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

Annual Report and Financial Statements
31 December 2021

Company Registration Number: C 23061

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 2021.

Principal activities

The principal activity of the Company, which is unchanged since last year, is the importation, marketing and distribution of fast-moving consumer goods ('**FMCG**') and pharmaceutical non-medical products. The Company operates within the ambient, chilled, frozen and fresh food, ice-cream, baby and kids care and home and personal care segments.

As part of its policy for ongoing diversification the Company has considerably increased its presence in the Pharma (non-medical) sector and in so doing it has succeeded in reducing its historic dependence on the distribution of FMCG food products at a time when the traditional grocery market is under increased margin compression from the strength of major retail players.

Review of the business

As expected, 2021 was another eventful year with a number of unpredictable variables not least the effects of Brexit which indirectly and even directly impacted on the business.

M&Z p.l.c. (formerly M&Z (Marketing) Limited) (the "**Company**") faced considerable challenges following the United Kingdom's exit from the European Union whereby the Company and its suppliers had to absorb significant additional costs including import/export duties primarily due to additional exhaustive documentation and regulatory requirements for the movement of goods from the EU through the UK and into Malta (back into the EU).

During the first half of 2021, a number of the Company's major brands were in short supply and consequently the Company heavily invested in ensuring a turnaround of stock to market in spite of the challenges faced and focused on increasing on regular inventory days and building sufficient stock holding onshore.

Today the Company's suppliers are actively working towards bypassing the UK altogether by securing distribution lines from their hubs in mainland Europe to allow free movement of goods. The Company has, where possible, also shifted sourcing of the portfolio from alternative European locations such as Italy.

The Directors are pleased to report in spite of the complexities due to Brexit, the Company remains firmly on course to deliver consistent and robust performance. The Company gained from a strong recovery in the second half of the year relative to the first half to the extent that the full year revenues have fully recouped loss of business suffered during the first six months to close the year up 5.18% in revenue and 19.25% on PBT (Profit before tax) on 2020.

The Company is also pleased to report that it has completed the transformation and transitioning process to M&Z p.l.c. in preparation of the IPO in 2022 – the year in which the Company celebrates its 100th year anniversary.

Clearly M&Z p.l.c.'s strategy in reducing its reliance on the UK Heritage Branded Business (brands such as Knorr, Bovril, Colman's, Marmite, Hellman's etc.) sourced from Europe is seen to be succeeding as this has intensified the move on product diversification and source that is necessary to shore up the Company's resilience to macro market conditions over which it has little or no control.

Directors' report - continued

Review of the business - continued

The Directors are pleased to announce that the Company has finalized proceedings on the transfer of the Red October Company Limited's business at the end of the year and is in the process of onboarding the full range of products in the first half of 2022. The range of additional though complementary products should broaden the Company's product range and also extend its customer base as part of the wider process in broadening the Company's market reach.

Risks and Uncertainties

Ukrainian conflict

The markets are still facing extraordinary supply and pricing pressures from the conflict in Ukraine which will have a bearing on consumer spend as clearly some consumer retrenchment is inevitable in softening the effects from the spiralling cost of essential commodities and services - the quantitative effect of which cannot be estimated with a sufficient degree of confidence.

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 Company expects that the presence of hard discounters will continue to impact the sale of the Company's branded products.

COVID-19

The ongoing COVID-19 pandemic and possible future outbreaks continue to have adverse effects on the Company and its business, including disruption of the business operations of the Company's various suppliers (and their ability to meet their obligations to the Company) and of the supply chain generally due to disruptions with transportation and logistics providers. Moreover, the spread of disease among the employees of the Company and resulting quarantine measures have also hindered employees from carrying out their work and delivering the Company's products to its clientele.

The Company however is expecting its foodservice business to slowly recover with the Company's customers in this segment, including hotels, cafes, restaurants, canteens and beach clubs, having been hard hit by governmental restrictions in order to curtail the spread of COVID-19.

Notwithstanding the challenges the Company is reasonably confident in delivering sensible growth in 2022 now that market normality finally seems in the process of actively being restored.

The Company's strategy and objectives are set out by the Company's Board. The Board considers its long-standing history of dealing with importation and distribution of FMCG and its reputation built on consumer trust to be its core strengths.

Directors' report - continued

Future developments in the business

Due to its position in the market and the Company's warehousing capabilities and standards, the Company is able to represent a diverse portfolio of well-known household brands spread across key product categories, sourced from around the globe via suppliers with whom the Company today enjoys long-standing customer/supplier relationships.

In addition to continuously actively sourcing key suppliers, another growth strategy identified by the Company's Board of Directors has been the extension of the brand portfolio through several successful mergers and acquisitions.

This activity has been key in driving the Company into new product segments allowing it to increase and diversify its product offering. The Board continues to regard this strategy as a key growth driver in order to penetrate new market segments and to continue to strengthen the Company's position within existing segments.

The Company endures to deliver long-term value to its shareholders by growing the business sustainably and ensuring consistent profitability through: i) year-on-year organic growth by aligning its business with consumer trends; ii) continued interest and appetite for the acquisitions of FMCG bolt-on businesses with high growth potential; and iii) through leveraging of its expertise in developing its brand offerings.

Financial performance

Revenue for the company for the year ended 31 December 2021 amounts to €22,750,492 (2020: €21,630,742). Gross profit during the year amounted to €5,309,707 (2020: €4,673,808) representing a 23% (2020: 22%) gross profit margin.

After taking into consideration administrative costs of €2,518,677 (2020: €2,295,199), the company registered an EBITDA of €3,560,164 (2020: €3,118,633).

Financial position

The Company's total asset base stands at €14,459,856 (2020: €12,686,431). The main non-current assets comprise right-of-use assets of €1,907,991 (2020: €2,153,313) and property, plant and equipment of €1,355,625 (2020: €1,490,027). At 31 December 2021, the Company's current assets amounted to €10,789,412 (2020: €8,676,012) which primarily include trade and other receivables of €6,790,597 (2020: €5,104,329) and inventories of €3,546,694 (2020: €2,498,500). As at year end, non-current liabilities which include lease liabilities amounted to €1,801,829 (2020: €2,022,762). The Company's current liabilities amounted to €4,443,816 (2020: €2,390,885) which mainly consist of borrowings of €2,051,653 (2020: €Nil), trade and other payables of €1,906,144 (2020: €1,862,832).

During 2021, the Company started the process of restructuring its share capital in preparation for the listing of its shares on the Malta Stock Exchange.

On 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 M&Z Group Limited.

On 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).

Directors' report - continued

Financial position - continued

On 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.

Events after the reporting period

Listing of M&Z p.l.c. equity on the Malta Stock Exchange

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 consists 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 has 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.

Acquisition of the representation rights of various brands and related assets

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 is expanding 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 will aid the Company to increase its presence in the market and strengthen the Company's HORECA offering. The purchase consideration for this acquisition is €1,492,783 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.

Conflict in Ukraine

Following the military action in Ukraine, the markets are again facing supply and pricing pressures, which will have a bearing on consumer spend as clearly some retrenchment is inevitable in partially mitigating the spiralling cost of essential commodities and services. This will inevitably also exacerbate wage cost inflation that is weighing on the sector because of an acute shortage of human resources especially in the distribution sector. Such impact cannot yet be quantified at the time of approval of these financial statements.

Results and dividends

The statement of comprehensive income is set out on page 25. The directors have paid a net interim dividend of €1,832,047 (2020: €1,200,000) and declared a net final dividend of €Nil (2020: €Nil).

Directors' report - continued

Going Concern Basis

After making enquires 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.

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 on page 47. The Company's authorised 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.

Registered shareholders holding 5% or more of the equity share capital as at 31 December 2021 are as follows:

Shareholder	**Approx. % Shareholding (total share capital by nominal value)**
M&Z Group Limited (C 9208)	77.2%
Vadala Holdings Limited (C 4044)	22.8%

Directors' report - continued

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
Ms. Emma Pullicino
Mr. Kevin Rapinett

Mrs. Frances Fenech was appointed on 10 January 2022.

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

Mr. Thomas Agius Vadala was the Company Secretary until his resignation on 14 October 2021. Mr Agius Vadala was succeeded by Ganado Services Limited (C 10785) of 171, Old Bakery Street, Valletta VLT 1455, Malta.

Information on the rules governing the appointment and replacement of Directors, 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.

Directors' report - continued

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 2021 are included in the Annual Report 2021 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.

Since the Company's ordinary A shares were only listed on 11 March 2022 the Company has not prepared the Annual Report and Financial Statements for the financial year ended 31 December 2021 in single electronic reporting format, in accordance with the requirements of Capital Markets' Rule 5.56A. The Company however wishes to clarify that from the financial year ending 31 December 2022 it shall be preparing its Annual Report and Financial Statements in the single electronic reporting format and in full compliance with the Capital Markets Rules.

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.

Directors' report - continued

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.

On behalf of the board

Charles J. Farrugia
Chairman

Paul S. Camilleri
Director

MMGH Complex,
Industrial Estate,
Marsa MRS 3000
Malta

27 April 2022

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 Boards' and the Company's commitment to a high standard of good governance. Despite the fact that compliance with the Code is not mandatory upon the Company given that the Company was not listed on the Malta Stock Exchange as at 31 December 2021, the reporting date, the Company has voluntarily endorsed the Code and is hereby reporting its compliance with the provisions thereof.

The ordinary shares of the Company were admitted to listing on 11 March 2022. In terms of the Capital Markets Rules ("**CMRs**") issued by the Malta Financial Services Authority (the "**MFSA**") companies whose equity securities are listed on a regulated market should endeavour to adopt the Code of principles for Good Corporate Governance contained in Appendix 5.1 to Chapter 5 of the CMRs (the "**Corporate Governance Code**" or "**Code**").

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 three 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 2021, notwithstanding the fact that the ordinary shares were admitted to listing subsequent this period.

A. Compliance with the Corporate Governance Code

Principle 1 – The Board

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".

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

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

<u>Principle 1 – The Board</u> - continued

<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.

<u>Principle 3 – Composition of the Board</u>
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 (appointed 10 January 2022)
- Dr Emma Pullicino - Executive Director

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

A. Compliance with the Corporate Governance Code - continued

Principle 3 – Composition of the Board - continued

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.

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

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

<u>Principle 4 – The Responsibilities of the Board</u> - continued

<u>Executive Committee</u>
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 Executive Committee generally meets every fortnight.

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 2021 the Executive Committee met two times.

<u>Audit Committee</u>
The Board has established an Audit Committee to assist it 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, when the ordinary share capital of the Company was not yet listed, the Audit Committee met three 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.

<u>Principle 5 – Board Meetings</u>
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.

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

A. Compliance with the Corporate Governance Code - continued

Principle 5 – Board Meetings - continued

During the financial year ended 31 December 2021 the Board met 7 times, attendance at these meetings was as follows:

Board Member	Meetings Attended
Mr Charles Farrugia	7
Mr Kevin J. Rapinett	7
Mr Matthew Camilleri	5
Ms Greta Camilleri Avallone	6
Mr Paul Camilleri	7
Mr Thomas Agius Vadala'	7
Mrs Erika Pace Bonello	7
Dr Emma Pullicino	3

Principle 6 – Information and Professional Development

On 9 November 2021 Mrs Greta Camilleri Avallone was appointed as Managing Director of the Company responsible to steer the Company's Executive Committee and drive the Company's growth prospects. The Managing Director and the Board are closely involved in the recruitment and selection of any member of senior management. The Board ensures that 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 in the process of establishing a succession plan for senior management in terms of its new responsibilities following the listing of the Company's ordinary share capital on 11 March 2022.

The Board is also responsible to ensure that there is 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.

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.

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

A. Compliance with the Corporate Governance Code - continued

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 2021: Mr Paul Camilleri; Mr Matthew Camilleri; Ms Greta Camilleri Avallone; Mr Thomas Agius Vadala'; Mrs Erika Pace Bonello and Dr Emma Pullicino. No other Director had any other benefit or non-beneficial interest in the Company in the year under review.

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 formalising its CSR goals and an action plan for the attainment thereof.

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

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 Board is in the process of formulating and formalising a remuneration policy for Directors and senior executives which, in terms of Capital Markets Rule 12.26A, shall be presented to the shareholders for a vote at the forthcoming AGM. The "Remuneration Statement" required in terms of Code Provision 8.4.1 shall be subsequently prepared for the financial year ended 31 December 2022.

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

B. Non-Compliance with the Corporate Governance Code - continued

Principle 8 - Committees - continued
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.

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 endeavour 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 report 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.

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

D. General Meetings - continued

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. Other Disclosures in terms of the Capital Markets Rules

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 2022 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.

Signed on behalf of the Board of Directors on 27 April 2022 by:

Charles J. Farrugia
Chairman

Paul S. Camilleri
Director

Independent auditor's report

To the Shareholders of M&Z p.l.c. (formerly M&Z (Marketing) Limited)

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of M&Z p.l.c. (the Company) as at 31 December 2021, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

M&Z p.l.c.'s financial statements, set out on pages 27 to 61, comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independent auditor's report - *continued*

To the Shareholders of M&Z p.l.c. (formerly M&Z (Marketing) Limited)

Independence

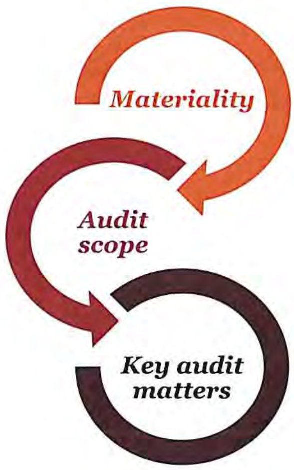
We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the company, in the period from 1 January 2021 to 31 December 2021, are disclosed in note 18 to the financial statements.

Our audit approach

Overview



- Overall materiality: €136,000, which represents 5% of profit before tax.

- Valuation and existence of inventory

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	€136,000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We applied this benchmark because, in our view, profit before tax is the metric against which the performance of the company is most commonly measured. We chose 5% which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €13,600 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report - continued

To the Shareholders of M&Z p.l.c. (formerly M&Z (Marketing) Limited)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation and existence of inventory	
Refer to notes 1.10 and 8 Inventory for the Company as at 31 December 2021 amounted to €3.5 million and represented 33% of total current assets. This inventory mainly consists of stocks held in the Company's warehouses. Inventory is valued at the lower of cost and net realisable value. The valuation of inventory at cost is based on the first-in, first-out cost per unit of inventory (the FIFO-principle). Due to the nature of the Company's operations, the number of transactions recorded through the inventory cycle during the year is very significant and dependant on the reliability of the Company's operating systems. We focused on this area because of the materiality of these balances and the related impact on working capital as well as on the cost of items sold.	We tested the existence of inventory by attending the year-end count of inventory held in the Company's warehouses and performing test counts on a sample basis. We compared the quantities counted by us with the results of the counts by the entities. We also checked that any variances were followed up by management and reflected in the accounting records. Our tests of detail on the valuation of inventory included the verification of inventory records against the respective supporting documentation on a sample basis to ensure that inventory is valued at the lower of cost and net realisable value. Furthermore, we also assessed inventory with nearing expiry dates and slow moving items. Our audit procedures to assess inventory cut-off consisted of performing substantive procedures to ensure that the transfer of rights and obligations over inventory had been correctly reflected in the accounting records of the Company. Based on the procedures performed, we conclude that inventories as at year end are reasonably stated in the financial statements.

Independent auditor's report - *continued*

To the Shareholders of M&Z p.l.c. (formerly M&Z (Marketing) Limited)

Other information

The directors are responsible for the other information. The other information comprises the *General information, the Directors' report* and the *Statement by the Directors on compliance by M&Z p.l.c. (the "Company") with the Code of principles for Good Corporate Governance* (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such 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.

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

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report - *continued*

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Company's trade, customers and suppliers, and the disruption to their business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report - *continued*

To the Shareholders of M&Z p.l.c. (formerly M&Z (Marketing) Limited)

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2021* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report and Financial Statements 2021* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 2 to 9) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Independent auditor's report - *continued*

To the Shareholders of M&Z p.l.c. (formerly M&Z (Marketing) Limited)

Area of the *Annual Report and Financial Statements 2021* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us. • the financial statements are not in agreement with the accounting records and returns. • we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Independent auditor's report - continued

To the Shareholders of M&Z p.l.c. (formerly M&Z (Marketing) Limited)

Appointment

We were first appointed as auditors of the Company for the period ended 31 December 2006. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 16 years. The Company became listed on a regulated market on 11 March 2022.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Stefan Bonello
Partner

27 April 2022

Statement of financial position

	Notes	As at 31 December 2021 €	2020 €
ASSETS			
Non-current assets			
Intangible assets	4	**156,054**	156,054
Property, plant and equipment	5	**1,355,625**	1,490,027
Right-of-use assets	6	**1,907,991**	2,153,313
Deferred tax assets	13	**250,724**	210,975
Equity instruments at fair value through other comprehensive income	7	**50**	50
Total non-current assets		**3,670,444**	4,010,419
Current assets			
Inventories	8	**3,546,694**	2,498,500
Trade and other receivables	9	**6,790,597**	5,104,329
Cash and cash equivalents	10	**452,121**	1,073,183
Total current assets		**10,789,412**	8,676,012
Total assets		**14,459,856**	12,686,431

Statement of financial position - continued

	Notes	As at 31 December 2021 €	2020 €
EQUITY AND LIABILITIES			
Equity			
Ordinary share capital	11	**5,500,000**	6,401,557
Preference share capital	11	**1,500,000**	1,500,000
Advances for shares to be issued	26	**-**	4,142,203
Other reserve	12	**-**	(5,082,797)
Retained earnings		**1,214,211**	1,311,821
Total equity		**8,214,211**	8,272,784
LIABILITIES			
Non-current liabilities			
Lease liabilities	14	**1,801,829**	2,022,762
Total non-current liabilities		**1,801,829**	2,022,762
Current liabilities			
Borrowings	15	**2,051,653**	-
Trade and other payables	16	**1,906,144**	1,862,832
Current tax liabilities		**265,086**	318,977
Lease liabilities	14	**220,933**	209,076
Total current liabilities		**4,443,816**	2,390,885
Total liabilities		**6,245,645**	4,413,647
Total equity and liabilities		**14,459,856**	12,686,431

The notes on pages 32 to 61 are an integral part of these financial statements.

The financial statements on pages 27 to 61 were authorised for issue by the board on 27 April 2022 and were signed on its behalf by:

Charles J. Farrugia
Chairman

Paul S. Camilleri
Director

Statement of comprehensive income

	Notes	Year ended 31 December 2021 €	2020 €
Revenue	17	**22,750,492**	21,630,742
Cost of sales	18	**(17,440,785)**	(16,956,934)
Gross profit		**5,309,707**	4,673,808
Administrative expenses	18	**(2,518,677)**	(2,295,199)
Other operating income	20	**23,272**	7,267
Operating profit		**2,814,302**	2,385,876
Finance income		**-**	266
Finance costs	21	**(99,330)**	(109,481)
Profit before tax		**2,714,972**	2,276,661
Tax expense	22	**(941,498)**	(816,380)
Profit for the year – total comprehensive income		**1,773,474**	1,460,281
Earnings per share for the year attributable to shareholders	25	**0.18**	0.25

The notes on pages 32 to 61 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 2020		1,250,000	-	-	469,419	1,051,540	2,770,959
Impact on reorganisation	26	-	-	4,142,203	(5,552,216)	-	(1,410,013)
Profit for the year - total comprehensive income		-	-	-	-	1,460,281	1,460,281
Transactions with owners:							
Issue of share capital	11	5,151,557	1,500,000	-	-	-	6,651,557
Dividends	24	-	-	-	-	(1,200,000)	(1,200,000)
Total transactions with owners		5,151,557	1,500,000	-	-	(1,200,000)	5,451,557
Balance at 31 December 2020		**6,401,557**	**1,500,000**	**4,142,203**	**(5,082,797)**	**1,311,821**	**8,272,784**
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 shares	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**

The notes on pages 32 to 61 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2021 €	2020 €
Cash flows from operating activities			
Cash generated from operations	27	**845,741**	2,471,553
Interest received		**-**	266
Interest paid	21	**(12,929)**	(15,049)
Income tax paid		**(1,035,139)**	(994,728)
Net cash (used in)/generated from operating activities		**(202,327)**	1,462,042
Cash flows from investing activities			
Purchases of property, plant and equipment	5	**(394,883)**	(347,218)
Proceeds from disposal of property, plant and equipment		**52,017**	-
Net cash used in investing activities		**(342,866)**	(347,218)
Cash flows from financing activities			
Principal and interest payments of lease liabilities	14	**(295,475)**	(294,835)
Dividends paid	24	**(1,832,047)**	(1,200,000)
Net cash used in financing activities		**(2,127,522)**	(1,494,835)
Net movement in cash and cash equivalents		**(2,672,715)**	(380,011)
Impact on reorganisation	26	**-**	(1,160,079)
Cash and cash equivalents at beginning of year		**1,073,183**	2,613,273
Cash and cash equivalents at end of year	10	**(1,599,532)**	1,073,183

The notes on pages 32 to 61 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 2021

In 2021, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2021. 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 2021. 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. Summary of significant accounting policies - continued

1.3 Business combinations

Business combinations between entities under common control, which do not fall within the scope of IFRS 3, are accounted for using the predecessor method of accounting. Under the predecessor method of accounting, assets and liabilities are incorporated at the predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entity from its financial statements.

No goodwill arises in predecessor accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity, is included in equity as a separate reserve.

In order to provide more meaningful information, the acquired entity's results are incorporated into the financial statements of the Company as if both entities had always been combined, with the result that the financial statements of the surviving company reflect both entities' full year's results even though the business combination may have occurred part way through the year.

1.4 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 1.7). 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) 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.

1.5 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.

1. **Summary of significant accounting policies** - continued

1.5 Property, plant and equipment - continued

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 1.7).

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

1.6 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.

1. **Summary of significant accounting policies** - continued

1.6 Leases - continued

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. Summary of significant accounting policies - continued

1.7 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.

1.8 Financial assets

1.8.1 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.

1.8.2 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.

1.8.3 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.

1. Summary of significant accounting policies - continued

1.8 Financial assets - continued

1.8.3 Measurement - continued

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.

1.8.4 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.

1. **Summary of significant accounting policies** - continued

1.8 Financial assets - continued

1.8.4 Impairment - continued

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.

1.9 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.

1.10 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.

1.11 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 1.8.4 above.

1. **Summary of significant accounting policies** - continued

1.12 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.

1.13 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 and 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.

1.14 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.

1.15 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.

1.16 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.

1.17 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.

1. Summary of significant accounting policies - continued

1.17 Current and deferred tax - continued

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.

1.18 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.

1.19 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. Summary of significant accounting policies - continued

1.20 Earnings per share

1.20.1 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

1.20.2 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.

1.21 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 2021 and 2020, 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 2021, GBP purchases amounted to approximately 39% (2020: 42%) 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.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Hedging activities and derivatives - continued

These contracts which commence in quarter 1 and last until the last quarter of 2022 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 2021, the Company entered into forward contracts which will be settled on a date in 2022 amounting to €4,081,468 (2020: €5,538,912). 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 1.9 to these financial statements, the fair value gain on derivative financial instruments is recognised in profit or loss. The directors believe that the fair value of the derivative financial instruments is insignificant at the reporting date and additional disclosures on the Company's hedging activities and derivatives is 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:

	2021	2020
	€	€
USD		
Trade and other receivables	**90,569**	124,169
Bank balances	**(115,793)**	53,524
GBP		
Trade and other receivables	**97,613**	26,652
Trade payables	**(14,493)**	(542,025)
Bank balances	**439,429**	720,949

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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk

(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.

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

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.

(c) 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:

	2021	2020
	€	€
Trade and other receivables (note 9)	**6,091,361**	4,732,578
Cash and cash equivalents (note 10)	**452,121**	1,073,183
	6,543,482	5,805,761

<u>Trade and other receivables</u>

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 analysed 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Credit risk - continued

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 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)**
As at 31 December 2020					
Expected loss rate (weighted average)	3%	9%	36%	100%	
Gross carrying amount	4,511,304	166,359	43,518	97,267	4,818,448
Loss allowance – provision	(139,508)	(14,857)	(15,524)	(97,267)	(267,156)

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

	2021 **€**	2020 €
Trade receivables and contract assets		
Balance at 1 January	**267,156**	223,198
Increase in loss allowance recognised in profit or loss during the year	**38,619**	43,958
Balance at 31 December	**305,775**	267,156

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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Credit risk - continued

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.

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 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**

	Carrying amount €	Contractual cash flows €	Within one year €	Two to five years €	Over five years €
At 31 December 2020					
Lease liabilities	2,231,838	2,661,344	295,475	1,262,592	1,103,277
Trade and other payables	1,862,832	1,862,832	1,862,832	-	-
	4,094,670	**4,524,176**	**2,158,307**	**1,262,592**	**1,103,277**

2. Financial risk management - continued

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:

	2021	2020
	€	€
Total borrowings and lease liabilities (notes 15 and 14)	**4,074,415**	2,231,838
Less: Cash at bank and in hand (note 10)	**(452,121)**	(1,073,183)
Net borrowings and lease liabilities	**3,622,294**	1,158,655
Total equity	**8,214,211**	8,272,784
Total capital	**11,836,505**	9,431,439
Gearing	**30.6%**	12.3%

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.

2. Financial risk management - continued

2.3 Fair values of financial instruments - continued

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

At 31 December 2021 and 2020 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

	Goodwill €	Others €	Total €
At 1 January 2020			
Cost	156,054	700,000	856,054
Accumulated amortisation	-	(700,000)	(700,000)
Net book amount	156,054	-	156,054
Year ended 31 December 2020			
Opening and closing net book amount	156,054	-	156,054
At 31 December 2020			
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**

4. Intangible assets - continued

Impairment tests for goodwill

The goodwill relates to the Company's acquisition of businesses 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 a business plan approved by management for the next five years including a growth rate of 3.2%. A post tax discount rate of 4% has been applied and reflects the specific risks relating to the market in which M&Z p.l.c. operates.

On the basis of the latest business plan 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 2020						
Cost	343,766	26,435	237,686	1,982,363	2,020,096	4,610,346
Accumulated depreciation	(277,932)	(1,763)	(24,828)	(1,177,871)	(1,497,708)	(2,980,102)
Net book amount	65,834	24,672	212,858	804,492	522,388	1,630,244
Year ended 31 December 2020						
Opening net book amount	65,834	24,672	212,858	804,492	522,388	1,630,244
Additions	120,258	9,275	181	167,651	49,853	347,218
Disposals	(188,388)	-	-	-	-	(188,388)
Depreciation charge	(64,639)	(24,470)	(3,199)	(281,247)	(113,880)	(487,435)
Depreciation released on Disposal	188,388	-	-	-	-	188,388
Closing net book amount	**121,453**	**9,477**	**209,840**	**690,896**	**458,361**	**1,490,027**
At 31 December 2020						
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	1,656,299	662,834	2,968,741
Accumulated depreciation	(224,778)	(28,678)	(53,002)	(1,067,727)	(238,931)	(1,613,116)
Net book amount	**136,233**	**12,252**	**194,665**	**588,572**	**423,903**	**1,355,625**

6. Right-of-use assets

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

	Property leases €	Total €
Year ended 31 December 2020		
Opening net book amount	2,398,635	2,398,635
Depreciation charge	(245,322)	(245,322)
Closing net book amount	**2,153,313**	**2,153,313**
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**

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

	2021 **€**	2020 €
Depreciation charge of right-of-use assets	**245,322**	245,322
Interest expense (included in finance cost) (Note 21)	**86,401**	94,432
Expense relating to short term leases (Note 18)	**39,399**	2,928
	371,122	342,682

The Company's leasing activities

The Company leases two properties – an office space and warehouse. Rental contracts are typically made for fixed periods of up to 12 years and 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

	2021	2020
	€	€
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

	2021	2020
	€	€
Finished goods and goods for resale	**3,546,694**	2,498,500

Inventory write-downs during the year amounted to €181,652 (2020: €180,672).

9. Trade and other receivables

	2021	2020
	€	€
Current		
Trade receivables - gross	**5,527,957**	4,693,957
Less: loss allowance	**(305,775)**	(267,156)
Trade receivables - net	**5,222,182**	4,426,801
Other receivables	**299,536**	124,491
Indirect taxation	**71,715**	119,802
Advance payments to suppliers	**441,945**	284,648
Marketing contributions receivable	**497,928**	61,484
Prepayments and contract assets	**257,291**	87,103
Total trade and other receivables	**6,790,597**	5,104,329

Other receivables include advances and loans to employees amounting to €86,645 (2020: €67,483). Other receivables also include €150,000 paid during 2021 in relation to the acquisition of the representation rights of various brands and related assets which has been concluded after year end (Note 28).

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:

	2021 €	2020 €
Cash at bank and in hand	**452,121**	1,073,183
Bank overdraft (Note 15)	**(2,051,653)**	-
	(1,599,532)	1,073,183

11. Share capital

	2021 €	2020 €
Authorised		
45,000,000 ordinary shares of €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		
5,500,000 (2020: 6,401,557) Ordinary shares of €1 each	**5,500,000**	6,401,557
1,500,000 3% cumulative redeemable preference shares of €1 each	**1,500,000**	1,500,000
	7,000,000	7,901,557

During 2021, the Company started the process of restructuring its share capital in preparation for the listing of its shares on the Malta Stock Exchange.

As per shareholder resolution dated 20 May 2021, the shareholders capitalized the M&Z Group Limited outstanding amount (note 25) 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 consists 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.

11. Share capital - continued

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 has 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 represent 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 25). 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% (2020: 35%).

The movement on the deferred tax account is as follows:

	2021 **€**	2020 €
At beginning of year	**210,975**	29,173
Recognised directly in profit or loss		
Deferred tax credit	**39,749**	64,450
Recognised directly in equity		
Deferred tax liabilities not included in acquisition	**-**	117,352
At end of year	**250,724**	210,975

The balance at 31 December represents:

	2021 **€**	2020 €
Temporary differences arising on property, plant and equipment	**131,016**	101,748
Temporary differences arising on provisions for impairment of trade receivables	**107,021**	93,505
Temporary differences on leases	**12,687**	15,722
	250,724	210,975

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

14. Lease liabilities

	2021	2020
	€	€
Non-current	**1,801,829**	2,022,762
Current	**220,933**	209,076
	2,022,762	2,231,838

The total cash outflows for leases in 2021 was €334,874 (2020: €297,763). The contractual undiscounted cash flows attributable to lease liabilities as at 31 December are analysed in Note 2.1(c).

The incremental borrowing rate used for the discounting of the lease payments is 4% (2020: 4%).

15. Borrowings

	2021	2020
	€	€
Current		
Bank overdraft	**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 €1,830,000 (2020: €Nil) and were secured by a general hypothec over the assets of the company.

The weighted average effective interest rates at the year end was 3% (2020: 0%)

16. Trade and other payables

	2021	2020
	€	€
Current		
Trade payables	**380,697**	1,004,364
Amounts due to related party	**75**	-
Indirect taxation	**100,108**	76,253
Accruals	**1,425,264**	782,215
Total trade and other payables	**1,906,144**	1,862,832

Amounts due to related party 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	2020
	€	€
Sale of goods	**22,750,492**	21,630,742

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

	2021	2020
	€	€
Purchases (including movement in inventory)	**13,291,687**	13,279,615
Selling and distribution expenses	**1,798,354**	1,580,090
Employee benefit expense (note 19)	**3,561,814**	3,190,998
Depreciation on property, plant and equipment (note 5)	**500,540**	487,435
Depreciation on right-of-use assets (note 6)	**245,322**	245,322
Professional fees	**122,741**	77,295
Repairs and maintenance	**130,929**	84,781
Short term lease	**39,399**	2,928
Insurance and licenses	**103,090**	128,701
Utilities	**119,263**	122,559
Impairment losses on financial and contract assets	**38,619**	43,958
Other expenses	**7,704**	8,451
Total cost of sales and administrative expenses	**19,959,462**	19,252,133

Auditor's fees

Fees charged by the auditor for services rendered during the financial years ended 31 December 2021 and 2020 relate to the following:

	2021	2020
	€	€
Annual statutory audit	**45,000**	35,000
Other assurance services	**20,000**	-
Other non-audit services	**4,600**	21,770
	69,600	56,770

18. Expenses by nature - continued

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

	2021 €	2020 €
Tax advisory and compliance services	**3,600**	14,270
Advisory services in respect of a capital markets transaction	**21,000**	7,500
	24,600	21,770

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

19. Employee benefit expense

	2021 €	2020 €
Wages and salaries	**3,406,965**	3,047,289
Social security costs	**154,849**	143,709
	3,561,814	3,190,998

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

	2021 €	2020 €
Cost of sales	**1,942,788**	1,799,900
Administrative expenses	**1,619,026**	1,391,098
	3,561,814	3,190,998

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

	2021	2020
Direct	**84**	85
Administration	**38**	35
	122	120

20. Other operating income

	2021 €	2020 €
Dividend income	-	7,267
Gain from disposal of property, plant and equipment	23,272	-
	23,272	7,267

21. Finance costs

	2021 €	2020 €
Interest on lease liabilities	86,401	94,432
Bank charges	12,929	10,887
Bank interest	-	4,162
	99,330	109,481

22. Tax expense

	2021 €	2020 €
Current tax expense	981,247	880,830
Deferred tax credit (note 13)	(39,749)	(64,450)
	941,498	816,380

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

	2021 €	2020 €
Profit before tax	2,714,972	2,276,661
Tax on profit at 35%	950,240	796,831
Tax effect of:		
Disallowed expenses for tax purpose	-	257
Over provision of current tax in prior year	(27,057)	-
Other differences	18,315	19,292
Tax expense	941,498	816,380

23. Directors' emoluments

	2021 €	2020 €
Salaries and other emoluments	**530,767**	358,357

24. Dividends

	2021 €	2020 €
Gross dividends paid or declared on ordinary shares	**2,769,231**	1,846,154
Tax at source	**(969,231)**	(646,154)
Net	**1,800,000**	1,200,000
Dividends per ordinary share	**0.33**	0.15

	2021 €	2020 €
Gross dividends paid or declared on preference shares	**49,303**	-
Tax at source	**(17,256)**	-
Net	**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.

	2021	2020
Profit for the year (€)	**1,773,474**	1,460,281
Less dividends on preference shares (€)	**(29,250)**	(2,797)
Profit attributable to ordinary equity holders of the Company (€)	**1,744,224**	1,457,484
Weighted average number of ordinary shares in issue (thousands)	**9,820,705**	5,872,074
Basic and diluted earnings per share for the year attributable to shareholders	**€0.18**	€0.25

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

26. Business combinations between entities under common control

On 1 January 2020, the Company acquired the operational assets and storage and distribution operations of Micallef and Zammit Limited, as a transfer of a going concern. Micallef and Zammit Limited is the Company's fellow subsidiary, which is also ultimately owned by M&Z Group Limited. As a result of this acquisition, the Company is expected to increase efficiencies and synergies, be more cost effective and enhance business growth.

Business combinations between entities under common control, which do not fall within the scope of IFRS 3, are accounted for using the predecessor method of accounting. Under the predecessor method of accounting, assets and liabilities are incorporated at the predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entity from its financial statements. In accordance with the Company's accounting policy as disclosed in Note 1.3, the Company has applied the predecessor method of accounting retrospectively as if both entities had always been combined.

The following table summarises the consideration paid for the acquisition of the operations and the carrying value of the assets acquired:

	Carrying value €
Property, plant and equipment	1,160,079
Accumulated operational results taken over	(940,594)
Consideration in cash	(1,160,079)
Consideration through allotment of share capital	(4,142,203)
Other reserve	**(5,082,797)**

Upon the effective date of transfer, the parties had agreed that the consideration to be paid for the transfer of business would be partly paid in cash to Micallef and Zammit Limited and, following an assignment agreement between the Company's parent, M&Z Group Limited and Micallef and Zammit Limited, the amount due by the Company to Micallef and Zammit Limited for the remaining part of the consideration, would be settled through the issue of share capital to M&Z Group Limited. The issue of shares would be effected following the finalisation and the signing of the transfer of business agreement which was concluded on 20 May 2021 (note 11). Accordingly, as at 31 December 2020, the obligation for the issue of the fixed amount of shares to M&Z Group Limited has been presented as 'Advances for shares to be issued'.

The other reserve was offset against a share capital reduction as per resolution dated 9 November 2021 (Note 12).

27. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2021 €	2020 €
Operating profit	**2,814,301**	2,385,876
Adjustments for:		
Movement in impairment of financial and contract assets	**38,619**	43,958
Depreciation of property, plant and equipment (note 5)	**500,540**	487,435
Depreciation on right-of-use assets (note 6)	**245,322**	245,322
Gain on disposal of property, plant and Equipment	**(23,272)**	-
Changes in working capital:		
Inventories	**(1,048,194)**	146,576
Trade and other receivables	**(1,724,887)**	73,990
Trade and other payables	**43,312**	(911,604)
Cash generated from operations	**845,741**	2,471,553

Non-cash transactions

During 2020, the Company converted its amounts due to parent company and shareholder of €6,651,557 into equity through the issuance and allotment of 5,151,557 ordinary shares and 1,500,000 cumulative redeemable preference shares, each with a nominal value of €1 per share.

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.

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:

	2021 €	2020 €
Purchases and services:		
- Other related parties	**85,635**	1,110
Dividends paid to shareholders	**1,832,047**	1,200,000

28. Related party transactions - continued

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. Events after the reporting period

Listing of M&Z p.l.c. equity on the Malta Stock Exchange

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 consists 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 has 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.

Acquisition of the representation rights of various brands and related assets

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 is expanding 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 will aid the Company to increase its presence in the market and strengthen the Company's HORECA offering. The purchase consideration for this acquisition is €1,492,783 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.

Conflict in Ukraine

Following the military action in Ukraine, the markets are again facing supply and pricing pressures, which will have a bearing on consumer spend as clearly some retrenchment is inevitable in partially mitigating the spiralling cost of essential commodities and services. This will inevitably also exacerbate wage cost inflation that is weighing on the sector because of an acute shortage of human resources especially in the distribution sector. Such impact cannot yet be quantified at the time of approval of these financial statements.

30. Statutory information

M&Z p.l.c. is a 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.

31. 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.