,996,940	**1,491,849**	2,996,940

19. Interest-bearing borrowings - continued

The bank overdraft and loans are secured by the following:

The bank overdraft and loans are secured by general hypothec over the group's and related parties' present and future assets, by special hypothec guarantee over the property owned by a related party, joint and several guarantees given by a related company and by the group's directors, pledges on company's assets and life policies.

The other loan is unsecured, bears an interest of 8% per annum and is repayable by 31 December 2019 in lump sum payments at the option of the group.

Interest rate exposure:

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
At floating rates	**1,391,849**	2,896,940	**1,391,849**	2,896,940
At fixed rates	**100,000**	100,000	**100,000**	100,000
Total borrowings	**1,491,849**	2,996,940	**1,491,849**	2,996,940

Effective interest rates at end of reporting period:

	The group 2018 %	The group 2017 %	**The company 2018 %**	The company 2017 %
Bank overdraft	**5.95**	6.55	**5.95**	6.55
Bank loans	**4 - 5.95**	5.8 - 6.925	**4 - 5.95**	5.8 - 6.925
Other loans	**8**	8	**8**	8

Maturity of borrowings falling due after more than one year:

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Between 1 and 2 years	**226,745**	215,548	**226,745**	215,548
Between 2 and 5 years	**674,206**	784,381	**674,206**	784,381
Over 5 years	**134,459**	189,006	**134,459**	189,006
	1,035,410	1,118,935	**1,035,410**	1,118,935

20. Deferred taxation

Deferred income taxes are calculated on temporary differences under the liability method using a principal tax rate of 35%. The movement on the deferred income tax account is as follows:

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
At beginning of year	**(4,268,112)**	(2,208,019)	**(4,268,112)**	(2,208,019)
Charged to statement of comprehensive income	**(2,778,325)**	(2,060,093)	**(2,778,325)**	(2,060,093)
At end of year	**(7,046,437)**	(4,268,112)	**(7,046,437)**	(4,268,112)

21. Trade and other payables

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Non-Current				
Redeemable Preference 'A' Share	**11**	11	**-**	-

The Redeemable Preference 'A' share is redeemable within 15 days from the payment in full of any amount owed by the company to the holder, provided that the holder shall have the option to redeem the preference share at an earlier date at its discretion, provided further that in no case shall the preference share be redeemed later than 31 December 2099.

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Current				
Trade payables	**4,447,787**	1,604,729	**4,447,787**	1,604,729
Other payables	**49,690**	62,656	**49,690**	62,656
Accruals	**390,552**	73,554	**382,375**	65,995
Amounts due to subsidiaries (Note)	**-**	-	**1,713**	1,621
Amounts due to related party (Note)	**-**	1,835	**-**	1,835
Amounts due to shareholder (Note)	**314,804**	122,578	**314,804**	122,578
	5,202,833	1,865,352	**5,196,369**	1,859,414

Note:

Amounts due to subsidiaries, related party and shareholder's loan are unsecured, interest free and are repayable on demand.

22. Current taxation

Income tax payable is made up as follows:

	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
Balance at 1 January	**125,177**	109,172	**125,177**	113,961
Current tax charge for the year	**538,428**	395,298	**538,428**	395,298
(Over)/under provision in tax charge in previous year	**(8,158)**	7,224	**(8,158)**	2,435
Utilisation of tax credit – pharmacy of your choice	**(28,948)**	-	**(28,948)**	-
Tax refund	**10,081**	-	**10,081**	-
Settlement tax paid	**(127,097)**	(126,477)	**(127,097)**	(126,477)
Provisional tax paid	**(302,474)**	(260,024)	**(302,474)**	(260,024)
Withholding tax paid	**(3)**	(16)	**(3)**	(16)
Balance at 31 December	**207,006**	125,177	**207,006**	125,177

23. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
Operating profit	**1,587,661**	1,221,342	**1,587,661**	1,221,342
Adjustments for:				
Depreciation of property, plant and equipment (Note 12)	**178,245**	181,551	**178,245**	181,551
Amortisation of intangible assets (Note 10)	**421**	691	**421**	691
Interest received	**20**	109	**20**	109
Changes in working capital:				
Inventories	**113,592**	(207,233)	**113,592**	(207,233)
Trade and other receivables	**(2,511,580)**	25,421	**(2,510,835)**	25,829
Trade and other payables	**3,145,255**	135,769	**3,144,729**	135,598
Cash generated from operations	**2,513,614**	1,357,650	**2,513,833**	1,357,887

24. Cash and cash equivalents

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

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
Cash at bank and in hand	**319,561**	330,429	**312,271**	322,920
Bank overdraft	**(120,070)**	(1,446,296)	**(120,070)**	(1,446,296)
	199,491	(1,115,867)	**192,201**	(1,123,376)

25. Related party transactions

Year-end balances owed by or to related parties and shareholders are disclosed in notes 15 and 21 to these consolidated financial statements.

The following transactions were carried out with related parties:

	The group 2018 €	The group 2017 €	**The company 2018 €**	The company 2017 €
(a) Management fee receivable				
Related parties	**96,000**	96,000	**96,000**	96,000
(b) Management fee chargeable				
Related parties	**-**	-	**29,710**	21,371
(c) Amounts due to shareholder				
Beginning of the year	**(122,578)**	(225,472)	**(122,578)**	(225,472)
Movement during the year	**625**	294,492	**625**	294,492
Dividends paid	**(192,851)**	(191,598)	**(192,851)**	(191,598)
	(314,804)	(122,578)	**(314,804)**	(122,578)
(d) Amounts due from subsidiaries				
Beginning of the year	**-**	-	**26,974**	27,379
Movements during the year	**-**	-	**8,888**	17,630
Management charge	**-**	-	**(9,355)**	(18,035)
	-	-	**26,507**	26,974
(e) Amounts due to subsidiaries				
Beginning of the year	**-**	-	**(1,621)**	(1,558)
Movements during the year	**-**	-	**(3,518)**	(3,399)
Management charge	**-**	-	**3,426**	3,336
	-	-	**(1,713)**	(1,621)

25. Related party transactions - continued

	The group 2018 €	The group 2017 €	The company 2018 €	The company 2017 €
(f) Amounts due to related party				
Beginning of the year	**(1,835)**	(6,248)	**(1,835)**	(6,248)
Movement during the year	**1,835**	4,413	**1,835**	4,413
	-	(1,835)	**-**	(1,835)
(g) Loans to related parties				
Beginning of the year	**852,061**	1,028,794	**852,061**	1,028,794
Movements during the year	**177,277**	(156,730)	**176,994**	(156,733)
Impairment of receivables	**-**	(20,000)	**-**	(20,000)
Reversal of provision for impairment	**20,000**	-	**20,000**	-
	1,049,338	852,064	**1,049,055**	852,061
(h) Shareholders' loan receivable				
Beginning of the year	**156,203**	-	**156,203**	(31,137)
Movement during the year	**310,775**	347,801	**310,775**	378,938
Dividends paid	**(192,851)**	(191,598)	**(192,851)**	(191,598)
	274,127	156,203	**274,127**	156,203
(i) Key management compensation				
Salaries	**178,002**	184,699	**178,002**	184,699

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 3.

26. Financial risk management

Overview

The group has an exposure to the following risks arising from the use of financial instruments within its activities:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the group's exposure to each of the above risks, policies and processes for measuring and managing risk, and the group's management of capital. Further quantitative disclosures are included in these consolidated financial statements.

The responsibility for the management of risk is vested in the directors. Accordingly, it is the directors who have the overall responsibility for establishing an appropriate risk management framework.

26. Financial risk management - continued

Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meets its contractual obligations. Credit risk arises principally from the group's receivables and bank balances. The group's cash is placed with prime financial institutions. Receivables are presented net of impairment charges for bad and doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers comprising the group's debtor base. Accordingly, the group has no concentration of credit risk that could materially impact on the sustainability of its operations.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Generally, the group ensures that it has sufficient cash on demand to meet expected operational expenditure, including the servicing of financial obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the fair value or future cash flows of a financial instrument. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The operating cash flows of the group are influenced by changes in market interest rates. Up to the consolidated statement of financial position date, the group did not have any hedging arrangements with respect to the exposure of floating interest rate risk. The group is not exposed to foreign exchange risk since all operations are conducted locally in the group's functional currency.

Capital management

It is the policy of the directors to maintain an adequate capital base in order to sustain the future development of the business and safeguard the ability of the group to continue as a going concern. In this respect, the directors monitor the operations and results of the group, and also monitor the level of dividends, if any, payable to the ordinary shareholders.

The group is not subject to externally imposed capital requirements.

There were no changes in the group's approach to capital management during the year.

26. **Financial risk management** - continued

Fair values

At 31 December 2018 and 2017 the carrying amounts of cash at bank, receivables, payables and accrued expenses and short-term borrowings reflected in the consolidated financial statements are reasonable estimates of fair value. The fair values of loans and long-term borrowings are not materially different from their carrying amounts.

27. Statutory information

Brown's Pharma Limited is a private limited company and is registered in Malta.

The ownership of Brown's Pharma Limited is shared equally by Mr Alexander Fenech and Mr Robert Spiteri who both reside in Malta. The ownership of such group's share capital and voting rights related to such holding are such that no particular individual or identifiable group may be deemed to exercise control over the group.