

BROWN'S PHARMA LIMITED
Consolidated Financial Statements

31 December 2019

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Directors' Report

The directors present their report and the consolidated financial statements of the group for the year ended 31 December 2019.

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 hold a pharmacy licence under their name, however, the right to operate the licence is held by the parent company.

Review of the business

The group continued its trading operations during the year and has reported positive results. 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 7. As at 31 December 2019, the directors declared but not paid an interim gross dividend of €769,230 and final gross dividend of €5,209,288 to the ordinary shareholders. These dividends are being declared out of taxable profits resulting in a total net dividend to the ordinary shareholders of €3,886,037, equivalent to €22.62 per share. Net dividends to the ordinary shareholders with respect to the year end 31 December 2018 amounted to €385,702, equivalent to €2.24 per share.

Subsequent events

On 11th October 2019, the company entered into a 'Merger of Business Agreement' with JP Pharma Operations whereby the latter's business operations comprising six pharmacies are to be merged with that of Brown's Pharma Limited and therefore operate under one brand as from 1st January 2020. In addition, JP Pharma Operations entered into a 'Transfer of Assets Agreement' with Brown's Pharma Limited on 31st January 2020. The consideration payable by Brown's Pharma Limited to JP Pharma Operations for the transfer of all the assets amounted to €413,005. It was agreed between the parties that this consideration represents the value of the stock at the end of business as of the 31st December 2019 transferred to Brown's Pharma Limited.

Directors' Report – continued

Directors

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

Mr Alexander Fenech
Mr Robert Spiteri
Mr Benjamin 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;
- 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.

Financial reporting framework

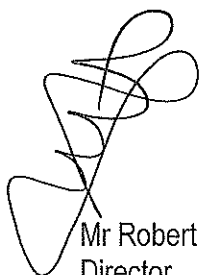
The directors have resolved to prepare the consolidated financial statements for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the European Union.

Directors' Report – continued

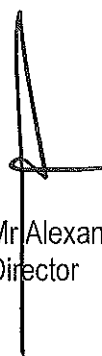
Auditor

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

25 April 2020

Independent Auditor's Report

To the Members of BROWN'S PHARMA LIMITED

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Brown's Pharma Limited, set out on pages 7 to 41, which comprise the consolidated statement of financial position as at 31 December 2019, 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.

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 2019, 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 group 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 group'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 group 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 group'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 group'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 group 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.

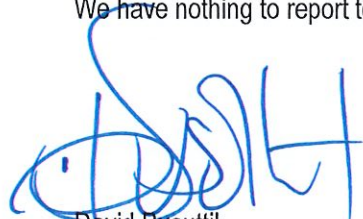
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

25 April 2020

Consolidated Statement of Comprehensive Income

		Year ended 31 December			
	Notes	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Revenue	2	12,087,692	11,078,069	12,087,692	11,078,069
Cost of sales	3	(6,713,328)	(6,337,533)	(6,713,328)	(6,337,533)
Gross profit		5,374,364	4,740,536	5,374,364	4,740,536
Administrative expenses	3	(3,512,441)	(3,102,719)	(3,512,441)	(3,102,719)
Selling and distribution expenses	3	(455,764)	(313,153)	(455,764)	(313,153)
Other income	6	148,274	145,362	148,274	145,362
Net income from other trading activities		326,261	117,635	326,261	117,635
Operating profit		1,880,694	1,587,661	1,880,694	1,587,661
Investment income	5	20	20	20	20
Finance costs	7	(77,515)	(93,158)	(77,515)	(93,158)
Profit before income tax		1,803,199	1,494,523	1,803,199	1,494,523
Income tax	8	(650,793)	(501,322)	(650,793)	(501,322)
Profit for the financial year		1,152,406	993,201	1,152,406	993,201
Other comprehensive income					
Revaluation (decrease)/surplus on intangible assets	10	(121,357)	8,059,428	(121,357)	8,059,428
Provision for diminution in value of the intangible assets	10	-	(121,357)	-	(121,357)
Reversal of provision for diminution in value of the intangible assets	10	121,357	-	121,357	-
Income tax relating to components of other comprehensive income		-	(2,778,325)	-	(2,778,325)
Total comprehensive income for the financial year		1,152,406	6,152,947	1,152,406	6,152,947
Attributable to:					
Equity holders of the parent		1,151,484	6,148,025	-	-
Non-controlling interests		922	4,922	-	-
		1,152,406	6,152,947	-	-

Consolidated Statement of Financial Position


		As at 31 December			
	Notes	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
ASSETS					
Non-current assets					
Intangible assets	10	23,068,094	23,066,169	23,068,094	23,066,169
Goodwill	11	3,445	3,445	-	-
Tangible assets					
Property, plant and equipment	12	1,151,445	1,148,115	1,151,445	1,148,115
Financial assets					
Investments in subsidiaries	13	-	-	5,742	5,742
		24,222,984	24,217,729	24,225,281	24,220,026
Current assets					
Inventories	14	1,884,468	1,187,378	1,884,468	1,187,378
Trade and other receivables	15	3,700,999	4,459,500	3,727,433	4,485,726
Cash in hand and at bank	24	185,394	319,561	178,314	312,271
		5,770,861	5,966,439	5,790,215	5,985,375
Total assets		29,993,845	30,184,168	30,015,496	30,205,401

Consolidated Statement of Financial Position – continued

		As at 31 December			
	Notes	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
EQUITY					
Capital and reserves					
Share capital	16	400,233	400,233	400,233	400,233
Accumulated losses	17	(41,926)	2,692,627	-	2,733,631
Revaluation reserve	18	13,129,876	13,129,876	13,129,876	13,129,876
Equity attributable to equity holders of the parent		13,488,183	16,222,736	13,530,109	16,263,740
Non-controlling interests		14,218	13,296	-	-
Total Equity		13,502,401	16,236,032	13,530,109	16,263,740
LIABILITIES					
Non-current liabilities					
Interest-bearing borrowings	19	809,647	1,035,410	809,647	1,035,410
Deferred taxation	20	7,046,437	7,046,437	7,046,437	7,046,437
Redeemable preference shares	21	11	11	-	-
Trade and other payables	21	2,136,690	-	2,136,690	-
		9,992,785	8,081,858	9,992,774	8,081,847
Current liabilities					
Interest-bearing borrowings	19	708,564	456,439	708,564	456,439
Trade and other payables	21	5,534,585	5,202,833	5,528,539	5,196,369
Current taxation	22	255,510	207,006	255,510	207,006
		6,498,659	5,866,278	6,492,613	5,859,814
Total liabilities		16,491,444	13,948,136	16,485,387	13,941,661
Total equity and liabilities		29,993,845	30,184,168	30,015,496	30,205,401

The consolidated financial statements on pages 7 to 41 were approved and authorised for issue by the Board of Directors on 25 April 2020 and were signed on its behalf by:


Mr Robert Spiteri
Director


Mr Alexander Fenech
Director

Consolidated Statement of Changes in Equity

The company	Note	Share capital €	Retained earnings €	Revaluation reserve €	Total €
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	9	-	(385,702)	-	(385,702)
Balance at 31 December 2018		400,233	2,733,631	13,129,876	16,263,740
Balance at 1 January 2019		400,233	2,733,631	13,129,876	16,263,740
Comprehensive income					
Total comprehensive income for the financial year		-	1,152,406	-	1,152,406
Transactions with owners					
Dividends declared and not paid	9	-	(3,886,037)	-	(3,886,037)
Balance at 31 December 2019		400,233	-	13,129,876	13,530,109

Consolidated Statement of Cash Flows

		As at 31 December			
	Notes	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Operating activities					
Cash generated from operations	23	2,544,402	2,513,614	2,544,612	2,513,833
Interest paid		(77,515)	(93,158)	(77,515)	(93,158)
Tax paid		(602,289)	(429,574)	(602,289)	(429,574)
Tax refund		-	10,081	-	10,081
Net cash generated from operating activities		1,864,598	2,000,963	1,864,808	2,001,182
Investing activities					
Purchase of property, plant and equipment		(231,975)	(189,946)	(231,975)	(189,946)
Purchase of website costs		(3,128)	(1,685)	(3,128)	(1,685)
Transaction costs upon purchase of pharmacy licence		-	(3,709)	-	(3,709)
Net cash used in investing activities		(235,103)	(195,340)	(235,103)	(195,340)
Financing activities					
Movements in short and long-term borrowings		(227,409)	(178,865)	(227,409)	(178,865)
Increase/(decrease) in shareholders' loan		(1,790,024)	74,302	(1,790,024)	74,302
Dividends paid		-	(385,702)	-	(385,702)
Net cash used in financing activities		(2,017,433)	(490,265)	(2,017,433)	(490,265)
Movement in cash and cash equivalents		(387,938)	1,315,358	(387,728)	1,315,577
Cash and cash equivalents at beginning of year		199,491	(1,115,867)	192,201	(1,123,376)
Cash and cash equivalents at end of year	24	188,447	199,491	(195,527)	192,201

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.

i. Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

However, in the opinion of the director, 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.

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

The Group has adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on or after 1 January 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies:

IFRS 16	<i>Leases</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Annual Improvements to IFRS Standards 2015-2017 Cycle Costs	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>

1. **Accounting policies – continued**

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

Amendments to IAS 19 *Employee Plan Amendment, Curtailment or Settlement Benefits*

IFRIC 23 *Uncertainty over Income Tax Treatments*

iii. **New and revised International Financial Reporting Standards as adopted by the EU (IFRSs)**

At the date of authorisation of these 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 17 *Insurance Contracts*

IFRS 9 and IAS 28 (amendments) *Sale or Contribution of Assets between and Investor and its Associate or Joint Venture*

Amendments to FRS 3 *Definition of a business*

Amendments to IAS 1 and IAS 8 *Definition of material*

Conceptual Framework *Amendments to References to the Conceptual Framework in IFRS Standards*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

1 Accounting policies – continued

iii. New and revised International Financial Reporting Standards as adopted by the EU (IFRSs) – continued

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

iv. General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019.

Over the years the company has voluntarily reported under full IFRS. Following the letter of the law it could very easily opt to report under GAPSME. Given their discretion in selecting the appropriate accounting policies, the directors do not feel that this new standard should be taken on board as yet but to ensure that these financial statements faithfully represent the economic phenomenon experienced during the past financial year. This disclosure note is being inserted to describe the impact on the results had the company applied it retrospectively from 1 January 2018.

Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

1 Accounting policies – continued

iv. General impact of application of IFRS 16 Leases - continued

The Company will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2018 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Company will:

- a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of comprehensive income;
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets the Company will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2019 the Company will recognise a right-of-use asset of €4,240,805 (2018: €4,312,866) and a corresponding lease liability of €4,430,185 (2018: €4,407,594) in respect of all these leases. The impact on profit or loss is to decrease administrative expenses by €465,406 (2018: €467,194), to increase depreciation by €304,580 (2018: €254,316) and to increase interest expense by €245,342 (2018: €244,720).

The preliminary assessment indicates that €19,941 (2018:€15,465) of these arrangements relate to short-term leases and leases of low-value assets.

1 Accounting policies – continued

b. 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 acquiree 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 acquiree.

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 a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit and loss.

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 acquiree 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.

1. Accounting policies – continued

c. 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.

d. 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.

(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.

e. Intangible assets

Intangible assets comprise of pharmacy licences and website costs. The subsidiary companies hold the licence to operate the pharmacy outlets and gave the rights to operate these licences to Brown's Pharma Limited.

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 or loss.

1. Accounting policies – continued

e. Intangible assets – continued

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)).

f. 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%

1. Accounting policies – continued

f. Property, plant and equipment - continued

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	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)).

g. 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.

h. 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.

1. Accounting policies – continued

i. 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.

j. 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.

k. 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.

l. 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.

m. 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.

1. Accounting policies – continued

m. Current and deferred taxation - continued

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.

n. 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.

o. 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.

p. 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 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Depreciation of property, plant and equipment (Note 12)	228,645	178,245	228,645	178,245
Amortisation of intangible assets (Note 10)	1,203	421	1,203	421
Staff costs (Note 4)	2,023,413	1,779,535	2,023,413	1,779,535
Foreign exchange differences	(8,130)	444	(8,130)	444
Directors' remuneration	175,090	178,002	175,090	178,002
Auditor's remuneration	14,665	14,310	9,165	8,810
Bad debts	-	20,000	-	20,000
Reversal of provision for bad debts	-	(20,000)	-	(20,000)
Other expenses	1,533,319	1,264,915	1,538,819	1,270,415
Cost of goods sold	6,713,328	6,337,533	6,713,328	6,337,533
Total cost of sales, selling and distribution expenses and administrative expenses	10,681,533	9,753,405	10,681,533	9,753,405

4. Staff costs

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Wages and salaries	1,945,081	1,709,681	1,945,081	1,709,681
Social security costs	78,332	69,854	78,332	69,854
	2,023,413	1,779,535	2,023,413	1,779,535

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

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Direct	117	91	117	91

5. Investment income

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Interest receivable on bank balances	20	20	20	20

6. Other income

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Management fee receivable	96,000	96,000	96,000	96,000
Other income	49,441	21,785	49,441	21,785
Reimbursement of salaries	2,833	27,577	2,833	27,577
	148,274	145,362	148,274	145,362

7. Finance costs

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Interest payable on bank loans	68,781	83,653	68,781	83,653
Interest payable on bank overdraft	734	1,505	734	1,505
Interest payable on third party loan	8,000	8,000	8,000	8,000
	77,515	93,158	77,515	93,158

8. Income tax

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Current tax:				
At 15%	3	3	3	3
At 35%	650,790	538,425	650,790	538,425
Utilisation of tax credit-pharmacy of your choice	-	(28,948)	-	(28,948)
Deferred tax charge/(credit)	-	-	-	-
(Over)/under provision in prior year	-	(8,158)	-	(8,158)
	650,793	501,322	650,793	501,322

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

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Profit before tax	1,803,199	1,494,523	1,803,199	1,494,523
Tax on accounting profit at 35% thereon	631,120	523,083	631,120	523,083
Tax effect of:				
Income subject to reduced rates of tax	(4)	(4)	(4)	(4)
Non-allowable expenses	2,115	11,159	2,115	11,159
Temporary difference	17,562	4,190	17,562	4,190
(Over)/under provision in prior year	-	(8,158)	-	(8,158)
Utilisation of tax credit-pharmacy of your choice	-	(28,948)	-	(28,948)
Income tax	650,793	501,322	650,793	501,322

9. Dividends

	2019	2018
	€	€
Ordinary shares		
Final dividend	3,886,037	385,702
	<hr/>	<hr/>
Cents per share	22.62	2.24
	<hr/>	<hr/>

As at 31 December 2019, the directors declared but not paid an interim gross dividend of €769,230 and final gross dividend of €5,209,288 to the ordinary shareholders. These dividends are being declared out of taxable profits resulting in a total net dividend to the ordinary shareholders of €3,886,037, equivalent to €22.62 per share. Net dividends to the ordinary shareholders with respect to the year end 31 December 2018 amounted to €385,702, equivalent to €2.24 per share.

10. Intangible assets

The company/The group

	Pharmacy Licences €	Website Costs €	Total €
At 1 January 2018			
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

Movements for the year ended 31 December 2019

Opening net book amount	23,064,905	1,264	23,066,169
Additions	-	3,128	3,128
Amortisation charge	-	(1,203)	(1,203)
Reversal of cost of pharmacy no longer operating	(121,357)	-	(121,357)
Reversal of provision for diminution in value	121,357	-	121,357
Closing net book amount	23,064,905	3,189	23,068,094

At 31 December 2019

Cost	2,743,738	7,583	2,751,321
Amortisation charge	-	(4,394)	(4,394)
Revaluation surplus	20,321,167	-	20,321,167
Net book amount	23,064,905	3,189	23,068,094

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

11. Goodwill

Cost/Net book value	€
At 1 January 2018/ 31 December 2018	3,445
At 1 January 2019/ 31 December 2019	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 2018								
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)	(627,988)	(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
Movement for the year ended 31 December 2019								
Opening net book amount		417,958	43,807	283,745	291,073	111,532	-	1,148,115
Additions		55,984	62,440	87,665	6,114	19,772	-	231,975
Depreciation		(5,074)	(52,502)	(71,623)	(84,919)	(14,527)	-	(228,645)
Closing net book amount		468,868	53,745	299,787	212,268	116,777	-	1,151,445
At 31 December 2019								
Cost		507,364	339,619	999,378	503,299	218,119	19,555	2,587,334
Accumulated Depreciation		(38,496)	(285,874)	(699,591)	(291,031)	(101,342)	(19,555)	(1,435,889)
Net Book Amount		468,868	53,745	299,787	212,268	116,777	-	1,151,445

13. Investments in subsidiaries

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
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	
			2019	2018
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	
			2019	2018
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%

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14. Inventories

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Goods held for resale	1,813,011	1,187,378	1,813,011	1,187,378
Stock in transit	71,457	-	71,457	-
	1,884,468	1,187,378	1,884,468	1,187,378

15. Trade and other receivables

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Current				
Trade receivables(Note i)	3,065,930	2,376,039	3,065,930	2,376,039
Amounts due from related parties (Note ii)	49,066	1,049,338	49,075	1,049,055
Amounts due from shareholder (Note ii)	-	274,127	-	274,127
Amounts due from subsidiaries (Note ii)	-	-	26,425	26,507
Other receivables	13,529	16,419	13,529	16,419
Prepayments and accrued income	572,474	743,577	572,474	743,579
	3,700,999	4,459,500	3,727,433	4,485,726

Notes:

- i. Trade receivables disclosed above include amounts that are part due at the end of the reporting period for which the company has not recognised an allowance in credit quality and the amounts are still considered recoverable.
- ii. Amounts due from related parties, subsidiaries and shareholder are unsecured, interest free and are repayable on demand.

16. Share capital

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
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. Accumulated losses

Accumulated losses 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 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Non-current				
Bank loans	809,647	1,035,410	809,647	1,035,410
Current				
Bank overdraft	373,841	120,070	373,841	120,070
Bank loans	226,723	236,369	226,723	236,369
Other loans	108,000	100,000	108,000	100,000
	708,564	456,439	708,564	456,439
Total borrowings	1,518,211	1,491,849	1,518,211	1,491,849

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.

19. Interest-bearing borrowings - continued

Interest rate exposure:

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
At floating rates	1,410,211	1,391,849	1,410,211	1,391,849
At fixed rates	108,000	100,000	108,000	100,000
Total borrowings	1,518,211	1,491,849	1,518,211	1,491,849

Effective interest rates at end of reporting period:

	The group 2019 %	The group 2018 %	The company 2019 %	The company 2018 %
Bank overdraft	5.95	5.95	5.95	5.95
Bank loans	4 - 5.95	4 - 5.95	4 - 5.95	4 - 5.95
Other loans	8	8	8	8

Maturity of borrowings falling due after more than one year:

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Between 1 and 2 years	210,634	226,745	210,634	226,745
Between 2 and 5 years	520,173	674,206	520,173	674,206
Over 5 years	78,840	134,459	78,840	134,459
	809,647	1,035,410	809,647	1,035,410

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 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
At beginning of year	(7,046,437)	(4,268,112)	(7,046,437)	(4,268,112)
Charged to statement of comprehensive income	-	(2,778,325)	-	(2,778,325)
At end of year	<u>(7,046,437)</u>	<u>(7,046,437)</u>	<u>(7,046,437)</u>	<u>(7,046,437)</u>

21. Trade and other payables

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
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 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Non-current				
Amounts due to shareholders (Note i)	2,136,690	-	2,136,690	-
Current				
Trade payables	5,409,358	4,447,787	5,409,358	4,447,787
Amounts due to subsidiaries (Note ii)	-	-	1,666	1,713
Amounts due to related party (Note ii)	3,547	-	3,547	-
Amounts due to shareholders (Note ii)	-	314,804	-	314,804
Other payables	38,665	49,690	38,665	49,690
Accruals	83,015	390,552	75,303	382,375
	<u>5,534,585</u>	<u>5,202,833</u>	<u>5,528,539</u>	<u>5,196,369</u>

21. Trade and other payables – continued

Notes:

- i. Amounts due to shareholders is unsecured, interest free and not repayable before twelve months from the date of the reporting period.
- ii. Amounts due to subsidiaries, related parties and shareholders are unsecured, interest free and are repayable on demand.

22. Current taxation

Income tax payable is made up as follows:

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Balance at 1 January	207,006	125,177	207,006	125,177
Current tax charge for the year	650,793	538,428	650,793	538,428
(Over)/under provision in tax charge in previous year	-	(8,158)	-	(8,158)
Utilisation of tax credit – pharmacy of your choice	-	(28,948)	-	(28,948)
Tax refund	-	10,081	-	10,081
Settlement tax paid	(207,003)	(127,097)	(207,003)	(127,097)
Provisional tax paid	(395,283)	(302,474)	(395,283)	(302,474)
Withholding tax paid	(3)	(3)	(3)	(3)
Balance at 31 December	255,510	207,006	255,510	207,006

23. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Operating profit	1,880,694	1,587,661	1,880,694	1,587,661
Adjustments for:				
Depreciation of property, plant and equipment (Note 12)	228,645	178,245	228,645	178,245
Amortisation of intangible assets (Note 10)	1,203	421	1,203	421
Interest received	20	20	20	20
Changes in working capital:				
Inventories	(697,090)	113,592	(697,090)	113,592
Trade and other receivables	484,374	(2,511,580)	484,166	(2,510,835)
Trade and other payables	646,556	3,145,255	646,974	3,144,729
Cash generated from operations	2,544,402	2,513,614	2,544,612	2,513,833

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 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
Cash at bank and in hand	185,394	319,561	178,314	312,271
Bank overdraft	(373,841)	(120,070)	(373,841)	(120,070)
	(188,447)	199,491	(195,527)	192,201

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 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
(a) Management fee receivable				
Related parties	96,000	96,000	96,000	96,000
(b) Management fee chargeable				
Related parties	-	-	13,131	29,710
(c) Amounts due to shareholder				
Beginning of the year	(314,804)	(122,578)	(314,804)	(122,578)
Movement during the year	194,351	625	194,351	625
Dividends paid	-	(192,851)	-	(192,851)
Dividends declared and not paid	(1,943,018)	-	(1,943,018)	-
Assignment of amounts due from related parties	624,036	-	624,036	-
	(1,439,435)	(314,804)	(1,439,435)	(314,804)
(d) Amounts due from subsidiaries				
Beginning of the year	-	-	26,507	26,974
Movements during the year	-	-	9,512	8,888
Management charge	-	-	(9,594)	(9,355)
	-	-	26,425	26,507
(e) Amounts due to subsidiaries				
Beginning of the year	-	-	(1,713)	(1,621)
Movements during the year	-	-	(3,490)	(3,518)
Management charge	-	-	3,537	3,426
	-	-	(1,666)	(1,713)

25. Related party transactions - continued

	The group 2019 €	The group 2018 €	The company 2019 €	The company 2018 €
(f) Amounts due to related party				
Beginning of the year	-	(1,835)	-	(1,835)
Movement during the year	3,547	1,835	3,547	1,835
	3,547	-	3,547	-
(g) Amounts due from related parties				
Beginning of the year	1,049,055	852,061	1,049,055	852,061
Movements during the year	244,503	177,277	244,512	176,994
Reversal of provision for impairment	-	20,000	-	-
Assignment of amounts due to shareholders	(1,244,492)	-	(1,244,492)	20,000
	49,066	1,049,338	49,075	1,049,055
(h) Amounts due (to)/from shareholder				
Beginning of the year	274,127	156,203	274,127	156,203
Movements during the year	340,497	310,775	340,497	310,775
Dividends paid	-	(192,851)	-	(192,851)
Dividends declared and not paid	(1,943,018)	-	(1,943,018)	-
Assignment of amounts due from related parties	631,139	-	631,139	-
	(697,255)	274,127	(697,255)	274,127
(i) Key management compensation				
Salaries	175,090	178,002	175,090	178,002

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.

Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet 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.

26. Financial risk management - continued

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.

Fair values

At 31 December 2019 and 2018 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, through 13i Limited and N+N Investments Ltd respectively. 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.

28. Comparative information

Certain comparative information has been reclassified to conform with the current year's disclosure for the purpose of fairer presentation.