M&Z p.l.c.
(Formerly M&Z (Marketing) Limited)

Annual Report and Financial Statements
31 December 2022

General information

Directors:	Mr. Paul S. Camilleri Mr. Thomas Agius Vadala Ms. Greta Camilleri Avallone Mrs. Erika Pace Bonello Ms. Emma Pullicino Mr. Charles J. Farrugia Mr. Matthew A. Camilleri Mr. Kevin Rapinett Mrs. Frances Fenech
Company Secretary:	Ganado Services Limited (C 10785) 171, Old Bakery Street, Valletta VLT 1455, Malta.
Registered Office:	MMGH Complex, Industrial Estate, Marsa MRS 3000 Malta
Company Registration Number:	C 23061
Auditors:	PricewaterhouseCoopers 78, Mill Street Zone 5, Central Business District Qormi Malta
Legal Counsel:	Ganado Advocates 171, Old Bakery Street, Valletta VLT 1455, Malta.

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2022.

Principal activities

The principal business of the Company is concentrated in the importation, marketing and distribution of fast-moving consumer goods ('**FMCG**') in the food sector that include ambient, chilled and frozen products. The Company is also involved in the importation of pharmaceutical non-medical products. Moreover, in February 2022, the Company continued to increase its product range when it completed the acquisition of Red October Company Limited which is a business in the importation of alcohol, tobacco and confectionary. Thus, the Company continues with its process of diversifying its products mix.

Review of the business

The Directors report the financials for the year ending 31 December 2022 which show a significant revenue growth to €28,399,658 (2021: €22,750,492) through a mix of organic growth and acquired business, a 24.8% overall revenue increase compared to 2021.

This was generated in spite of a very challenging year from supply disruption, the indirect effect on raw material costs from the war in Ukraine, and more so the Brexit conundrum in further exacerbating cost inflation that has inevitably weighed on the Company's operating margin generation.

The ongoing cost of Brexit on the business of the Company has been particularly severe because of the high proportion of U.K. heritage brands in its portfolio and therefore most of the Company's products are subject to tariff charges which may not be fully priced to consumer.

The Company remains resolute however in its pursuit with the EU and U.K. authorities to hopefully identify a rational solution in simplifying procedure in order to dismantle the onerous bureaucracy, that is costing the business and ultimately the consumer, at a time of unprecedented inflationary pressures.

Businesses have also been badly hit by the extraordinary wage cost inflation that is saddling operations as cost increases may not have been passed fully because of very tight market conditions.

After taking into consideration administrative costs of €3,316,672 (2021: €2,518,677), the Company registered an EBITDA of €3,404,233 (2021: €3,560,164).

In this challenging scenario, the Company registered a profit before tax for the year ending 31 December 2022 of €2,205,523 (2021: €2,714,972) a decrease of 18.7% compared to last year.

The Company's profit after tax for 2022 is €1,395,723 (2021: €1,773,474).

Risks and Uncertainties

Ukrainian conflict

The markets are still facing supply and pricing pressures from the conflict in Ukraine which is having a bearing on consumer prices and spend with some consumer retrenchment inevitable.

Labour market conditions

The Company is also concerned and is flagging up the prevalent, tight labour market conditions that are weighing on the sector, particularly since the shortage of human resources is especially acute in distribution to the extent that it is experiencing significant wage inflation and difficulty in servicing demand within regular time frames.

Hard discounters

As in recent years this year has seen an increase in foreign and local hard discounters which import and sell their own products and that are vying for market share with the Company's retail client base. As a result of the diversified product offerings and permanently lower-priced products, improved shopping experience, and the increasingly price-sensitive shopper, the Company expects that the presence of hard discounters will continue to impact the sale of the Company's branded products.

Trade Credit Exposure Risk

The Company is exposed to trade credit risk in relation to the non-payment and non-performance of its customers resulting from the favorable payment terms provided by the Company. Any future financial market disruptions or tightening of the credit markets could result in some of the Company's customers experiencing a significant decline in profits and/or reduced liquidity. A significant adverse change in the financial position of a customer could require the Company to assume greater credit risk relating to that customer and could limit the Company's ability to collect receivables.

Tourism

Notwithstanding the recent increase in inbound tourism the current socio-economic climate may still affect inbound tourism. This, in turn may have a bearing on the demand for select product categories of the Company such as ice-creams, and wines and spirits.

Outlook for 2023

The Company is working hard to increase cost efficiencies in constantly improving its *modus operandi* by increasing capex investment in cost saving measures and resources that are designed to increase market coverage. In spite of the continuous business challenges, the Directors are projecting a year-on-year stable operational performance with a moderate increase in revenues.

The Directors feel confident the inflationary spiral will gradually subside in 2023 and that this will have a beneficial effect on operational costs as from the second half of 2023.

M&Z p.l.c. remains firmly on course to deliver consistent and steady results and the Directors expect to continue to pursue a policy of recommending a strong dividend distribution.

Financial position

The Company's total asset base stands at €19,021,077 (2021: €14,459,856). The non-current assets comprise intangible assets amounting to €1,519,256 (2021: €156,054), which have increased following the acquisition of the Red October business, right-of-use assets of €1,815,008 (2021: €1,907,991) and property, plant and equipment of €1,178,882 (2021: €1,355,625). At 31 December 2022, the Company's current assets amounted to €14,287,363 (2021: €10,789,412) which primarily include trade and other receivables of €8,564,980 (2021: €6,790,597), which have increased in line with the Company's operations and inventories of €4,688,328 (2021: €3,546,694) which increased following the take-over of Red October portfolio. As at year end, non-current liabilities which include lease liabilities amounted to €1,663,277 (2021: €1,801,829). The Company's current liabilities amounted to €8,188,866 (2021: €4,443,816) which mainly consist of borrowings of €4,643,521 (2021: €2,051,653), including the new factoring facility and trade and other payables of €3,262,356 (2021: €1,906,144).

Results and dividends

Results for the year are stated in the Statement of comprehensive income. The Directors are recommending the payment of a final net dividend of €873,840 equivalent to €0.01986 per share. This is over and above the interim dividend of €396,000 equivalent to €0.009 per share paid to shareholders in August 2022. The total dividend amount paid for the year will amount to €1,269,840 or €0.02886 per share which represents a net dividend yield of 4.01% on the issue price of €0.72 when the shares were listed on the Malta Stock Exchange in March of 2022.

The directors have also declared a dividend of €45,000 on preference shares for the year ended 31 December 2022.

Going Concern Basis

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

Information pursuant to Capital Markets Rule 5.70.1

In terms of Capital Markets Rule 5.70.1 the Company states that on 1 March 2022, after following all pertinent procedures, it entered into a lease agreement with Mr Thomas Agius Vadala (an executive director of the Company) and Mr John Agius Vadala for a commercial store in the Central Business District, Mriehel (the "**Lease Agreement**"). The Lease Agreement was entered into for a period of five years at a cost of €24,000 (plus VAT) per annum and was deemed to be in the best commercial interests of the Company. The Lease Agreement shall terminate on 28 February 2027 or at any earlier date where the Company gives written notice of its intention to terminate said lease.

Additional Information pursuant to Capital Markets Rule 5.64

Details of the company's share capital are disclosed in note 11 to the financial statements. The Company's authorized share capital is €50,000,000, divided into 360,000,000 Ordinary Shares of €0.125 each and 5,000,000 Preference Shares of €1 each. The Company's issued share capital is €7,000,0000 divided into 44,000,000 Ordinary Shares of €0.125 each and 1,500,000 Preference Shares of €1 each. All Shares in the Company rank pari passu in all respects (save as otherwise provided in the Memorandum and Articles of Association). The rights attached to the Preference Shares are identical to those attached to the Ordinary Shares, except for the following:

i. Voting Rights: the holders of Preference Shares shall not have a vote at general meetings except on a resolution convened for the purpose of: a) reducing the capital of the Company; or b) winding up of the Company; or c) a proposal to be submitted to the meeting that directly affects their rights and privileges; or d) a proposal affecting the dividend on Preference Shares when the dividend on their Shares is in arrears for more than 6 months
ii. Dividends: Preference Shares are entitled to a fixed cumulative preferred dividend distribution of three percent (3%) of its nominal value per annum. The Shares are entitled to receive dividends when, as and if declared by the Board out of the assets lawfully available for such a purpose. No dividend shall be paid to the Ordinary Shares in any given year, unless the preferred dividend for that year and any cumulative preferred dividend from previous years would have been paid to the holders of the Preference Shares.
iii. Rights upon liquidation, dissolution or winding-up: each Preference Share shall, on a winding up of the Company, carry the right to receive the return of the paid-up nominal value of such share together with any accrued but unpaid cumulative preferred dividends in priority to any amounts of capital paid to the holders of other classes of shares, but shall not carry any other right to participate in any surplus assets of the Company following the payment of such amount.
iv. Redemption Rights Subject to the provisions of the applicable law of Malta, the Board shall have the right to redeem the Preference Shares, at any time by giving not less than one (1) week notice of the intention to redeem said shares. The Preference Shares may be redeemed by not later than 31 December 2030 and should any such shares not be redeemed within the same time frame, the unredeemed shares shall thereafter not be redeemable. The amount payable on the redemption shall be the nominal value of the Preference Shares being redeemed, together with any accrued but unpaid cumulative preferred dividends.

The only registered shareholder holding 5% or more of the equity share capital as at 31 December 2022 is as follows:

Shareholder	Approx. % Shareholding (total share capital by nominal value)
M&Z Group Limited (C 9208)	59%

Additional information in terms of Para 3(e)(ii) of the Sixth Schedule of the Companies Act

Information on the Company's exposure to price risk, credit risk, liquidity risk and cash flow risk is contained in Note 2.1 of the Financial Statements for the financial year ended 31 December 2022.

Directors & Company Secretary

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

Mr. Matthew A. Camilleri
Mr. Paul S. Camilleri
Mrs. Erika Pace Bonello
Mr. Thomas Agius Vadala
Ms. Greta Camilleri Avallone
Mr. Charles J. Farrugia
Dr. Emma Pullicino
Mr. Kevin Rapinett
Mrs. Frances Fenech

The Company's Articles of Association do not require any directors to retire.

Ganado Services Limited (C 10785) of 171, Old Bakery Street, Valletta VLT 1455, Malta acts as Company Secretary.

Information on the rules governing the appointment and replacement of Directors is contained in Section A of the Statement by the Directors on compliance by the Company with the Code of principles for Good Corporate Governance, whilst information on the amendments of the Memorandum and Articles of Association and the Powers of Directors is contained in Section E of the Statement by the Directors on compliance by the Company with the Code of principles for Good Corporate Governance.

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of M&Z p.l.c. for the year ended 31 December 2022 are included in the Annual Report 2022 which is published on the Company's website (www.mz.com.mt) and available in hard copy printed form upon request. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website.

Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Statement of Responsibility pursuant to Capital Markets Rule 5.68

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

- the Directors' report includes a fair review of the performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Auditors

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

Statement by the Directors on the Financial Statements and Other Information included in the Annual Financial Report

The Directors declare that to the best of their knowledge, the consolidated financial statements included in the Annual Financial Report are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and that this report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the Board of Directors on 28 April 2023 by Charles J. Farrugia (Chairman) and Paul S. Camilleri (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Financial Report.

Registered Office:
MMGH Complex,
Industrial Estate,
Marsa MRS 3000
Malta

28 April 2023

Statement by the Directors on compliance by M&Z p.l.c. (the "Company") with the Code of principles for Good Corporate Governance

The Company acknowledges that the Code of Principles of Good Corporate Governance contained in Appendix 5.1 to Chapter 5 of the Capital Markets Rules (the '**Code**') does not prescribe mandatory rules but recommends principles of good practice for the board of Directors (each a "**Director**" and collectively the "**Board**") and the Company's management to pursue in the best interests of the Company and its shareholders. The Board believes that compliance with the Code and the governance arrangements proposed thereby is not only expected by stakeholders but evidences the Board's and the Company's commitment to a high standard of good governance. The Company endorses the Code and is hereby reporting its compliance with the provisions thereof.

The Board restates its full support of the Corporate Governance Code and undertakes to fully comply with the Code to the extent that this is considered complementary to its size, nature and operations. As at the date of this statement, the Board considers the Company to be in compliance with the Corporate Governance Code, save for two exceptions as explained in Section B below. The Company is hereby reporting on the extent of its adoption of and compliance with the Code for the period covering financial year ended 31 December 2022.

A. <u>Compliance with the Corporate Governance Code</u>

<u>Principle 1 – The Board</u>
In terms of Article 116 of the Company's Memorandum and Articles of Association ("**M&As**") administration and management of the Company shall be vested in the Board. The Board is responsible for devising the Company's values, standards and strategy, setting policies and the management of the Company as well as reviewing internal control procedures, financial performance and the business risks facing the Company.

The Board is composed of individuals who are fit and proper to direct the business of the company with honesty, competence and integrity and individuals who are diverse in their experience, knowledge, skills and values, resulting in an optimum Board set-up. Moreover, the Directors have been made fully aware of statutory and regulatory requirements connected to the business of the Company. The Directors attend the majority of Board meetings and are provided with the relative information in advance of said meetings in order to permit them to allocate sufficient time to the performance of their responsibilities.

The Board delegates specific responsibilities to the Audit Committee and the Executive Committee (collectively the "**Committees**"), the former operates under its own formal terms of reference approved by the Board. Further detail on said Committees and the responsibilities of the Board is contained in the below subsections of this statement entitled "Principle 4" and "Principle 5".

<u>Appointment and Removal of Directors</u>

The right to appoint a Director to the Board is reserved to the shareholders of the Company, save for where an appointment is made to fill a vacancy on the Board, where the Director may be appointed by the Board in terms of Article 130 – such director would then hold office until the next annual general meeting. Any one or more shareholder holding (individually or in the aggregate) shares carrying the voting rights equal to 11.11% of the total number of shares carrying the right to attend and vote at a general meeting, shall for every 11.11% so held be entitled to appoint one director in the Company. The procedures for the election of Directors shall be established by the Company in general meeting from time to time. The removal of Directors is governed by Article 133 of the Articles of Association.

<u>Principle 2 – Chairman and Chief Executive</u>
The clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business is evident in the fact that the Company has both a Chairman of the Board (Mr. Charles Farrugia) and a Managing Director (Mrs. Greta Camilleri Avallone). This separation of roles serves to avoid concentration of authority and power in a single individual and moreover differentiates the leadership on matters of the Board from leadership on matter relating to the operations of the business of the Company.

The responsibilities of both the Chairman of the Board and the Managing Director are clearly established and approved by the Board. The responsibilities of the Chairman of the Board reflect those set out in Code Provision 2.2, while the Managing Director heads the Executive Committee which is responsible for management decisions in relation to business of the Company.

Principle 3 – Composition of the Board

The Board believes that it fully complies with the requirements of Principle 3 and the relative Code Provisions. The Company is managed by a Board of nine (9) Directors who are responsible for the overall direction, management and strategy of the Company.

Pursuant to generally accepted practices, as well as the M&As, the appointment of directors to the Board is reserved exclusively to the Company's shareholders, except in so far as an appointment is made to fill a vacancy on the Board.

The Board is currently composed of the following persons:

- Mr Charles Farrugia - Independent Non-Executive Director & Chairman
- Mr Kevin J. Rapinett - Independent Non-Executive Director
- Mr Matthew Camilleri - Non-Executive Director
- Ms Greta Camilleri Avallone - Managing Director
- Mr Paul Camilleri - Executive Director
- Mr Thomas Agius Vadala - Executive Director
- Mrs Erika Pace Bonello - Executive Director
- Mrs Frances Fenech - Executive Director
- Dr Emma Pullicino - Executive Director

The Board comprises a mix of individuals with a diverse array of skills and experience which is appropriate for the requirements of the business. The Board deems that in its current composition, currently comprising a third of the Board being non-executive directors, has the required diversity of knowledge, judgement and experience to complete its tasks.

Mr Charles Farrugia and Mr Kevin J. Rapinett are the Independent Non-Executive Directors which are deemed to be independent in line with the requirements of Code Provision 3.2. Neither of the independent non-executive directors:

a. are or have been employed in any capacity by the Company within the last three (3) years;
b. have or had a significant business relationship with the Company;
c. received or receives significant additional remuneration from the Company;
d. have close family ties with any of the executive members of the Board or senior management of the Company;
e. has served on the board for more than twelve (12) consecutive years; or
f. is or has been within the last three (3) years an engagement partner or a member of the audit team of the present or former external auditor of the Company.

For the purposes of Code Provision 3.4 each Non-Executive Director has declared in writing to the Board that he undertakes:

a. to maintain in all circumstances his independence of analysis, decision and action;
b. not to seek or accept any unreasonable advantages that could be considered as compromising his independence; and
c. to clearly express his opposition in the event that he finds that a decision of the board may harm the company.

Principle 4 – The Responsibilities of the Board

The Board believes that it fully complies with the requirements of this Principle and the relative Code Provisions. As required by Principle 4 of the Code the foremost responsibility of the Board is to establish and maintain a system of accountability, monitoring, strategy formulation and policy development for the Company. The Board Members apply high ethical standards and take into account the interests of all relevant stakeholders in their discussions and decisions.

The Board also takes upon itself the responsibility to regularly review and evaluate corporate strategy, major operational and financial plans, risk policy, performance objectives and monitor implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. Furthermore, the Board is responsible for the identification, assessment and management of the business risks facing the Company, oversight of the Company's internal control systems and its financial performance, determination of the Company's strategy and strategic aims.

In the performance of such functions the Board has delegated certain functions to the Committees as further detailed below.

Executive Committee

In the later part of 2021 the Company set up the Executive Committee, made up of eight core employees who are collectively responsible for decision-making on day-to-day issues whilst steering the Company forward to ensure the maintenance, growth, evolution and prosperity of the business acting on behalf of and in line with the long-term vision as established by the Board. The Executive Committee is composed of the Managing Director (who is also the link to the Board) of the Company and senior representatives from the following segments within the Company: finance, operations, cost control, human resources, marketing, brand management and sales management.

The members of the Committee for the year under review are Ms Greta Camilleri Avallone, Mrs Erika Pace Bonello, Mrs Frances Fenech, Dr Emma Pullicino, Mr Christian Giordimaina, Mr George Zammit, Ms Natasha Saliba and Ms Charmaine Sciberras. During the financial year ended 31 December 2022 the Executive Committee met seven times.

Audit Committee

The Board has established an Audit Committee to assist it in fulfilling its supervisory and monitoring responsibilities, according to detailed terms of reference that reflect the requirements of the CMRs as well as current good corporate governance best practices. The terms of reference of the Audit Committee established by the Board set out its role and function, composition, the parameters of its remit, as well as the basis for the processes that it is required to comply with.

The Audit Committee, which meets at least four times a year, is a sub-committee of the Board and is directly responsible and accountable to the Board. During the year under review, the Audit Committee met seven times. The primary purpose of the Audit Committee is to assist the Directors in conducting their role effectively so that the Company's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times.

The members of the Audit Committee for the year under review are: Mr Kevin J. Rapinett (Chairperson of the Audit Committee) and Mr Charles Farrugia who are independent non-executive Directors (each of whom satisfies the independence criteria set out in the CMRs) and Mr Matthew Camilleri as non-executive Director. In accordance with the CMRs, the members of the Audit Committee that are designated as competent in auditing and/or accounting are Mr Kevin J. Rapinett and Mr Charles Farrugia.

Principle 5 – Board Meetings

The Board believes that it fully complies with the requirements of Principle 5 and the relative Code Provisions. In line with the nature and demands of the Company's business the Board endeavours to meet on a regular basis and at said meetings the Directors are given ample opportunity to discuss and give their opinion on the various issues placed on the respective Board agendas.

The Chairman is responsible for the preparation of the Board agenda, which seeks to strike a balance between long-term strategic and shorter-term performance issues, and for the general conduct of the Board meetings. Minutes of the meetings are taken by the Company secretary (the "**Company Secretary**") which are subsequently circulated to the Board, as soon as practicable after the meeting, for their review prior to approval at the following Board Meeting.

During the financial year ended 31 December 2022 the Board met six times, attendance at these meetings was as follows:

Board Member	Meetings Attended
Mr Charles Farrugia	6
Mr Kevin J. Rapinett	6
Mr Matthew Camilleri	6
Ms Greta Camilleri Avallone	6
Mr Paul Camilleri	5
Mr Thomas Agius Vadala'	6
Mrs Erika Pace Bonello	6
Mrs Frances Fenech	6
Dr Emma Pullicino	5

Principle 6 – Information and Professional Development

The Managing Director and the Board are closely involved in the recruitment and selection of any member of senior management. The Board ensures that all Directors are supplied with precise, timely and clear information so that they can effectively contribute to the Board's decisions.

The Board is also responsible to ensure that adequate training is provided to the Company's Directors, management and employees. The Board will organise and/or attend professional development sessions as required to develop and update the Directors' knowledge and capabilities.

The Directors have direct access to the advice and services of Ganado Services Limited (C10785), the Company Secretary, who is responsible for advising the Board, through the Chairman, on all corporate governance matters. Where and as necessary the Board is also advised by its legal advisors.

Principle 8A – Remuneration Committee/Policy

The Company's Remuneration Policy was approved by the Board on 27 May 2022 and was put to a binding shareholder vote at the 2022 Annual General Meeting of the Company. The policy determines the basis for remuneration of all members of the Board. The principles of the Company's Remuneration Policy for Directors reflect a sound governance process, regulatory compliance as well as sustained and long-term value creation for the Company's shareholders. The Policy defines the principles and guidelines that apply to both fixed and variable remuneration, including all bonuses and benefits, which can be awarded to directors and, in the case of variable remuneration, indicates the relative proportion between fixed and variable components. It is the Company's overall intention that the implementation of this policy will constitute an adequate measure to attract and retain suitable people, calculated to provide the Company with the appropriate skills, technical knowledge experience and expertise both for the determination of policies and strategies of the Company as well as the supervisory role of the Board.

Principles 9 & 10 – Relations with Shareholders and with the Market, and Institutional Shareholders

The Company recognises the importance of maintaining effective communication with the market and its stakeholders in order to ensure that all stakeholders can clearly understand the Company's objectives. Besides using the general meeting to communicate with its shareholders the Company intends to issue periodical company announcements for such purpose of communicating with the market, preparation and presentation of the Annual Financial Report and Financial Statements as well as through publications on the Company's website (https://mz.com.mt/). The latter contains information on the Company and its business as well as a dedicated "Investors'' section.

The Chairman of the Board shall ensure that all Directors (including Mr. Kevin Rapinett as Chairman of the Audit Committee) shall be present at the annual general meeting ("AGM") to answer any questions which may be posed thereat.

Principle 11 – Conflicts of Interest

The Directors acknowledge that, irrespective of who appointed them to the Board, their primary responsibility is always to act in the best interest of the Company and its stakeholders and that they are never to allow their personal interests to take precedence over those of the Company and its stakeholders. The M&As of the Company require any conflicted Director to declare such a conflict and subsequently: prohibit said Director from being counted in the quorum for the meeting at which such matter is to be discussed or participating in the discussion concerning a matter in respect of which he has declared a direct or indirect interest; and requiring the Director to withdraw from or, if applicable, not attend the Board meeting at which such matter is discussed. Furthermore, such a conflicted Director is prohibited from voting on any matter in which he has an interest. Any conflict of interest is to be accurately recorded in the Board minutes. A Director having a continuing material interest that conflicts with the interests of the Company should take effective steps to eliminate the grounds of conflict.

The Directors are aware of their obligations when dealing in securities of the Company. The following Directors have declared their beneficial interests in the capital of the Company as at 31 December 2022: Mr Paul Camilleri; Mr Matthew Camilleri; Ms Greta Camilleri Avallone; Mr Thomas Agius Vadala; Mrs Erika Pace Bonello; Dr Emma Pullicino; Mrs. Frances Fenech; Mr Charles J. Farrugia and Mr Kevin Rapinett.

Principle 12 – Corporate Social Responsibility

The Board ensures that the Company adheres to accepted principles of corporate social responsibility in all practices of the Company. The Board believes that adherence to such principle benefits not only the Company's stakeholders (including its shareholders, employees and customers) but society at large. The Company continuously works on adopting and using environmentally friendly technologies in the various aspects and processes of its business, works ethically, considering human rights as well as the social, economic and environmental impact of the business of the Company. The Company is currently revising its ESG goals and setting up an action plan to ensure further compliance with regulations.

B. Non-Compliance with the Corporate Governance Code

Principle 7 – Evaluation of the Board's Performance:

The Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the Board's performance is evaluated on an ongoing basis by, and is subject to the constant scrutiny of the Board itself (two of which are independent non-executive Directors), the Company's shareholders, the market and all of the rules and regulations which the Company is subject to, as a company, with its securities listed on a regulated market.

Principle 8 – Committees, Partial Non-Compliance with Code Provisions 8.A.4.2, 8.A.4.7 and 8.A.5

The Board considers that the size and operations of the Company do not warrant the setting up of remuneration and nomination committees. The Board believes that the size of the Company and the Board itself does not warrant the setting up of a separate committee to establish the remuneration packages of individual directors. The Company relies on the constant scrutiny of the Board itself, the Shareholders, the market and the rules by which the Company is regulated as a listed company.

The Company does not believe it is necessary to establish a nomination committee as appointments to the Board are determined by the shareholders of the Company in accordance with nomination and appointment process set out in the M&A. The Company considers that the members of the Board possess the level of skill, knowledge and experience expected in terms of the Corporate Governance Code. The Board shall retain these matters under review over the coming years.

Code Provisions 8.A.4.2, 8.A.4.7 and 8.A.5 – These Code Provisions refer to disclosures being required to be made in relation to "senior executives" (being any person reporting directly to the Board). The Company's Remuneration Policy does not cover senior executives and consequently no disclosures in this regard were included in the Remuneration Statement given that the senior executive functions are effectively carried out by the respective Executive Directors.

Principle 9 – Relations with Shareholders and with the Market – Code Provisions 9.3 and 9.4
Code Provision 9.3 – The M&As do not provide for a mechanism which would trigger arbitration proceedings in the event of non-resolution of conflicts between minority shareholders and controlling shareholders. Should any such conflict arise this will be handled by the Board in its meetings with the assistance of the Company Secretary to liaise with the relevant shareholder(s).

Code Provision 9.4 – The Company does not have in place a formal procedure by which a minority shareholder can present an issue to the Board. The Company however shall endeavor to have in place an open line of communication between the minority shareholders and the Company.

C. Internal Controls

Company Structure
The Board reviews and is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk to achieve business objectives, and can provide only reasonable, and not absolute, assurance against normal business risks or loss. The company operates through the board of directors and the Audit committee, supported by the Executive team. The company has clear reporting lines and delegation of powers.

Control Environment
The company is committed to the highest standards of business conduct and seeks to maintain these standards across all its operations. Policies and procedures are in place for reporting and dealing with improper activities. The company has an appropriate organizational structure which enables it to plan, execute, control and monitor business operations in order to reach the company’s objectives.

Risk identification
The Board of Directors, with the assistance of the Executive team, is responsible for the identification and assessment of key risks applicable to the business. The risks are assessed on an ongoing basis and may be associated with a variety of internal and external sources.

Information and communication
The Board engages in regular strategic reviews on long-term financial projections, as well as other potential business opportunities. The audit committee meets on a regular basis and reviews the effectiveness of the company’s systems of internal financial controls. The committee receives reports from management and the external auditors. Regular budgets are prepared and performance against these plans is actively monitored and reported to the Board.

D. General Meetings

As set out in Article 74 of the M&As, all shareholders of the Company included in the Register of Members of the Company on the Record Date relative to the AGM are entitled to receive notice of, participate in and vote at the general meeting, whether in person or by proxy. Each shareholder is entitled to appoint a person to act as their proxy holder to attend and vote at an AGM.

Voting at the AGM may take place either by a show of hands or by a poll, where such is demanded. Subject to any rights or restrictions attaching to any class or classed of Shares, on a show of hands each shareholder is entitled to one vote and in a poll each shareholder is entitled to one vote per share (carrying voting rights) held. Furthermore, each shareholder has the right to ask questions pertinent and related to agenda items and has the right to have such questions answered by the Directors or such person which may be delegated this task.

Adequate notice of the AGM, of at least twenty-one (21) days, is to be provided to all shareholders in terms of Article 69 of the M&A. The business of AGM includes the consideration of the Company’s Annual Report and financial statements, the directors’ and auditors’ report for the previous financial year, the appointment or election of Directors (if necessary), the appointment or re-appointment of auditors and the fixing of the remuneration of Directors and Auditors. Any other business dealt with at the AGM is deemed to be “special business”.

The Chairman arranges for all directors to attend the AGM, where shareholders are provided with a presentation on the performance and operations of the Company over the past financial year, in light of prevailing market and economic conditions, and in light of any disruptive events, and will also provide an overview of the future outlook of the Company.

E. <u>Other Disclosures in terms of the Capital Markets Rules</u>

Matters relating to the share capital of the Company are contained in the section entitled "Additional Information pursuant to Capital Markets Rule 5.64" in the Directors' Report.

Amendments to the M&A - In terms of the Companies Act (Cap. 386 of the Laws of Malta) the Company may by extraordinary resolution at a general meeting amend its M&A.

Powers of Directors – the Powers of Directors are set out in Articles 143 – 151 of the of the Company. For the purpose of this section, "Equity Securities" means shares, another class of shares, or any other securities or instruments (including but not limited to warrants or options in relation to shares), that can be converted or exchanged into, or which carry the right to subscribe for, shares or another class of shares. In terms of article 5 of the Articles the Board is authorised to exercise the power of the Company to issue and allot Equity Securities up to the amount of the authorised but unissued share capital of the Company from time to time (in respect of each class), and that the Board of Directors may offer, allot, grant, or otherwise dispose of such Equity Securities to such persons on such terms and in such manner as they think fit. This authorisation is valid until the date of the Company's AGM to be held in 2023 unless previously renewed, varied or revoked by the Company in general meeting. Accordingly, in terms of article 88 of the Companies Act, and article 4 of the Articles, the Board is authorised to withdraw or restrict all pre-emption rights of the Shareholders and will remain so authorised for as long as the Board remains so authorised to issue Equity Securities. The Company may, subject to the applicable restrictions, limitations and conditions contained in the Companies Act (Cap. 386), acquire its own shares and or Equity Securities.

Approved by the Board of Directors on 28 April 2023.

Remuneration Report

A. Introduction

This remuneration report (the “**Report**”) is being prepared in satisfaction of the requirements of Code Provisions 8.A.3 and 8.A.4 of the Code of Principles of Good Corporate Governance (the “**Code**”) and the requirements of Chapter 12 of the Capital Markets Rules (the “**CMRs**”). During the period under review the Board of Directors of the Company (the “**Board**”) was responsible for performing the functions of the Remuneration Committee.

The main function of the Remuneration Committee is to devise appropriate remuneration packages for the Board taking into consideration Board members’ required competencies, skills, effort and the scope of the Board’s role including the number of meetings and the preparation required by Directors to attend and actively contribute during meetings. In establishing said packages consideration is also given to market demands, the size of the Company and the complexity of its business as well as to the directors’ responsibilities.

B. Remuneration Policy

The Company’s Remuneration Policy (the “**Policy**”) was approved by the Board on 27 May 2022 and subsequently approved by shareholders at the 2022 Annual General Meeting held on 24 June 2022, the Policy became effective from the date of said annual general meeting for a maximum period of 4 years. The Policy is available for viewing on the Company’s website: [https://mz.com.mt/investors/remuneration.report]. Any material amendment to the Policy shall be submitted to the Annual General Meeting for a shareholders vote before adoption thereof and shall remain to be subject to confirmation every 4 years.

The Policy provides different criteria for the remuneration of NEDs and Executive Directors, based on the management and operational structure of the Company, the Board’s view is that fixed remuneration is appropriate for the Non-Executive Directors (“**NEDs**”), whilst the Executive Directors are to be provided a combination of both fixed and annual performance-based remuneration. For the year under review all Directors’ remuneration was in conformity with the Policy. Due to the difference in nature of the remuneration of Executive Directors and NEDs the reporting on Directors’ remuneration shall also be split accordingly in this Report.

C. Directors Emoluments

On a general basis, the aggregate emoluments of all directors are from time to time determined by the Company in general meeting. In terms of the Director service contracts, Directors are appointed from one annual general meeting to the next, unless appointed or elected for a longer or shorter period and subject to a maximum term of three (3) years, renewable for further terms of up to three (3) years at the relevant annual general meeting at which their term expires. The relevant notice period for the termination of the Directors Service Contract is that of three (3) months and this may be given by either party in writing for whatever reason.

None of the Directors are offered any share-based remuneration nor paid any benefits linked to the termination of their office and they do not benefit from any pension or early retirement schemes by virtue of their office. As disclosed in the Policy Directors may also benefit from non-cash benefits, such as, but not limited to, health insurance and other insurance schemes as well as Company discounts on products and services of the Company as the Board may from time to time determine.

In terms of the adopted Policy the total remuneration of the Directors is calculated on the basis of whether a Director holds an executive or a non-executive position. The remuneration of NEDs is fixed on the basis of their expected contribution to the Company and on the basis of their relevant experience, knowledge and expertise, and additional remuneration is also provided to NEDs for their forming part of Board committees.

Also as set out in the Policy the remuneration of the Executive Directors comprises a fixed element and a variable element for three of the Directors who are responsible for certain brands which the Company represents. This variable element fluctuates in accordance with the monthly performance of the Company and of the respective brands falling within the remit of said Executive Director. Such a performance-based element of remuneration is not applicable to the two senior Executive Directors and the Director responsible for human resources. The Company has found that its current (and past) remuneration structure of linking variable remuneration to the attainment of certain goals and results contributes well to the long-term performance of the company.

i. Non-Executive Directors

In terms of the Policy NEDs are not entitled to variable remuneration and each of the non-executive Directors receive the same fixed remuneration for their respective duties as directors, save for the following exceptions: the Chairman of the Board receives a different fixed fee commensurate with the added responsibilities of the role of the Chairman and NEDs who are also appointed as members of one of the Board committees shall be entitled to receive additional compensation for the work performed on such committees. Compensation due for performance of duties on a Board committee is of a fixed nature determined by the Board from time to time within the limit of the aggregate emoluments approved by Shareholders in general meeting.

	Fixed (€)	Variable (€)	Other* (€)	Aggregate 2022 (€)	Aggregate 2021 (€)
Charles J. Farrugia	16,000	N.A.	14,000	30,000	58,799
Kevin Rapinett	15,000	N.A.	9,000	24,000	24,000
Matthew Camilleri	15,000	N.A	14,000	29,000	29,000

** remuneration for forming part of a Board committee.*

ii. Executive Directors

The Executive Directors of the Company are the Managing Director (Greta Camilleri Avallone) and all other Directors of the Company who are actively involved in the day-to-day management of the Company. The role of the Executive Directors on the Board is considered as a direct consequence of their executive office in the Company. Accordingly in order that remuneration reflects such executive positions within the Company taking into account their competence, technical knowledge, experience and expertise in discharging their executive functions within the Company, said Executive Directors are entitled to a combination of fixed and variable remuneration.

The Executive Directors receive a fixed fee as remuneration for their respective duties as directors in addition to a fixed monthly salary as remuneration for their employment as company executives. As indicated in C above the remuneration package of certain Executive Directors also includes a variable component (as part of their monthly salary) in the form of a monthly performance bonus, which is linked to the monthly performance of the Company and of the respective brands falling within the remit of the respective Executive Director.

	Fixed (€)	Variable (€)	Other* (€)	Aggregate 2022 (€)	Aggregate 2021 (€)
Greta Camilleri Avallone	67,000	35,696	-	102,696	75,588
Paul Camilleri	120,391	-	-	120,391	120,000
Erika Pace Bonello	74,085	-	-	74,085	67,070
Emma Pullicino	47,248	25,971	-	73,219	68,059
Frances Fenech	55,000	26,623	-	81,623	-
Thomas Agius Vadala	83,391	-	-	83,391	88,250

D. Other information on remuneration required by Appendix 12.1 of the CMRs

As required by bullet (c) of Appendix 12.1 of the CMRs, the below table presents the annual change of remuneration, of the performance of the company, and of average remuneration on a full-time equivalent basis of employees of the company other than directors over the last couple of financial years.

	2022	**2021***
Directors Emoluments	16.51%	48.11%
Average Employee Remuneration	7.73%	10.56%
Performance of the Company – EBITDA	(4.38%)	14.16%

*The significant percentage increase in 2021 reflects the appointment of an additional four directors being appointed in November 2020.

E. Contents of the Remuneration Report

As required by the CMRs the contents of the Report have been duly checked by the Company's external auditors to ensure compliance with the requirements of Appendix 12.1 of Chapter 12 of the CMRs.

Approved by the Board of Directors on 28 April 2023.

Statement of financial position

	Notes	2022 €	2021 €
		As at 31 December	
ASSETS			
Non-current assets			
Intangible assets	4	**1,519,256**	156,054
Property, plant and equipment	5	**1,178,882**	1,355,625
Right-of-use assets	6	**1,815,008**	1,907,991
Deferred tax assets	13	**220,518**	250,724
Equity instruments at fair value through other comprehensive income	7	**50**	50
Total non-current assets		**4,733,714**	3,670,444
Current assets			
Inventories	8	**4,688,328**	3,546,694
Trade and other receivables	9	**8,564,980**	6,790,597
Current tax asset		**80,217**	-
Cash and cash equivalents	10	**953,838**	452,121
Total current assets		**14,287,363**	10,789,412
Total assets		**19,021,077**	14,459,856
EQUITY AND LIABILITIES			
Equity			
Ordinary share capital	11	**5,500,000**	5,500,000
Preference share capital	11	**1,500,000**	1,500,000
Retained earnings		**2,168,934**	1,214,211
Total equity		**9,168,934**	8,214,211
LIABILITIES			
Non-current liabilities			
Lease liabilities	14	**1,663,277**	1,801,829
Total non-current liabilities		**1,663,277**	1,801,829
Current liabilities			
Borrowings	15	**4,643,521**	2,051,653
Trade and other payables	16	**3,262,356**	1,906,144
Current tax liabilities		**-**	265,086
Lease liabilities	14	**282,989**	220,933
Total current liabilities		**8,188,866**	4,443,816
Total liabilities		**9,852,143**	6,245,645
Total equity and liabilities		**19,021,077**	14,459,856

The accompanying notes are an integral part of these financial statements.

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 April 2023. The financial statements were signed on behalf of the Board of Directors by Charles J. Farrugia (Chairman) and Paul S. Camilleri (Director) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Financial Report.

Statement of comprehensive income

	Notes	Year ended 31 December 2022 €	2021 €
Revenue	17	**28,399,658**	22,750,492
Cost of sales	18	**(22,625,577)**	(17,440,785)
Gross profit		**5,774,081**	5,309,707
Administrative expenses	18	**(3,316,672)**	(2,518,677)
Other operating income	20	**5,175**	23,272
Operating profit		**2,462,584**	2,814,302
Finance costs	21	**(257,061)**	(99,330)
Profit before tax		**2,205,523**	2,714,972
Tax expense	22	**(809,800)**	(941,498)
Profit for the year – total comprehensive income		**1,395,723**	1,773,474
Earnings per share for the year attributable to shareholders	25	**0.03**	0.04

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity

	Notes	Ordinary share capital €	Preference share capital €	Advances for shares to be issued €	Other reserves €	Retained earnings €	Total €
Balance at 1 January 2021		6,401,557	1,500,000	4,142,203	(5,082,797)	1,311,821	8,272,784
Profit for the year - total comprehensive income		-	-	-	-	1,773,474	1,773,474
Transactions with owners:							
Issue of share capital	11	4,181,240	-	(4,142,203)	-	(39,037)	-
Share capital reduction	11	(5,082,797)			5,082,797		
Dividends	24	-	-	-	-	(1,832,047)	(1,832,047)
Total transactions with owners		(901,557)	-	(4,142,203)	5,082,797	(1,871,084)	(1,832,047)
Balance at 31 December 2021		**5,500,000**	**1,500,000**	**-**	**-**	**1,214,211**	**8,214,211**
Balance at 1 January 2022		5,500,000	1,500,000	-	-	1,214,211	8,214,211
Profit for the year - total comprehensive income		-	-	-	-	1,395,723	1,395,723
Transactions with owners:							
Dividends	24	-	-	-	-	(441,000)	(441,000)
Total transactions with owners		-	-	-	-	(441,000)	(441,000)
Balance at 31 December 2022		**5,500,000**	**1,500,000**	**-**	**-**	**2,168,934**	**9,168,934**

The accompanying notes are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2022 €	2021 €
Cash flows from operating activities			
Cash generated from operations	27	**1,794,253**	845,741
Interest paid	21	**(173,534)**	(12,929)
Income tax paid		**(1,124,897)**	(1,035,139)
Net cash generated from/(used in) operating activities		**495,822**	(202,327)
Cash flows from investing activities			
Purchases of property, plant and equipment	5	**(361,670)**	(394,883)
Proceeds from disposal of property, plant and equipment		**6,249**	52,017
Acquisition of representation rights	4	**(1,493,000)**	-
Net cash used in investing activities		**(1,848,421)**	(342,866)
Cash flows from financing activities			
Principal and interest payments of lease liabilities	14	**(341,552)**	(295,475)
Withdrawals from factoring facility	15	**1,926,108**	-
Dividends paid	24	**(396,000)**	(1,832,047)
Net cash generated from/(used in) financing activities		**1,188,556**	(2,127,522)
Net movement in cash and cash equivalents		**(164,043)**	(2,672,715)
Cash and cash equivalents at beginning of year		**(1,599,532)**	1,073,183
Cash and cash equivalents at end of year	10	**(1,763,575)**	(1,599,532)

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386).

These financial statements have been prepared under the historical cost convention as modified by the fair valuation of equity instruments at fair value through other comprehensive income.

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

Standards, interpretations and amendments to published standards effective in 2022

In 2022, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2022. 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 impacting the Company's financial performance and position.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Company's accounting periods beginning after 1 January 2022. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the directors are of the opinion that there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

1.2 Foreign currency translation

(a) Functional and presentation currency

The Company's financial results and financial position are measured in the functional currency, i.e. euro ("€"), which is the currency of the primary economic environment in which the company operates. These financial statements are presented in euro ("€"), i.e. the presentation currency, which is the currency in which the Company's share capital is denominated.

(b) Transactions and balances

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

1.3 Intangible assets

(a) Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses (Note 1.6). Impairment losses on goodwill are not reversed.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Note 1.7).

(b) Brand representations

Brand representations are carried at cost less accumulated amortisation. They are amortised using a straight line method over their useful life of 10 years.

(c) Other

Other intangible assets are carried at cost less accumulated amortisation. Other intangible assets are amortised using the straight-line method over their estimated useful life of 3 years.

1.4 Property, plant and equipment

All property, plant and equipment is initially recorded at cost. All property, plant and equipment is subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs are recognised in profit or loss as incurred.

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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

	%
IT software and equipment	25
Freezers and equipment	20 - 25
Office furniture	10
Fixtures and fittings	10
Motor vehicles	20

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1.6).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

1.5 Leases

Company is the lessee

At inception of a contract, the company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement date, the company recognises a right-of-use asset and a lease liability. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the company under residual guarantees;
- the exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for the Company's lease, the incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of properties, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate);
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

1.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.7 Financial assets

1.7.1 Classification

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

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

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

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

The Company classifies its derivative instrument for which it does not apply hedge accounting as a financial asset or liability at fair value through profit or loss.

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

1.7.2 Recognition and derecognition

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

1.7.3 Measurement

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

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

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments at amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Equity instruments

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

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

1.7.4 Impairment

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

For trade and other receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Expected credit loss model

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and the IFRS 9 general approach to measuring expected credit losses which uses a 12-month ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due, and it considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or the financial asset is more than 180 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset. At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data such as significant financial difficulty of the borrower or issuer, or a breach of contract such as a default or being more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

1.8 Derivative financial instruments

The Company uses derivative instruments to manage foreign exchange risk exposures related to GBP. These derivatives are initially measured at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The Company did not apply hedge accounting and as a result, these derivatives are classified as financial assets or liabilities at fair value through profit or loss. Changes in the fair value of the derivatives are recognised in profit or loss.

1.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of inventories comprises the invoiced value of goods and, in general, includes transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.10 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, i.e. expected credit loss allowances. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss. Impairment of financial assets is described in Note 1.7.4 above.

1.11 Cash and cash equivalents

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

1.12 Share capital

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

The Company classified instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Company's other equity instruments are redeemable by holders through decisions of the board of directors, and bear entitlement to coupons at the sole discretion of the board of directors. Accordingly, they are presented within equity. Distributions thereon are recognised in equity. Based on the Company's assessment of the terms of the instruments, the coupon payments meet the definition of dividends. Therefore, the related tax impacts are recognised in profit or loss in accordance with IAS 12, unless the transactions or events that generated those distributable profits were recognised outside profit or loss.

1.13 Financial liabilities

The Company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value, including transaction costs. These liabilities are subsequently measured at amortised cost. The Company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.14 Trade and other payables

Trade 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.

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

1.15 Offsetting financial instruments

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

1.16 Current and deferred tax

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

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

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

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

1.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is recognised upon delivery of products or performance of services, and is stated net of sales tax, returns, rebates and discounts.

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

(a) Sale of goods

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

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Dividend income

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

1.18 Dividend distribution

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

1.19 Earnings per share

1.19.1 Basic earnings per share
Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

1.19.2 Diluted earnings per share
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume exercise of all dilutive potential ordinary shares.

1.20 Segment reporting

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

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

2. Financial risk management

2.1 Financial risk factors

The Company's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

During 2022 and 2021, the Company entered into derivative instruments to hedge its foreign exchange risk exposures related to GBP. Details on the Company's hedging activities and derivatives are provided in this note.

(a) Hedging activities and derivatives

During the financial year ended 31 December 2022, GBP purchases amounted to approximately 34% (2021: 39%) of the total purchases of the Company. As a result, any fluctuations in the GBP rate may have a significant effect on the Company's results. In order to manage the exchange rate risk subsequent to 2022 management was led to the decision to enter into forward contracts with respect to the foreign exchange rate for GBP which will directly impact the Company's future purchase cost.

These contracts are expected to reduce the volatility attributable to exchange rates for GBP. Hedging the exchange rate volatility of forecast GBP rates is in accordance with the risk management strategy outlined by the directors. The Company's derivative instruments are governed by contracts with the Company's bank. The fair value of the derivative instruments are derived from exchange rates and readily observable information and falls into the Level 2 hierarchy of IFRS 13 (inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as prices or indirectly such as derived from prices).

As at 31 December 2022, the Company did not have open forward contracts. As at 31 December 2021, the Company entered into forward contracts which were settled on a date in 2022 amounting to €4,081,468. As at the reporting date, the Company made a gain of approximately €49,647 on fair value on this contract. In accordance with the Company's accounting policy as described in Note 1.8 to these financial statements, the fair value gain on derivative financial instruments is recognised in profit or loss. The directors believed that the fair value of the derivative financial instruments was insignificant at the reporting date and additional disclosures on the Company's hedging activities and derivatives were not deemed necessary.

(b) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in currencies other than the euro.

Monetary financial assets and liabilities denominated in GBP and USD amounted to:

	2022	2021
	€	€
USD		
Trade and other receivables	**70,479**	90,569
Bank balances	**(119,111)**	(115,793)
GBP		
Trade and other receivables	**426,730**	97,613
Trade payables	**(187,361)**	(14,493)
Bank balances	**834,929**	439,429

With the exception of what has been disclosed above, management does not normally consider foreign exchange risk attributable to recognised liabilities arising from purchase transactions to be significant since balances are settled within very short periods in accordance with the negotiated credit terms and the Company manages this risk arising from the GBP fluctuations by entering into forward contracts as disclosed in note 2.1 (a) above.

Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

(ii) Cash flow and fair value interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its financing position and cash flows. As at the reporting date, the Company did not have fixed rate interest-bearing assets. Accordingly, its revenue and operating cash flows are substantially independent of changes in market interest rates.

The Company's bank balances and borrowings are subject to an interest rate that varies according to revision made to the Bank's Base Rate. Bank borrowings issued at variable rates, expose the group to cash flow interest rate risk. Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on.

At the reporting date, a reasonably possible change of 200 basis points in interest rates would have increased/(decreased) equity and profit or loss by €66,952.

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

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to outstanding receivables. The credit quality of customers is assessed, taking into account financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

The maximum exposure to credit risk at the reporting date was:

	2022	2021
	€	€
Trade and other receivables (note 9)	**7,910,509**	6,091,361
Cash and cash equivalents (note 10)	**953,838**	452,121
	8,864,347	6,543,482

Trade and other receivables

The Company assesses the credit quality of its trade customers, the majority of which are unrated, taking into account financial position, past experience and other factors. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. It has policies in place to ensure that sales of services are affected to customers with an appropriate credit history.

Standard credit terms are in place for individual clients, however, wherever possible, new customers are analyzed individually for creditworthiness before the Company's standard payment and service delivery terms and conditions are offered. The creditworthiness analysis for new customers includes a review through external creditworthiness databases when available. The Company monitors the performance of its trade and other receivables on a regular basis to identify incurred collection losses, which are inherent in the Company's debtors, taking into account historical experience in collection of accounts receivable.

The Company manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters.

The carrying amounts of trade receivables includes receivables which are subject to a factoring arrangement. Under this arrangement, M&Z p.l.c has transferred the relevant receivables to the factor in exchange for cash. However, the Company has retained the late payment and credit risk. The Company therefore continues to recognize the transferred assets in their entirety in its statement of financial position.

Impairment of trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of time before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company adjusted the historical loss rates based on expected changes in these factors. On that basis, the loss allowance was determined to as follows:

	Current and up to 30 days past due €	31 to 60 days past due €	61 to 90 days past due €	+ 91 days past due €	Total €
As at 31 December 2022					
Expected loss rate (weighted average)	**2%**	**8%**	**30%**	**100%**	
Gross carrying amount	**7,388,618**	**219,212**	**93,657**	**262,705**	**7,964,192**
Loss allowance – provision	**(135,776)**	**(18,562)**	**(28,032)**	**(262,705)**	**(445,075)**
As at 31 December 2021					
Expected loss rate (weighted average)	3%	15%	42%	100%	
Gross carrying amount	5,199,796	161,249	67,837	99,075	5,527,957
Loss allowance – provision	(153,355)	(24,705)	(28,640)	(99,075)	(305,755)

The closing loss allowances for trade receivables and contract assets as at 31 December reconcile to the opening loss allowances as follows:

	2022 €	2021 €
Trade receivables and contract assets		
Balance at 1 January	**305,775**	267,156
Increase in loss allowance recognized in profit or loss during the year	**139,300**	38,619
Balance at 31 December	**445,075**	305,775

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company.

Impairment losses on trade receivables are presented as net impairment losses on financial and contract assets within administrative expenses. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Company's trade and other receivables include other receivables from third parties. The Company applies specific ratings to the other receivables from third parties in measuring expected credit losses. Management have assessed that expected credit losses on other receivables from third parties are these not considered to be significant.

Cash and cash equivalents

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

(d) Liquidity risk

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise lease liabilities, borrowings and trade and other payables (Notes 14, 15 and 16). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Company's obligations.

Management monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount €	Contractual cash flows €	Within one year €	Two to five years €	Over five years €
At 31 December 2022					
Lease liabilities	1,946,266	2,237,277	355,610	1,445,141	436,526
Borrowings	4,643,521	4,643,521	4,643,521	-	-
Trade and other payables	3,262,350	3,262,350	3,262,350	-	-
	9,852,137	**10,143,148**	**8,261,481**	**1,445,141**	**436,526**

	Carrying amount €	Contractual cash flows €	Within one year €	Two to five years €	Over five years €
At 31 December 2021					
Lease liabilities	2,022,762	2,365,869	298,950	1,289,495	777,424
Borrowings	2,051,653	2,051,653	2,051,653	-	-
Trade and other payables	1,906,144	1,906,144	1,906,144	-	-
	5,590,422	6,323,666	4,256,747	1,289,495	777,424

2.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

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

	2022	2021
	€	€
Total borrowings and lease liabilities (notes 15 and 14)	**6,589,787**	4,074,415
Less: Cash at bank and in hand (note 10)	**(953,838)**	(452,121)
Net borrowings and lease liabilities	**5,635,949**	3,622,294
Total equity	**9,168,934**	8,214,211
Total capital	**14,804,883**	11,836,505
Gearing	**38.1%**	30.6%

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

2.3 Fair values of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses as a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

Financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows:

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

The Company's financial asset classified as FVOCI is included in level 3.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

At 31 December 2022 and 2021 the carrying amounts of cash at bank, trade receivables (net of provision), payables, accrued expenses and borrowings reflected in the financial statements are reasonable estimates of fair values in view of the nature of these instruments or the relatively short period of time between the organisation of the instruments and the expected realisation.

As at the end of the reporting period, the fair values of financial assets and liabilities, approximate the carrying amounts shown in the statement of financial position.

3. Critical accounting estimates and judgements

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

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

4. Intangible assets

	Brand representations	Goodwill	Others	Total
	€	€	€	€
At 1 January 2021				
Cost	-	156,054	700,000	856,054
Accumulated amortisation	-	-	(700,000)	(700,000)
Net book amount	-	156,054	-	156,054
Year ended 31 December 2021				
Opening and closing net book amount	-	156,054	-	156,054
At 31 December 2021				
Cost	-	156,054	700,000	856,054
Accumulated amortisation	-	-	(700,000)	(700,000)
Net book amount	-	156,054	-	156,054
Year ended 31 December 2022				
Opening net book amount	-	156,054	-	156,054
Additions	1,298,000	195,000	-	1,493,000
Amortisation	(129,798)	-	-	(129,798)
Closing net book amount	**1,168,202**	**351,054**	**-**	**1,519,256**
At 31 December 2022				
Cost	1,298,000	351,054	700,000	2,349,054
Accumulated amortisation	(129,798)	-	(700,000)	(829,798)
Net book amount	**1,168,202**	**351,054**	**-**	**1,519,256**

The Company concluded negotiations for the acquisition of the representation rights of various brands and related assets from Red October Company Limited. Through this transaction, the Company has expanded its range of product categories through the acquisition of a number of wine, confectionery, spirits and tobacco brands. The final contract was signed on 22 December 2021, with an effective date of 15 January 2022 and the representation rights relating to the portfolio of brands held by Red October Company Limited was consolidated within the Company's portfolio as from the first quarter of 2022. This acquisition has aided the Company to increase its presence in the market and strengthen the Company's HORECA offering. The purchase consideration for this acquisition was €1,493,000 and was partly funded by bank debt amounting to €1.0 million, drawn down in 2022, with the remaining consideration amounting to €0.5 million funded through accumulated reserves.

Impairment tests for goodwill

The goodwill relates to the Company's acquisition of brand representations from third parties. As a result of these acquisitions, the Company increased its presence in the market. The recoverable amount is reassessed annually based on estimates of expected future cash flows as identified from business plans approved by management for the next five years including growth rates ranging from 2% - 3.2%. A post tax discount rate ranging from 4% - 13.9% has been applied and reflects the specific risks relating to the market in which M&Z p.l.c. operates. Management does not consider the value of goodwill to be significant to the financial statements and hence a sensitivity analysis is not considered necessary.

On the basis of the latest business plans and current market data available to the board, no impairment charge is required for the current year.

5. Property, plant and equipment

	IT software and equipment €	Fixture and fittings €	Office furniture €	Freezers and equipment €	Motor vehicles €	Total €
At 1 January 2021						
Cost	275,636	35,710	237,867	2,150,014	2,069,949	4,769,176
Accumulated depreciation	(154,183)	(26,233)	(28,027)	(1,459,118)	(1,611,588)	(3,279,149)
Net book amount	121,453	9,477	209,840	690,896	458,361	1,490,027
Year ended 31 December 2021						
Opening net book amount	121,453	9,477	209,840	690,896	458,361	1,490,027
Additions	85,375	5,220	9,800	172,134	122,354	394,883
Disposals	-	-	-	-	(58,535)	(58,535)
Depreciation charge	(70,595)	(2,445)	(24,975)	(274,458)	(128,067)	(500,540)
Depreciation released on disposal	-	-	-	-	29,790	29,790
Closing net book amount	136,233	12,252	194,665	588,572	423,903	1,355,625
At 31 December 2021						
Cost	361,011	40,930	247,667	2,322,148	2,133,768	5,105,524
Accumulated depreciation	(224,778)	(28,678)	(53,002)	(1,733,576)	(1,709,865)	(3,749,899)
Net book amount	136,233	12,252	194,665	588,572	423,903	1,355,625
Year ended 31 December 2022						
Opening net book amount	136,233	12,252	194,665	588,572	423,903	1,355,625
Additions	81,497		19,362	149,700	111,111	361,670
Disposals	-	-	-	(1,932)	(1,791)	(3,723)
Depreciation charge	(86,971)	(2,444)	(26,493)	(271,499)	(149,931)	(537,338)
Depreciation released on disposal	-	-	-	1,932	716	2,648
Closing net book amount	**130,759**	**9,808**	**187,534**	**466,773**	**384,008**	**1,178,882**
At 31 December 2022						
Cost	442,508	40,930	267,029	2,469,916	2,243,088	5,463,471
Accumulated depreciation	(311,749)	(31,122)	(79,495)	(2,003,143)	(1,859,080)	(4,284,589)
Net book amount	**130,759**	**9,808**	**187,533**	**466,773**	**384,008**	**1,178,882**

6. Right-of-use assets

The statement of financial position reflects the following assets relating to leases:

	Property leases €	Total €
Year ended 31 December 2021		
Opening net book amount	2,153,313	2,153,313
Depreciation charge	(245,322)	(245,322)
Closing net book amount	**1,907,991**	**1,907,991**
Year ended 31 December 2022		
Opening net book amount	1,907,991	1,907,991
Additions	181,530	181,530
Depreciation charge	(274,513)	(274,513)
Closing net book amount	**1,815,008**	**1,815,008**

The statement of profit or loss shows the following amounts relating to leases:

	2022 €	2021 €
Depreciation charge on right-of-use assets	**274,513**	245,322
Interest expense (included in finance cost) (Note 21)	**83,526**	86,401
Expense relating to short term leases (Note 18)	**10,500**	39,399
	368,539	371,122

The Company's leasing activities

The Company leases three properties (2021: two properties) – an office space and warehouses. Rental contracts are typically made for fixed periods of up to 12 years and between 5 to 8 years, respectively. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options

Extension and termination options are included in the property leases. These terms are used to maximise operational flexibility in respect of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. In respect of the majority of lease arrangements, the extension periods have been included in determining lease term for the respective arrangement.

7. Equity instruments at fair value through other comprehensive income

	2022	2021
	€	€
Year ended 31 December		
Opening and closing cost and net book amount	**50**	50

Equity instruments at FVOCI relate to an investment in Greenpak shares which are not listed and the directors consider this investment to be insignificant and additional disclosures and not deemed necessary.

8. Inventories

	2022	2021
	€	€
Finished goods and goods for resale	**4,688,328**	3,546,694

Inventory write-downs during the year amounted to €181,247 (2021: €181,652).

9. Trade and other receivables

	2022	2021
	€	€
Current		
Trade receivables – gross	**7,964,192**	5,527,957
Less: loss allowance	**(445,075)**	(305,775)
Trade receivables – net	**7,519,117**	5,222,182
Other receivables	**310,482**	299,536
Indirect taxation	**24,373**	71,715
Advance payments to suppliers	**426,710**	441,945
Marketing contributions receivable	**60,537**	497,928
Prepayments and contract assets	**223,761**	257,291
Total trade and other receivables	**8,564,980**	6,790,597

The carrying amounts of trade receivables includes receivables which are subject to a factoring arrangement. Under this arrangement, M&Z p.l.c has transferred the relevant receivables to the factor in exchange for cash. However, the Company has retained the late payment and credit risk. The Company therefore continues to recognize the transferred assets in their entirety in its statement of financial position. The amount repayable under the factoring agreement is presented as borrowings (Note 15). The Company considers that the held to collect business model remains appropriate for these receivables and hence continues measuring them at amortised cost. The Company presents the cash inflows received from the bank as financing cash inflows and the subsequent payments by the debtors as operating cashflows.

Other receivables include advances and loans to employees and third parties amounting to €310,482 (2021: €149,533).

The net carrying amount of the trade receivables is considered a reasonable approximation of fair value. In determining the recoverability of trade receivables the Company considers any change in the credit quality of each trade receivable from the date credit was initially granted up to the reporting date.

The Company's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in Note 2.

10. Cash and cash equivalents

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

	2022	2021
	€	€
Cash at bank and in hand	**953,838**	452,121
Bank overdraft (Note 15)	**(2,717,413)**	(2,051,653)
	(1,763,575)	(1,599,532)

11. Share capital

	2022	2021
	€	€
Authorised		
360,000,000 (2021: 45,000,000) ordinary shares of €0.125 (2021: €1) each	**45,000,000**	45,000,000
5,000,000 3% cumulative redeemable preference shares of €1 each	**5,000,000**	5,000,000
	50,000,000	50,000,000
Issued and fully paid up		
44,000,000 (2021: 5,500,000) ordinary shares of €0.125 (2021: €1) each	**5,500,000**	5,500,000
1,500,000 3% cumulative redeemable preference shares of €1 each	**1,500,000**	1,500,000
	7,000,000	7,000,000

As per shareholder resolution dated 20 May 2021, the shareholders capitalized the M&Z Group Limited outstanding amount (note 26) by issuing and allotting 4,142,203 fully paid-up ordinary shares having a nominal value of one euro (€1) each in favour of M&Z Group Limited.

As per shareholder resolution dated 9 November 2021, the shareholders reduced its share capital from €12,043,761 to €6,960,964 through share cancellation resulting in €5,460,963 in Ordinary share capital and €1,500,000 in Preference shares. The share capital reduction was carried out for the purpose of offsetting the losses incurred by the Company as evidenced by its negative reserves amounting to €5,082,797 (Note 12).

As per shareholder resolution dated 21 December 2021, the shareholders agreed to increase the share capital by €39,037 by capitalizing an equal amount from retained earnings: 31,230 allocated to M&Z Group Limited and 7,807 allocated to Vadala Holdings.

On 10 January 2022, the Company resolved to change the nominal value of the Ordinary shares from €1 to €0.125 each. Pursuant to the re-nominalisation, the Company's issued share capital consisted of €7,000,000 divided into 44,000,000 fully paid ordinary shares having a nominal value of €0.125 each and 1,500,000 cumulative redeemable preference share capital of €1 each.

On 13 January 2022 M&Z (Marketing) Limited changed its name to M&Z p.l.c. and converted its status from a private to a public limited liability company. Certain shareholders of the Company offered for sale 11,550,000 ordinary shares of the Company at an offer price of €0.72, pursuant to a prospectus dated 25 January 2022 for the listing of the Company's ordinary shares on the official list of the Malta Stock Exchange.

The share offer was over-subscribed and on 11 March 2022, the Company officially listed 11,550,000 ordinary shares of a nominal value of €0.125 per share on the official list of the Malta Stock Exchange.

12. Other reserves

Other reserves of €5,082,797 as at 1 January 2021 represented the difference between the consideration transferred and the aggregate carrying value of the assets and accumulated operational results of the acquired business as at 1 January 2020, being the effective date of acquisition (Note 26). This reserve was offset against a share capital reduction as per resolution dated 9 November 2021 (Note 11).

13. Deferred taxation

Deferred income taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2021: 35%).

The movement on the deferred tax account is as follows:

	2022	2021
	€	€
At beginning of year	**250,724**	210,975
Recognised directly in profit or loss		
Deferred tax (charge)/credit	**(30,206)**	39,749
At end of year	**220,518**	250,724

The balance at 31 December represents:

	2022	2021
	€	€
Temporary differences arising on property, plant and equipment	**164,975**	131,016
Temporary differences on intellectual property	**(106,004)**	-
Temporary differences arising on provisions for impairment of trade receivables	**155,776**	107,021
Temporary differences on leases	**5,771**	12,687
	220,518	250,724

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

14. Lease liabilities

	2022	2021
	€	€
Non-current	**1,663,277**	1,801,829
Current	**282,989**	220,933
	1,946,266	2,022,762

The total cash outflows for leases in 2022 was €341,552 (2021: €334,874). The contractual undiscounted cash flows attributable to lease liabilities as at 31 December are analysed in Note 2.1(d).

The incremental borrowing rate used for the discounting of the lease payments is 4% (2021: 4%).

15. Borrowings

	2022	2021
	€	€
Current		
Bank overdraft	**2,717,413**	2,051,653
Factoring facility (Note 9)	**1,926,108**	-
	4,643,521	2,051,653

The Company's borrowings are subject to floating rates of interest.

The Company's banking facilities as at 31 December amounted to €5,030,000 (2021: €2,830,000) and were secured by a general hypothec over the assets of the company.

The weighted average effective interest rates at the year end was 5% (2021: 3%).

During the year the Company entered into a €3,500,000 factoring facility agreement to factor the debts of the Company. In accordance with the provisions of the agreement, the Company has retained the late payment and credit risk (Note 9). The Company therefore continues to recognize the transferred assets in their entirety in its statement of financial position. The amount repayable under the factoring agreement is presented as borrowings.

16. Trade and other payables

	2022	2021
	€	€
Current		
Trade payables	**934,997**	380,697
Amounts due to related parties	**51,000**	75
Indirect taxation	**110,034**	100,108
Accruals	**2,166,325**	1,425,264
Total trade and other payables	**3,262,356**	1,906,144

Amounts due to related parties and shareholders were unsecured, interest free and repayable on demand.

17. Revenue

All the Company's revenue was derived from the sale of food products together with the provision of other ancillary services, in the local market.

	2021	2021
	€	€
Sale of goods	**28,399,658**	22,750,492

The directors assess the operations of the Company as one reporting segment on the basis that the Company has one line of activity based in Malta. Accordingly, no segment disclosures are being presented.

18. Expenses by nature

	2022	2021
	€	€
Purchases (including movement in inventory)	**17,041,087**	13,291,687
Selling and distribution expenses	**2,429,288**	1,798,354
Employee benefit expense (note 19)	**4,768,776**	3,561,814
Amortisation of intangible assets (note 4)	**129,798**	-
Depreciation on property, plant and equipment (note 5)	**537,338**	500,540
Depreciation on right-of-use assets (note 6)	**274,513**	245,322
Professional fees	**123,543**	122,741
Repairs and maintenance	**111,554**	130,929
Short term lease	**10,500**	39,399
Insurance and licenses	**184,081**	103,090
Utilities	**131,735**	119,263
Impairment losses on financial and contract assets	**139,300**	38,619
Other expenses	**60,736**	7,704
Total cost of sales and administrative expenses	**25,942,249**	19,959,462

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2022 and 2021 relate to the following:

	2022	2021
	€	€
Annual statutory audit	**35,000**	45,000
Other assurance services	**1,500**	20,000
Other non-audit services	-	4,600
	36,500	69,600

The following non-audit services have been provided by the auditor to the Company:

	2022	2021
	€	€
Tax advisory and compliance services	**-**	3,600
Assurance services related to the half yearly report	**1,500**	-
Advisory services in respect of a capital markets transaction	-	21,000
	1,500	24,600

During the current year fees amounting to €10,100 (2021: €85,205) have been charged by connected undertakings of the Company's auditor to the Company, for tax advisory and compliance services and for advisory services in respect of capital markets transactions and due diligence services related to a business acquisition.

19. Employee benefit expense

	2022	2021
	€	€
Wages and salaries	**4,546,136**	3,406,965
Social security costs	**222,640**	154,849
	4,768,776	3,561,814

Employee benefit expenses have been classified as follows in the statement of comprehensive income:

	2022	2021
	€	€
Cost of sales	**2,746,268**	1,942,788
Administrative expenses	**2,022,508**	1,619,026
	4,768,776	3,561,814

The average number of persons employed by the Company during the financial reporting period was:

	2022	2021
Direct	**105**	84
Administration	**48**	38
	153	122

20. Other operating income

	2022	2021
	€	€
Gain on disposal of property, plant and equipment	**5,175**	23,272

21. Finance costs

	2022	2021
	€	€
Interest on lease liabilities	**83,526**	86,401
Bank interest and charges	**173,535**	12,929
	257,061	99,330

22. Tax expense

	2022	2021
	€	€
Current tax expense	**779,594**	981,247
Deferred tax charge/(credit) (note 13)	**30,206**	(39,749)
	809,800	941,498

The tax on the Company's results before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2022	2021
	€	€
Profit before tax	**2,205,523**	2,714,972
Tax on profit at 35%	**771,933**	950,240
Tax effect of:		
Disallowed expenses for tax purpose	**3,474**	-
Unrecognised deferred tax in prior year	**(2,636)**	-
Under/(over) provision of current tax in prior year	**25,326**	(27,057)
Other differences	**11,703**	18,315
Tax expense	**809,800**	941,498

23. Directors' emoluments

	2022	2021
	€	€
Salaries and other emoluments	**618,405**	530,767

24. Dividends

	2022	2021
	€	€
Gross dividends paid or declared on ordinary shares	**609,231**	2,769,231
Tax at source	**(213,231)**	(969,231)
Net dividend	**396,000**	1,800,000
Dividends per ordinary share	**0.07**	0.33

	2022	2021
	€	€
Gross dividends paid or declared on preference shares	**69,231**	49,303
Tax at source	**(24,231)**	(17,256)
Net dividend	**45,000**	32,047

25. Earnings per share

Earnings per share is based on the profit for the financial year attributable to the shareholders of M&Z p.l.c. divided by the weighted average number of ordinary shares in issue during the year and ranking for dividend.

	2022	2021 (restated)
Profit for the year (€)	**1,395,723**	1,773,474
Less dividends on preference shares (€)	**(45,000)**	(29,250)
Profit attributable to ordinary equity holders of the Company (€)	**1,350,723**	1,744,224
Weighted average number of ordinary shares in issue (thousands)	**42,945,205**	42,945,205
Basic and diluted earnings per share for the year attributable to shareholders	**€0.03**	€0.04

The weighted average number of ordinary shares for 2021 was restated to reflect the re-designation of ordinary shares as stated in note 11.

The Company does not have any dilutive contracts on own shares in issue.

26. Acquisition

The Company successfully concluded negotiations for the acquisition of the representation rights of various brands and related assets from Red October Company Limited. Through this transaction, the Company has expanded its range of product categories through the acquisition of a number of wine, confectionery, spirits and tobacco brands. The final contract was signed on 22 December 2021, with an effective date of 15 January 2022 and the representation rights relating to the portfolio of brands held by Red October Company Limited were consolidated within the Company's portfolio as from the first quarter of 2022. This acquisition has aided the Company to increase its presence in the market and strengthen the Company's HORECA offering. The purchase consideration for this acquisition was €1,493,000 and was partly funded by bank debt amounting to €1.0 million, drawn down in 2022, with the remaining consideration amounting to €0.5 million funded through accumulated reserves.

A purchase price allocation exercise was carried out by the Company during the year. The goodwill arising from the acquisition amounted to €195,000. None of the goodwill recognised is expected to be deductible for income tax purposes. The following table summarises the consideration paid, the fair value of assets acquired and the liabilities assumed at the acquisition date:

	€
Consideration	1,493,000
Less: Fair value of net assets acquired – intangible assets	(1,298,000)
Goodwill (note 4)	**195,000**

This acquisition has generated new business and contributed approximately €2,163,178 in revenues and €805,420 in gross profit during the period between acquisition date and the year end.

27. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2022	2021
	€	€
Operating profit	**2,462,584**	2,814,301
Adjustments for:		
Movement in impairment of financial and contract assets	**139,300**	38,619
Depreciation of property, plant and equipment (note 5)	**537,338**	500,540
Depreciation on right-of-use assets (note 6)	**274,513**	245,322
Amortisation of intangible assets (note 4)	**129,798**	-
Gain on disposal of property, plant and equipment	**(5,175)**	(23,272)
Bad debts written off	**17,120**	-
Changes in working capital:		
Inventories	**(1,141,634)**	(1,048,194)
Trade and other receivables	**(1,930,803)**	(1,724,887)
Trade and other payables	**1,311,212**	43,312
Cash generated from operations	**1,794,253**	845,741

Non-cash transactions

As per shareholder resolution dated 20 May 2021, the shareholders capitalized the M&Z Group Limited outstanding amount by issuing and allotting 4,142,203 fully paid-up ordinary shares having a nominal value of one euro (€1) each in favour of MZG.

As per shareholder resolution dated 9 November 2021, the shareholders reduced its share capital from €12,043,761 to €6,960,964 resulting to €5,460,963 in Ordinary share capital and €1,500,000 in Preference shares. The share capital reduction was carried out for the purpose of offsetting the losses incurred by the Company as evidenced by its negative reserves amounting to €5,082,797 (Note 12).

As per shareholder resolution dated 21 December 2021, the shareholders agreed to increase the share capital by €39,037 by capitalizing an equal amount from retained earnings: 31,230 allocated to M&Z Group Limited and 7,807 allocated to Vadala Holdings.

During 2022, the Company entered into a lease agreement for an additional warehouse and store. A right-of-use asset and lease liability were recorded accordingly.

28. Related party transactions

M&Z p.l.c. forms part of M&Z Group Limited. M&Z Group Limited and its subsidiaries are considered by the directors to be related parties of M&Z p.l.c. Due to common shareholding, PSC Limited and its subsidiary are also considered to be related parties of M&Z p.l.c.

The following transactions were entered into with related parties during the financial reporting period:

	2022	2021
	€	€
Purchases and services:		
- Other related parties	**26,000**	85,635
Dividends paid to shareholders	**441,000**	1,832,047

Year-end balances owed to fellow subsidiaries and other related parties, arising principally from sales and purchases transactions, are disclosed in note 16 to these financial statements.

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in note 23.

29. Statutory information

M&Z p.l.c. is a public limited liability company and is incorporated in Malta.

The parent company of M&Z p.l.c. is M&Z Group Limited, a company registered in Malta, with its registered address at MMGH Complex, Industrial Estate, Marsa MRS 3000.

The ultimate controlling party is Mr. Paul S. Camilleri and his immediate family.

30. Comparative information

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