# Report and group financial statements

31 December 2013

PremierCapital p.l.c

# Report and group financial statements

31 December 2013

## Contents


| | Page |
|---|---|
| Directors, officer and other information | *1* |
| Directors' report | *2 - 4* |
| Statements of directors' responsibilities | *5* |
| Corporate governance statement | *6 - 9* |
| Independent auditors' report on corporate governance statement | *10* |
| Statements of profit or loss and other comprehensive income | *11* |
| Statements of financial position | *12 - 13* |
| Statements of changes in equity | *14 - 15* |
| Statements of cash flows | *16* |
| Notes to the financial statements | *17 - 76* |
| Independent auditor's report | *77 - 78* |

# Directors, officer and other information

| | |
|---|---|
| *Directors:* | Carmelo Hili (*sive*) Melo<br>Richard Abdilla Castillo<br>Charles J. Farrugia<br>Dr. Ann Fenech<br>Massimiliano Lupica (appointed 21 March 2013)<br>Bertrand Attard (appointed 21 March 2013) |
| *Secretary:* | Ms. Julia Simonsson (appointed 15 February 2013) |
| *Registered office:* | Nineteen Twenty Three,<br>Valletta Road,<br>Marsa,<br>Malta. |
| *Country of incorporation:* | Malta |
| *Company registration number:* | C 36522 |
| *Auditor:* | Deloitte Audit Limited,<br>Deloitte Place,<br>Mriehel Bypass,<br>Mriehel,<br>Malta. |
| *Principal bankers:* | HSBC Bank Malta p.l.c.,<br>Commercial Branch,<br>233, Republic Street,<br>Valletta,<br>Malta.<br><br>AS DNB Banka,<br>Skanstes Street 12,<br>Riga, LV-1013,<br>Latvia. |

The directors present their report and the audited financial statements of the group and holding company for the year ended 31 December 2013.

**Principal activities**

The group is engaged in the operations of McDonald's restaurants in Estonia, Greece, Latvia Lithuania and Malta.

The company acts as an investment company and service provider to its subsidiary undertakings.

**Performance review**

During the year under review, the Group registered an operating profit of *Eur2,444,465* (2012 – *Eur689,000*) on revenue of *Eur88,943,635* (2012 – *Eur83,106,554*). After accounting for investment income and finance costs, the Group registered a pre-tax loss of *Eur23,703* (2012 – pre-tax profit of *Eur1,937,662*). The Group's results in the prior year include a one-time investment income *of Eur4,110,742*.

The group's net assets for the year under review amounted to *Eur16,170,326* (2012 – *Eur16,372,774*).

During the year under review, the company registered an operating loss of *Eur668,669* (2012 – *Eur420,890*). After accounting for investment income and finance costs, the company registered a pre-tax profit of *Eur1,614,346* (2012 – *Eur1,282,478*). The net assets of the company at the end of the year under review amounted to *Eur17,611,219* (2012 – *Eur15,892,240*).

All markets except for Greece registered increases in revenues when compared to 2012. Overall Group revenue increased by 7% to *Eur88,943,635* when compared to *Eur83,106,554* in 2012. The market reporting the highest growth was Malta, with an overall growth of 12% growth versus 2012. Estonia registered growth of 9.5% when compared to 2012, Latvia growth 8.4% and Lithuania growth of 9.6%.

In Greece, notwithstanding the challenges being experienced by the market and after a very slow start to the year, the Group started to see some encouraging results in Q3 and Q4. Overall revenue for the year contracted by 2% when compared to previous year. Notwithstanding this, the Group remains positive about the outlook for the market and sees clear signals of an initial recovery. With this in mind, significant opportunity exists to grow the Group's business in Greece both within existing and new restaurants.

A key achievement for the Group in 2013 was its ability to serve more customers than ever before since it commenced operations. The Group in fact served a total 27.2 million customers in 2013 and registered year on year guest count growth in all five markets where it operates.

**Performance review (continued)**

During the year under review, the Group continued to grow its portfolio, bringing the total number of restaurants it operates up to 59 by the end of the year. Development activity included the opening of one new restaurant on the island of Crete and the takeover of 3 existing restaurants mainland Greece. The Group also opened one new restaurant respectively in Latvia (Riga) and in Malta (Sliema) and remodeled a further two restaurants. The total investment undertaken on new openings was of *Eur2,144,157*, whilst the Group invested a further *Eur1,520,009* to fund the remodeling of two restaurants in the Baltics and the takeover of two restaurants in Greece. The Group also invested in equipment replacements and upgrades in existing restaurants amounting to *Eur1,846,518*.

2013 was the first full the year during which the Group operated the Baltic Distribution Centre which is tasked with the handling of all the logistics requirements for the Group's restaurants in the region. Following the takeover of this setup in 2012, an area that was previously handled by a third party, the Group has been able to deliver greater efficiency and cost savings to its restaurants in the region.

As the year progressed the Group continued to undertake concentrated efforts to deliver more and more cost efficiency at every level of the business across the five markets where it operates. This was obviously a big challenge in view of continued pressure coming from rising raw material and commodity prices and the increased cost of labour and utilities. The Group's efforts however paid off and the Group generated an EBITDA of *Eur7,638,397* which was up from *Eur6,078,385* the previous year.

Looking ahead, the outlook for the Group's business across all five markets is a positive one. Across the Baltic States and in Malta, the McDonald's brand remains the market leader with in the Informal Eating Out sector and Company continues to build its market share and broaden its user base. This indicates that the group should be able to continue to grow its business in the coming years. Within the Greek market, McDonald's faces strong competition with key players in the Informal Eating Out sector enjoying a much stronger market penetration and higher market share. That said, the positive business evolution being registered in existing restaurants coupled with the opening of new locations means an increased penetration for the McDonald's brand and therefore an ever increasing market share. This obviously augers well for the future of McDonald's in Greece and for the business of the Group in the region.

**Results and dividends**

The results for the year ended 31 December 2013 are shown in the statements of comprehensive income on page 11. The group's loss for the year after taxation was *Eur123,234* (2012 – profit of *Eur2,210,382*), whilst the company's profit for the year after taxation was *Eur1,716,412* (2012 – *Eur1,455,961*). The directors do not recommended the payment of a dividend.

**Directors**

The directors who served during the period were:

Carmelo Hili (*sive*) Melo (Chief Executive Officer until 21 March 2013, Chairman from 31 May 2013)
Marin Hili (Chairman) (resigned 30 May 2013)
Bertrand Attard (appointed 21 March 2013) - (Chief Executive Officer)
Joseph Hili (*sive*) Beppe (resigned 8 February 2013)
Richard Abdilla Castillo
Charles J. Farrugia
Dr. Ann Fenech
Massimiliano Lupica (appointed 21 March 2013)

In accordance with the company's articles of association all the directors are to remain in office.

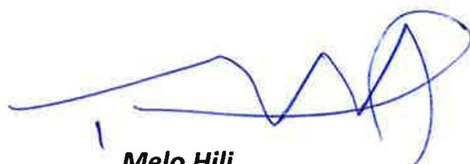
**Going Concern**

After reviewing the group's and company's budget for the next financial year, and other longer term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

**Auditors**

A resolution to reappoint Deloitte Audit Limited as auditor of the company will be proposed at the forthcoming Annual General Meeting.

**Approved by the board of directors and signed on its behalf on 25 April 2014 by:**



***Melo Hili***
***Chairman***

***Richard Abdilla Castillo***
***Director***

The directors are required by the Companies Act (Chap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU, which give a true and fair view of the state of affairs of the company and its group at the end of each financial year and of the profit or loss of the company and its group for the year then ended. In preparing the financial statements, the directors should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company and the group will continue in business as a going concern.

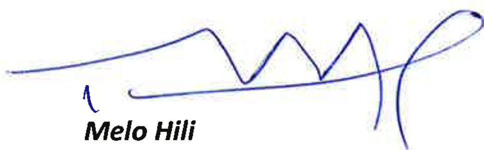
The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and the group and which enable the directors to ensure that the financial statements comply with the Companies Act (Chap. 386). This responsibility includes designing, implementing and maintaining 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. The directors are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Statement of responsibility pursuant to the Listing Rules issued by the Listing Authority**

We confirm that to the best of our knowledge:

a. In accordance with the Listing Rules, the financial statements give a true and fair view of the financial position of the company and its group as at 31 December 2013 and of their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU; and

b. In accordance with the Listing Rules, the Directors' report includes a fair review of the performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



***Melo Hili***
***Chairman***

**Introduction**

Pursuant to the Listing Rules as issued by the Listing Authority of the Malta Financial Services Authority, Premier Capital p.l.c (the 'company') is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance (the 'Principles') contained in Appendix 5.1 of the Listing Rules.

The Board acknowledges that the Code does not dictate or prescribe mandatory rules but recommends principles of good practice. Nonetheless, the Board strongly believes that the Principles are in the best interest of the shareholders and other stakeholders since they ensure that the Directors, Management and employees of the group adhere to internationally recognised high standards of Corporate Governance.

The group currently has a corporate decision-making and supervisory structure that is tailored to suit the group's requirements and designed to ensure the existence of adequate checks and balances within the group, whilst retaining an element of flexibility, particularly in view of the size of the group and the nature of the its business. The group adheres to the Principles, except for those instances where there exist particular circumstances that warrant non-adherence thereto, or at least postponement for the time being.

Additionally, the Board recognises that, by virtue of Listing Rule 5.101, the company is exempt from making available the information required in terms of Listing Rules 5.97.1 to 5.97.3; 5.97.6 and 5.97.7.

**The Board of Directors**

The Board of Directors of the company is responsible for the overall long-term direction of the group, in particular in being actively involved in overseeing the systems of control and financial reporting and that the group communicates effectively with the market.

The Board of Directors meets regularly, with a minimum of four times annually, and is currently composed of seven Members, three of which are completely independent from the company or any other related companies.

Mr Charles Farrugia, Dr Ann Fenech and Mr Massimiliano Lupica are independent non-executive directors of the company

**Executive Director**
Bertrand Attard (appointed 21 March 2013) – Chief Executive Officer

**Non-Executive Directors**
Carmelo Hili (*sive*) Melo (Chief Executive Officer until 21 March 2013, Chairman from 31 May 2013)
Marin Hili (resigned 30 May 2013)
Joseph Hili (*sive*) Beppe (resigned 8 February 2013)
Richard Abdilla Castillo
Charles J. Farrugia
Dr. Ann Fenech
Massimiliano Lupica (appointed 21 March 2013)

**The Board of Directors (continued)**

The Board Meetings are attended by the Chief Financial Officer of the group in order for the Board to have direct access to the financial operation of the group. This is intended to, inter alia, ensure that the policies and strategies adopted by the Board are effectively implemented.

The remuneration of the board is reviewed periodically by the shareholders of the company.

The company ensures that it provides directors with relevant information to enable them to effectively contribute to board decisions.

The directors are fully aware of their duties and obligations, and whenever a conflict of interest in decision making arises, they refrain from participating in such decisions.

**Audit Committee**

The Terms of Reference of the Audit Committee, which were approved by the Listing Authority of the Malta Financial Services Authority, are modelled on the principles set out in the Listing Rules. The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibility by reviewing the group financial statements and disclosures, monitoring the system of internal control established by management as well as the audit processes.

The Board of Directors established the Audit Committee, which meets regularly, with a minimum of four times annually, and is currently composed of the following individuals:

Mr Richard Abdilla Castillo (Chairman)
Mr Carmelo *sive* Melo Hili
Mr Charles J. Farrugia

Mr Charles J. Farrugia is an independent non-executive director of the company who the Board considers to be competent in accounting and/or auditing in terms of the Listing Rules.

The Chief Financial Officer of the company is also present during the Audit Committee meetings.

The Audit Committee met three times during the year 2013. However, communication with and between the Secretary, top level management and the Committee is ongoing and considerations that required the Committee's attention were acted upon between meetings and decided by the Members (where necessary) through electronic circulation and correspondence.

**Internal Control**

While the Board is ultimately responsible for the group's internal controls as well as their effectiveness, authority to operate the group is delegated to the Chief Executive Officer.

The group's system of internal controls is designed to manage all the risks in the most appropriate manner. However, such controls cannot provide an absolute elimination of all business risks or losses. Therefore, the Board, inter alia, reviews the effectiveness of the group's system of internal controls in the following manner:

1. Reviewing the group's strategy on an on-going basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders;
2. Implementing an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives;
3. Appointing and monitoring the Chief Executive Officer whose function is to manage the operations of the group; and
4. Identifying and ensuring that significant risks are managed satisfactorily.
5. Company policies are being observed.

**Corporate Social Responsibility**

The Board is mindful of and seeks to adhere to sound principles of Corporate Social Responsibility in their daily management practices, which is also extended throughout the company's subsidiary companies. There is continuing commitment to operate the business ethically at all times, at the same time as contributing to economic development whilst improving the quality of life of its employees and their families together with the local community and society at large.

The subsidiary companies in Estonia, Greece, Latvia, Lithuania and Malta organise an annual 'Mc Happy Day' whereby events are organised and funds collected which are then passed on to a local charity.

The local subsidiary, Premier Restaurants Malta Limited assists annually in the Olympic Day Run with the aim of promoting physical activity, and during which a donation is presented to the Malta Olympic committee. This incentive has now also been partially adopted by the Lithuanian subsidiary, which offers sponsorship of an annual Olympic day run promoting physical activity.

The Latvia chapter of RMHC (Ronald McDonald House Charity), set up by the group, operates a state-of-the-art Care Mobile clinic which tours the country providing medical services to children in poorly served areas. It provides a range of medical services including ophthalmology, treatment for asthma and neurology. Working closely with the Children's Clinical University Hospital of Latvia, the Ministry of Health and the Latvian Union of Municipalities, the mobile care centre travels the Latvian countryside daily. In 2013 it provided 4,253 free medical exams to Latvian children mostly aged under 5 years.

In 2013 Premier Capital plc registered a RMHC charity with aims similar to those of the Latvian chapter.

**Corporate Social Responsibility (continued)**

The charity is represented in fifty one countries and is responsible for providing grants and services to childrens' well-being programs around the world and Premier Restaurants Malta (the group's subsidiary in Malta) has also resolved to set up a local Chapter, providing services to the Maltese society.

In carrying on its business, the group is fully aware of its obligation to preserving the environment and has, in fact, put in place a number of policies aimed at respecting the environment and reducing waste.

**Relations with the market**

The market is kept up to date with all relevant information, and the company regularly publishes such information on its website to ensure consistent relations with the market.

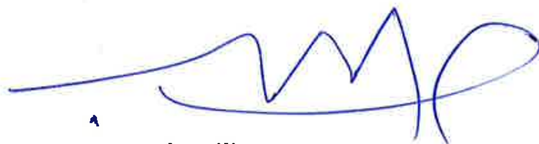
**Non-compliance with the code**

*Principle 7: Evaluation of the board's performance*
Under the present circumstances, 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 always under scrutiny of the shareholders of the company.

*Principle 8: Committees*
Under the present circumstances the board does not consider it necessary to appoint a remuneration committee and a nomination committee as decisions on these matters are taken at shareholder level.

*Principle 10: Institutional shareholders,*
This principle is not applicable since the company has no institutional shareholders.

**Approved by the Board of Directors and signed on its behalf on 25 April, 2014 by:**



***Melo Hili***
***Chairman***

***Richard Abdilla Castillo***
***Director***

Deloitte.

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Company Ref No: C51312
VAT Reg No: MT2013 6121
Exemption number: EXO2155

# Independent auditor's report on corporate governance statement

to the members of

## Premier Capital p.l.c.

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Pursuant to Listing Authority Listing Rules 5.94 and 5.97 issued by the Malta Financial Services Authority, the directors are required to include in their annual financial report a Corporate Governance Statement to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance with these principles.

Our responsibility is laid down by Listing Rule 5.98, which requires us to include a report on the Corporate Governance Statement.

We read the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information included in the annual financial report.

We are not required to perform additional work necessary to, and we do not, express an opinion on the effectiveness of either the company's or the group's system of internal control or its corporate governance procedures.

In our opinion, the Corporate Governance Statement set out on pages 6 to 9 has been properly prepared in accordance with the requirements of Listing Rules 5.94 and 5.97.

Annabelle Zammit Pace as Director
in the name and on behalf of
**Deloitte Audit Limited**
Registered auditor

25 April 2014



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## Statements of profit or loss and other comprehensive income

Year ended 31 December 2013

| | Notes | Group 2013 Eur | Group 2012 Eur | Holding 2013 Eur | Holding 2012 Eur |
|---|---|---|---|---|---|
| Revenue | 5 | **88,943,635** | 83,106,554 | **-** | - |
| Cost of sales | | **(74,011,647)** | (68,949,414) | **-** | - |
| **Gross profit** | | **14,931,988** | 14,157,140 | **-** | - |
| Other operating income | 6 | **86,865** | 67,859 | **1,665,414** | 1,997,805 |
| Selling expenses | | **(4,799,004)** | (4,892,448) | **-** | - |
| Administrative expenses | | **(7,775,384)** | (8,643,551) | **(2,334,083)** | (2,418,695) |
| Operating profit/(loss) | | **2,444,465** | 689,000 | **(668,669)** | (420,890) |
| Other expenses | | **(131,070)** | (94,458) | **-** | - |
| Investment income | 7 | **138,708** | 4,165,306 | **4,200,771** | 4,018,980 |
| Investment losses | 8 | **(175,000)** | - | **-** | - |
| Finance costs | 9 | **(2,300,806)** | (2,822,186) | **(1,917,756)** | (2,315,612) |
| (Loss)/ profit before tax | 10 | **(23,703)** | 1,937,662 | **1,614,346** | 1,282,478 |
| Income tax (expense)/credit | 13 | **(99,531)** | 272,720 | **102,066** | 173,483 |
| **(Loss)/ profit for the year** | | **(123,234)** | 2,210,382 | **1,716,412** | 1,455,961 |
| **Other comprehensive income** | | | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | |
| Gain on available-for-sale investments | | **2,567** | - | **2,567** | - |
| **Total comprehensive (expense)/ income for the year** | | **(120,667)** | 2,210,382 | **1,718,979** | 1,455,961 |

| | Group 2013 Eur | Group 2012 Eur |
|---|---|---|
| *(Loss)/ profit attributable to:* | | |
| Owners of the company | **(167,075)** | 1,710,781 |
| Non controlling interests who are also owners of the company | **43,841** | 186,379 |
| Other non controlling interests | **-** | 313,222 |
| | **(123,234)** | 2,210,382 |
| *Total comprehensive (expense)/income attributable to:* | | |
| Owners of the company | **(164,508)** | 1,710,781 |
| Non controlling interests who are also owners of the company | **43,841** | 186,379 |
| Other non controlling interests | **-** | 313,222 |
| | **(120,667)** | 2,210,382 |

## Statements of financial position
31 December 2013

| | Notes | Group 2013 Eur | Group 2012 Eur | Holding 2013 Eur | Holding 2012 Eur |
|---|---|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 3 | **16,591,999** | 16,591,999 | **-** | - |
| Intangible assets | 14 | **9,362,756** | 9,823,184 | **8,650,307** | 9,300,633 |
| Property, plant and equipment | 15 | **28,330,781** | 27,692,853 | **82,616** | 118,148 |
| Other financial assets | 17 | **133,496** | - | **133,496** | - |
| Available-for-sale investments | 17 | **538,545** | - | **538,545** | - |
| Investment in subsidiaries | 17 | **-** | - | **25,252,042** | 28,501,209 |
| Loans and receivables | 17 | **-** | - | **8,100,000** | 1,590,000 |
| Deferred tax assets | 16 | **1,938,507** | 2,129,233 | **1,546,994** | 1,685,731 |
| Prepayments | 18 | **1,789,157** | 2,050,665 | **-** | - |
| | | **58,685,241** | 58,287,934 | **44,304,000** | 41,195,721 |
| **Current assets** | | | | | |
| Inventories | 19 | **2,262,916** | 2,264,804 | **-** | - |
| Loans and receivables | 17 | **1,045,413** | 4,854,057 | **2,669,854** | 4,804,646 |
| Trade and other receivables | 20 | **1,722,641** | 4,613,417 | **245,041** | 3,212,689 |
| Current tax asset | | **1,160,400** | 578,542 | **1,068,422** | 511,537 |
| Cash and cash equivalents | 27 | **4,704,050** | 2,843,999 | **820,464** | 307,371 |
| | | **10,895,420** | 15,154,819 | **4,803,781** | 8,836,243 |
| **Total assets** | | **69,580,661** | 73,442,753 | **49,107,781** | 50,031,964 |
| **Current liabilities** | | | | | |
| Trade and other payables | 21 | **11,480,737** | 11,836,032 | **1,434,662** | 1,564,536 |
| Other financial liabilities | 22 | **462,489** | 1,355,462 | **500,303** | 1,725,851 |
| Bank overdrafts and loans | 23 | **2,455,401** | 2,904,550 | **-** | - |
| Current tax liabilities | | **317,049** | 47,065 | **-** | - |
| | | **14,715,676** | 16,143,109 | **1,934,965** | 3,290,387 |
| **Non-current liabilities** | | | | | |
| Bank loans | 23 | **10,872,691** | 12,916,934 | **-** | - |
| Debt securities in issue | 24 | **24,318,878** | 24,315,771 | **24,318,878** | 24,315,771 |
| Other financial liabilities | 22 | **-** | 55,815 | **2,314,246** | 3,364,290 |
| Deferred tax liabilities | 16 | **3,503,090** | 3,638,350 | **2,928,473** | 3,169,276 |
| | | **38,694,659** | 40,926,870 | **29,561,597** | 30,849,337 |
| **Total liabilities** | | **53,410,335** | 57,069,979 | **31,496,562** | 34,139,724 |
| **Net assets** | | **16,170,326** | 16,372,774 | **17,611,219** | 15,892,240 |

# Statements of financial position (continued)

31 December 2013

| | Notes | Group 2013 Eur | Group 2012 Eur | Holding 2013 Eur | Holding 2012 Eur |
|---|---|---|---|---|---|
| **EQUITY** | | | | | |
| Share capital | *25* | **13,574,700** | 13,574,700 | **13,574,700** | 13,574,700 |
| Exchange translation reserves | | **11,725** | 11,725 | **-** | - |
| Fair value reserve | | **2,567** | - | **2,567** | - |
| Other equity | *26* | **(1,355,187)** | (1,420,782) | **212,351** | 212,351 |
| Retained earnings | | **3,486,860** | 3,794,866 | **3,821,601** | 2,105,189 |
| Equity attributable to owners of the company | | **15,720,665** | 15,960,509 | **17,611,219** | 15,892,240 |
| Non controlling interest | | **449,661** | 412,265 | **-** | - |
| **Total equity** | | **16,170,326** | 16,372,774 | **17,611,219** | 15,892,240 |

**These financial statements were approved by the board of directors, authorised for issue on 25 April 2014 and signed on its behalf by:**

***Melo Hili***
***Chairman***

***Richard Abdilla Castillo***
***Director***

## Group

| | Share capital | Exchange translation reserve | Fair value reserve | Other equity | Retained earnings | Attributable to owners of the parent | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| | Eur | Eur | Eur | Eur | Eur | Eur | Eur | Eur |
| **Balance at 1 January 2012** | **13,574,700** | **8,048** | - | **(73,567)** | **2,096,949** | **15,606,130** | **477,948** | **16,084,078** |
| Exchange differences on translation of foreign operations | - | 3,677 | - | - | - | 3,677 | - | **3,677** |
| Movement in legal reserve | - | - | - | 12,864 | (12,864) | - | | - |
| Movement in equity from business combination | - | - | - | | - | - | 48,137 | **48,137** |
| Effect of acquisition of part of non-controlling interest (note 17a) | - | - | - | (1,360,079) | - | (1,360,079) | (613,421) | **(1,973,500)** |
| Total comprehensive income for the year | - | - | - | - | 1,710,781 | 1,710,781 | 499,601 | **2,210,382** |
| **Balance at 1 January 2013** | **13,574,700** | **11,725** | - | **(1,420,782)** | **3,794,866** | **15,960,509** | **412,265** | **16,372,774** |
| (Loss)/ profit for the year | - | - | - | | (167,075) | (167,075) | 43,841 | **(123,234)** |
| Other comprehensive income for the year | - | - | 2,567 | - | | 2,567 | - | **2,567** |
| Total comprehensive income/ (expense) for the year | - | - | 2,567 | - | (167,075) | (164,508) | 43,841 | **(120,667)** |
| Movement in legal reserve | - | - | | 65,595 | (65,595) | - | | - |
| Net liabilities acquired on merger of subsidiary | - | - | | - | (75,336) | (75,336) | (6,445) | **(81,781)** |
| **Balance at 31 December 2013** | **13,574,700** | **11,725** | **2,567** | **(1,355,187)** | **3,486,860** | **15,720,665** | **449,661** | **16,170,326** |

# Statement of changes in equity (continued)

Year ended 31 December 2013

## Holding company

| | Share capital Eur | Retained earnings Eur | Fair value reserve Eur | Other equity Eur | Total Eur |
|---|---|---|---|---|---|
| **Balance at 1 January 2012** | 13,574,700 | 649,228 | - | 212,351 | 14,436,279 |
| Profit for the year | - | 1,455,961 | - | - | 1,455,961 |
| **Balance at 1 January 2013** | **13,574,700** | **2,105,189** | **-** | **212,351** | **15,892,240** |
| Profit for the year | - | 1,716,412 | | - | 1,716,412 |
| Other comprehensive income for the year | - | - | 2,567 | - | 2,567 |
| Total comprehensive income for the year | - | 1,716,412 | 2,567 | - | 1,718,979 |
| **Balance at 31 December 2013** | **13,574,700** | **3,821,601** | **2,567** | **212,351** | **17,611,219** |

# Statements of cash flows
Year ended 31 December 2013

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| **Cash flows from operating activities** | | | | |
| (Loss)/ profit before tax | **(23,703)** | 1,937,662 | **1,614,346** | 1,282,478 |
| *Adjustments for:* | | | | |
| Depreciation and amortisation | **5,325,002** | 5,483,842 | **695,136** | 664,987 |
| Tangible assets write-offs | **79,712** | 235,553 | **-** | - |
| Interest expense | **2,494,564** | 2,733,248 | **2,036,274** | 2,226,674 |
| Interest income | **(132,748)** | (54,564) | **(244,365)** | (546,525) |
| Amortisation of bond issue expenses | **57,907** | 57,907 | **57,907** | 57,907 |
| Revaluation of interest rate swap | **(257,793)** | (41,277) | **(257,793)** | (41,277) |
| Loss/ (gain) on disposal of property, plant and equipment | **(1,245)** | 5,308 | **(102)** | - |
| Dividend Income from subsidiaries | **-** | - | **(2,396,617)** | (1,701,537) |
| Gain on disposal of investment in subsidiary | **-** | (1,888,787) | **(1,551,883)** | (1,770,918) |
| Gain on business combination | **-** | (734,955) | **-** | - |
| Impairment of property, plant and equipment | **175,000** | - | **-** | - |
| Reversal of impairment | | (1,487,000) | **-** | |
| Operating profit before working capital movement | **7,716,696** | 6,246,937 | **(47,097)** | 171,789 |
| Movement in inventories | **1,888** | (991,347) | **-** | - |
| Movement in trade and other receivables | **3,152,289** | (1,366,362) | **2,967,649** | (67,259) |
| Movement in trade and other payables | **(437,076)** | 1,957,982 | **(129,873)** | 50,898 |
| Cash flows from operations | **10,433,797** | 5,847,210 | **2,790,679** | 155,428 |
| Interest paid | **(2,478,612)** | (2,823,796) | **(2,095,730)** | (2,211,417) |
| Income tax refund/(paid) | **(355,944)** | 1,227,160 | **-** | 1,699,259 |
| *Net cash flows from operating activities* | **7,599,241** | 4,250,574 | **694,949** | (356,730) |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | **(5,510,684)** | (6,722,917) | **(9,696)** | (16,933) |
| Proceeds from sale of property, plant and equipment | **4,345** | - | **1,700** | - |
| Purchase of intangible assets | **(249,630)** | (84,605) | **(1,180)** | (115,918) |
| Investment contributed to subsidiary | **-** | (161,184) | **(498,950)** | (161,184) |
| Settlement of loans and receivables | **-** | - | **4,952,786** | 1,384,920 |
| Advances of loans and receivables | **3,808,644** | - | **(1,772,071)** | (2,985,928) |
| Interest received | **132,748** | 54,564 | **148,322** | 525,224 |
| Purchase of available for sale investment | **(669,474)** | - | **(669,474)** | - |
| Net cash outflows on business combination | **-** | (127,992) | **-** | - |
| *Net cash flows from investing activities* | **(2,484,051)** | (7,042,134) | **2,151,437** | (1,369,819) |
| **Cash flows from financing activities** | | | | |
| Re-purchase of own bonds | **(57,701)** | (275,603) | **(57,701)** | (275,603) |
| Repayment of bank borrowings | **(2,369,793)** | (14,745,455) | **-** | (606,061) |
| Drawdowns from bank facilities | **325,550** | 15,146,516 | **-** | - |
| Repayments to related parties | **(704,046)** | (565,428) | **(2,565,597)** | (230,068) |
| Advances from related parties | **-** | - | **290,005** | 471,617 |
| *Net cash flows from financing activities* | **(2,805,990)** | (439,970) | **(2,333,293)** | (640,115) |
| **Net movement in cash and cash equivalents** | **2,309,200** | (3,231,530) | **513,093** | (2,366,664) |
| **Cash and cash equivalents at the beginning of the year** | **2,126,949** | 5,358,479 | **307,371** | 2,674,035 |
| **Cash and cash equivalents at the end of the year (note 27)** | **4,436,149** | 2,126,949 | **820,464** | 307,371 |

## 1. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss and available-for-sale financial assets which are stated at their fair values and in accordance with International Financial Reporting Standards as adopted by the EU. The significant accounting policies adopted are set out below.

The Group has reclassified certain amounts previously included within selling expenses, amounting to Eur41,562,660, to cost of sales since this presentation is considered to be more appropriate in the circumstances.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the company determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

## 2. Significant accounting policies

*Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the holding company and entities controlled by the holding company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, in preparing these consolidated financial statements, appropriate adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the group entities.

## 2. Significant accounting policies (continued)

*Basis of consolidation (continued)*

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets or liabilities of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consists of the amount of those interests at the date of the original business combination and the non-controlling interests share of changes in equity since the date of the combination. Total comprehensive income is attributable to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except where the exceptions to the recognition or measurement principles apply.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

## 2. Significant accounting policies (continued)

*Business combinations (continued)*

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in profit or loss. Amounts previously recognised in other comprehensive income in relation to the acquiree are accounted for in the same manner as would be required if the interest were disposed of.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the holding company.

Where the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

*Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

## 2. Significant accounting policies (continued)

*Goodwill (continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

*Investment in subsidiaries*

A subsidiary is an entity that is controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Investments in subsidiaries, in the company's financial statements are stated at cost less any accumulated impairment losses. Dividends from the investments are recognised in profit or loss.

*Property, plant and equipment*

The group's property, plant and equipment are classified into the following classes – land and buildings, improvement to premises, motor vehicles, plant and equipment and other equipment. The holding company's property, plant and equipment are classified into motor vehicles and furniture, fixtures and other equipment.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Land and buildings are held for use in the production or supply of goods or services or for administrative purposes. Subsequent to initial recognition, land and buildings are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Other tangible assets are stated at cost less any accumulated depreciation and any accumulated impairment losses.

## 2. Significant accounting policies (continued)

*Property, plant and equipment (continued)*

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

*Depreciation*

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

| | | |
|---|---|---|
| Buildings | - | 2.5% - 5% per annum |
| Improvements to premises | - | 5% - 20% per annum<br>*in line with lease expiry* |
| Motor vehicles | - | 12.5% - 33.3% per annum |
| Plant and equipment | - | 10% - 50% per annum |
| Furniture, fixtures and other equipment | - | 10% - 25% per annum |

No depreciation is charged on land.

The depreciation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

*Intangible assets*

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

Intangible assets are initially measured at cost, being the fair value at the acquisition date for intangible assets acquired in a business combination. Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria or the item is acquired in a business combination and cannot be recognised as an intangible asset, in which case it forms part of goodwill at the acquisition date.

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

## 2. Significant accounting policies (continued)

*Intangible assets (continued)*

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

(i) Support services licence

After initial recognition, support services licence is carried at cost less any accumulated amortisation and any accumulated impairment losses. Support services licence is written off to profit or loss by equal instalments over the term of the support services agreement with the subsidiaries, being 20 years.

(ii) Computer software

In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property, plant and equipment and accounted for in accordance with the group's accounting policy on property, plant and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset and carried at cost less any accumulated amortisation and any accumulated impairment losses. Computer software classified as an intangible asset is amortised on a straight-line basis over three to five years.

(iii) Acquired rights

Acquired rights are classified as intangible assets. After initial recognition, acquired rights are carried at cost less any accumulated amortisation and any accumulated impairment losses. Acquired rights are amortised on a straight-line basis over thirty-five to forty years.

(iv) Franchisee fees

After initial recognition, franchisee fees are carried at cost less any accumulated amortisation and any accumulated impairment losses. Franchisee fees are written off to profit or loss by equal instalments over the term of the franchisee agreement.

2. **Significant accounting policies (continued)**

*Other financial instruments*

Financial assets and financial liabilities are recognised when the group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

(i) Trade receivables

Trade receivables are classified with current assets and are stated at their nominal value unless the effect of discounting is material, in which case trade receivables are measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

(ii) Investments

The group's investments are classified into the following categories - loans and receivables, financial assets at fair value through profit or loss and available-for-sale investments. The classification depends on the purpose for which the investments were acquired.

Financial assets at fair value through profit or loss are those that are held for trading purposes or those financial assets that are so designated upon initial recognition. After initial recognition, financial assets at fair value through profit or loss are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

## 2. Significant accounting policies (continued)

*Other financial instruments (continued)*

(ii) Investments (continued)

Where applicable, dividend income on financial assets at fair value through profit or loss is recognised with other dividend income, if any, arising on other financial assets. Where applicable, interest income on financial assets at fair value through profit or loss is disclosed separately within the line item investment income. Fair value gains and losses are recognised within the line items investment income or investment losses as appropriate.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the group may not recover substantially all of its initial investment other than because of credit deterioration.

After initial recognition, loans and receivables are recognised at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised, or impaired, or through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are either designated in this category by the company or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at their fair value. Gains and losses arising from a change in fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognised in profit or loss.

When applying the effective interest method, the annual amortisation of any discount or premium is aggregated with other investment income receivable over the term of the instrument, if any, so that the revenue recognised in each period represents a constant yield on the investment.

(iii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Bank loans are carried at face value due to their market rate of interest.

## 2. Significant accounting policies (continued)

*Other financial instruments (continued)*

(iii) Bank borrowings (continued)

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

(iv) Other borrowings

Subsequent to initial recognition, other borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial.

(v) Trade payables

Trade payables are classified with current liabilities and are stated at their nominal value, unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

(vi) Shares issued by the company

Ordinary shares issued by the company are classified as equity instruments.

(vii) Derivative financial instruments

Derivative financial assets and derivative financial liabilities are classified as held for trading unless they are designated and effective hedging instruments. During the year under review and during the prior year, the group did not designate any of its derivative financial instruments in a hedging relationship for accounting purposes. After initial recognition, derivative financial instruments are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

*Inventories*

Inventories are stated at the lower of cost and net realisable value. The group considers the nature and use of the inventory when calculating the cost of inventories.

Cost is calculated using the weighted average method and comprises expenditure incurred in acquiring the inventories and other costs incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the costs to be incurred in marketing, selling and distribution.

## 2. Significant accounting policies (continued)

*Provisions*

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

*Impairment*

All assets are tested for impairment except for deferred tax assets, financial assets measured at fair value through profit or loss and inventories.

At the end of each reporting period, the carrying amount of assets, including cash-generating units, is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

Goodwill, intangible assets with an indefinite useful life and intangible assets that are not yet available for use are tested for impairment annually, irrespective of whether an indication of impairment exists.

In the case of financial assets that are carried at amortised cost or classified as available-for-sale investments, objective evidence of impairment includes observable data about the following loss events – significant financial difficulty of the issuer (or counterparty) or a breach of contract or it becoming probable that the borrower will enter bankruptcy or other financial reorganization or the company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the company would not otherwise consider.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans and receivables, if there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced directly.

## 2. Significant accounting policies (continued)

*Impairment (continued)*

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative impairment loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment and is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value (which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) less costs of disposal and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Where it is not possible to estimate the recoverable amount of an individual asset, then the recoverable amount of the cash-generating unit to which the asset belongs is determined. For cash-generating units, where the recoverable amount is less than the carrying amount, the carrying amount of the assets of the unit is reduced first to reduce the carrying amount of any goodwill allocated, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Impairment losses are recognised immediately in profit or loss.

For loans and receivables, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly.

In the case of other assets tested for impairment, an impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment reversals are recognised immediately in profit or loss.

## 2. Significant accounting policies (continued)

*Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of value-added tax and discounts, where applicable. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and these can be measured reliably. The following specific recognition criteria must also be met:

Sale of goods

Revenue from the sale of goods is recognised on the transfer of the risks and rewards of ownership, which generally coincides with the time of delivery, when the costs incurred or to be incurred in respect of the transaction can be measured reliably and when the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Interest income

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the assets net carrying amount.

Other operating income and commissions

Other operating income and commissions are accounted for on an accruals basis.

Dividend income

Dividend income is recognised when the shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the group and the amount of income can be measured reliably.

*Borrowing costs*

Borrowing costs include the costs incurred in obtaining external financing. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

## 2. Significant accounting policies (continued)

*Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee.

All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provision of the lease.

Rentals payable under operating leases, less the aggregate benefit of incentives received from the lessor are recognised as an expense in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit.

*Taxation*

Current and deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly to equity, in which case the current or deferred tax is also dealt with in other comprehensive income or equity.

Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, including deferred tax assets for the carry forward of unused tax losses, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither accounting profit nor taxable profit.

## 2. Significant accounting policies (continued)

*Taxation (continued)*

Deferred tax liabilities are not recognised for taxable temporary differences arising on investments in subsidiaries where the company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised for deductible temporary differences arising on investments in subsidiaries where it is probable that taxable profit will be available against which the temporary difference can be utilised and it is probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilised.

Deferred tax is calculated 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 that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities are offset when the group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to set off its current tax assets and liabilities and 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 which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

*Employee benefits*

The group contributes towards the state pension in accordance with local legislation. The only obligation of the group is to make the required contributions. Costs are expensed in the period in which they are incurred.

*Currency translation*

The financial statements of the company are presented in its functional currency, the Euro, being the currency of the primary economic environment in which the company operates. In preparing the financial statements of each individual group entity, transactions in currency other than the respective entities' functional currency are recognised at the rate of exchange prevailing at the date of transaction.

## 2. Significant accounting policies (continued)

*Currency translation (continued)*

Transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the re-translation of monetary items are dealt with in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was measured.

Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not re-translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

Foreign exchange gains and losses are included within operating profit, except in the case of significant exchange differences arising on investing or financing activities, which are classified within investment income, investment losses or finance costs as appropriate.

For the purpose of presenting consolidated financial statements, income and expenses of the group's foreign operations are translated to Euro at the average exchange rates. Assets and liabilities of the group's foreign operations are translated to Euro at the exchange rate ruling at the date of the statement of financial position. Exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. Such differences are reclassified from equity to profit or loss in the period in which the foreign operation is disposed of.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows and are presented in current liabilities in the statement of financial position.

**2. Significant accounting policies (continued)**

*Dividends*

Dividends to holders of equity instruments are recognised as liabilities in the period in which they are declared.

Dividends to holders of equity instrument, or of the equity component of a financial instrument issued by the company, are recognised directly in equity. Dividends relating to a financial liability, or to a component that is a financial liability, are recognised as an expense in profit or loss and are presented in the statement of profit or loss and other comprehensive income with finance costs.

**3. Judgements in applying accounting policies and key sources of estimation uncertainty**

In the process of applying the group's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements and, at the end of the reporting period, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year other than as disclosed below:

The group reviews property, plant and equipment and intangible assets to evaluate whether events or changes in circumstances indicate that the carrying amounts may not be recoverable. The company reviews intangible assets and investments in subsidiaries to evaluate whether events or changes in circumstances indicate that the carrying amounts may not be recoverable. At the year-end there was no objective evidence of impairment in this respect.

In addition, the group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Determining whether the carrying amounts of these assets can be realised requires an estimation of the value in use of the cash-generating units. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Goodwill arising on a business combination is allocated, to the cash-generating units ("CGUs") that are expected to benefit from that business combination.

The majority of the carrying amount of goodwill amounting to *Eur14,606,999* had been allocated to the Malta operation of Premier Restaurants Malta Limited. The remaining goodwill amounting to *Eur1,985,000* arises on a business combination in connection with Arcades Limited (previously a jointly controlled entity becoming a subsidiary in 2012 (note 29)).

## 3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The assessment of recoverability of the carrying amount of goodwill includes:

- forecasted projected cash flows up to 2023 (2012 - 2022) and projection of terminal value using the perpetuity method;
- growth rate of 3% (2012 – 3%); and
- use of 11.83% (pre-tax) (2012 – 11.56%) to discount the projected cash flows to net present values.

Given the nature of the products sold and the nature of the industry a period longer than 5 years was considered to be acceptable.

Based on the above assessment, management expects the carrying amount of goodwill to be recoverable and there is no impairment in value of the goodwill.

## 4. Initial application of an International Financial Reporting Standard and International Financial Reporting Standards in issue but not yet effective

*Initial application of an International Financial Reporting Standard*

In the current year, the company and the group have applied the following:

IFRS 13 *Fair Value Measurement,* applicable for annual periods beginning on or after 1 January 2013, defines fair value, establishes a single source of guidance for fair value measurements and requires disclosures about fair value measurements. IFRS 13 requires prospective application. In accordance with the transitional provisions set out in the Standard, entities need not apply the disclosure requirements in comparative information provided for periods before the initial application of the Standard. Consequently, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period. The application of IFRS 13 in the current year has resulted in additional disclosures that are required by the Standard for certain financial and/or non-financial items. The company and the group have also early applied the May 2013 amendments to IAS 36 which remove certain additional disclosures in connection with cash-generating units that were unintentionally introduced by IFRS 13.

4. **Initial application of an International Financial Reporting Standard and International Financial Reporting Standards in issue but not yet effective (continued)**

*Initial application of an International Financial Reporting Standard (continued)*

IAS 1 (Amendments) - These Amendments, applicable for annual periods beginning on or after 1 July 2012, require companies to group together items of other comprehensive income into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. These Amendments also introduce new terminology, which is not mandatory, for the income statement and the statement of comprehensive income. The IAS 1 Amendments have been applied retrospectively.

*International Financial Reporting Standards in issue but not yet effective*

At the date of approval of these financial statements, a number of International Financial Reporting Standards were in issue but not yet effective. The directors are assessing the potential impact of these International Financial Reporting Standards on the group and company's financial statements.

IFRS 9 represents the completion of the classification and measurement part of the IASB's project to replace IAS 39. This Standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the assets. The Standard requires financial assets to be subsequently measured at amortised cost or at fair value. The requirements for financial liabilities address the problem of volatility in profit or loss arising from measuring own debt at fair value.

Under IFRS 9, an entity choosing to measure a liability at fair value will generally present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income. During a meeting held by the IASB on 20 February 2014, the IASB decided that the effective date for this standard shall be 1 January 2018. This Standard has not as yet been endorsed by the European Union.

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (that is, whether an entity is controlled through voting rights of the investors or otherwise). IFRS 10 supersedes SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. This standard is effective for annual periods beginning on are after 1 January 2014 for companies preparing their financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

## 4. Initial application of an International Financial Reporting Standard and International Financial Reporting Standards in issue but not yet effective (continued)

*International Financial Reporting Standards in issue but not yet effective (continued)*

IFRS 12 *Disclosure of Interests in Other Entities* addresses disclosure requirements for certain interests in other entities, including joint arrangements, associates, subsidiaries and unconsolidated structured entities. The objective of IFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on are after 1 January 2014 for companies preparing their financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The revised IAS 27 was issued concurrently with IFRS 10. Together, the two IFRSs supersede IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008). This standard is effective for annual periods beginning on are after 1 January 2014 for companies preparing their financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The directors anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective, will have no material impact on the financial statements of the company or the Group in the period of initial application.

## 5. Segment information

The group operates one business activity which is the operation of the McDonald's restaurant business which activities are licensed under the terms of the franchise agreements awarded for each geographical location. The main line of activities are reported according to the geographical location. Each of these operating segments is managed separately as each of these lines requires local resources. All inter segment transfers for management services are carried out on a cost basis.

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker.

Revenue reported below represents revenue generated from external customers. There were no intersegment sales in the year. The group's reportable segments under IFRS 8 are direct sales attributable to each country where it operates as a McDonald's development licensee.

The group operates in five principal geographical areas - Malta (country of domicile), Estonia, Greece, Latvia and Lithuania.

## 5. Segment information (continued)

*Measurement of operating segment profit or loss, assets and liabilities*

Segment profit represents the profit earned by each segment after allocation of central administration costs and finance costs based on services and finance provided. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The accounting policies of the reportable segments are the same as the group's accounting policies described in note 2.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to consolidated totals are reported below:

### Profit or loss

| | **2013** | 2012 |
|---|---|---|
| | **Eur** | Eur |
| Total profit for reportable segments | **3,008,047** | 2,213,801 |
| Elimination of inter segment profits | **(4,615,148)** | (1,547,818) |
| Unallocated amounts: | | |
| Other unallocated amounts | **1,583,398** | 1,271,679 |
| | **(23,703)** | 1,937,662 |

### Assets

| | **2013** | 2012 |
|---|---|---|
| | **Eur** | Eur |
| Total assets for reportable segments | **50,652,386** | 46,763,154 |
| Eliminination of receivables | **(21,525,118)** | (11,445,737) |
| Unallocated amounts: | | |
| Intangible assets | **8,650,307** | 9,148,067 |
| Loans and receivables | **10,769,854** | 9,394,646 |
| Goodwill | **16,591,999** | 16,591,999 |
| Other unallocated amounts | **4,441,233** | 2,990,624 |
| | **69,580,661** | 73,442,753 |

### Liabilities

| | **2013** | 2012 |
|---|---|---|
| | **Eur** | Eur |
| Total liabilities for reportable segments | **23,149,564** | 18,809,582 |
| Elimination of payables | **(14,299,781)** | (10,986,087) |
| Unallocated amounts: | | |
| Bank loans | **13,060,189** | 15,104,434 |
| Debt Securities in issue | **24,318,878** | 24,315,771 |
| Other segment liabilities | **7,181,485** | 9,826,279 |
| | **53,410,335** | 57,069,979 |

## 5. Segment Information (continued)

The group's revenue and results from continuing operations from external customers and information about it assets and liabilities by reportable segment are detailed below.

| | Estonia 2013 Eur | Greece 2013 Eur | Latvia 2013 Eur | Lithuania 2013 Eur | Malta 2013 Eur | Total 2013 Eur | Unallocated 2013 Eur | Eliminations and Adjustments 2013 Eur | Consolidated 2013 Eur |
|---|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | | | |
| Revenue | 17,180,015 | 18,601,877 | 17,457,101 | 15,257,542 | 20,447,100 | 88,943,635 | - | - | 88,943,635 |
| Profit/ (loss) before tax | 1,419,294 | (1,476,501) | 747,805 | 1,352,122 | 965,327 | 3,008,047 | 1,583,398 | (4,615,148) | (23,703) |
| Depreciation and amortisation | 809,008 | 1,140,824 | 943,790 | 593,430 | 1,106,942 | 4,593,994 | 731,008 | - | 5,325,002 |
| Segment Assets | 7,686,555 | 8,169,482 | 15,264,549 | 6,869,166 | 12,662,634 | 50,652,386 | 40,453,393 | (21,525,118) | 69,580,661 |
| Capital expenditure | 402,838 | 781,503 | 2,024,880 | 842,096 | 1,619,759 | 5,671,076 | 10,845 | - | 5,681,921 |
| Segment Liabilities | 2,454,558 | 2,794,348 | 3,403,158 | 1,584,692 | 12,912,808 | 23,149,564 | 44,560,552 | (14,299,781) | 53,410,335 |
| Income Tax Expense | - | - | 115,078 | 235,598 | 407,539 | 758,215 | (102,066) | (556,618) | 99,531 |

## 5. Segment Information (continued)

| | Estonia 2012 Eur | Greece 2012 Eur | Latvia 2012 Eur | Lithuania 2012 Eur | Malta 2012 Eur | Total 2012 Eur | Unallocated 2012 Eur | Eliminations and Adjustments 2012 Eur | Consolidated 2012 Eur |
|---|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | | | |
| Revenue | 15,684,451 | 18,980,256 | 16,268,217 | 13,927,911 | 18,238,838 | 83,099,673 | 6,881 | - | 83,106,554 |
| Profit before tax | 938,260 | (2,586,423) | 619,246 | 469,239 | 2,773,479 | 2,213,801 | 1,271,679 | (1,547,818) | 1,937,662 |
| Depreciation and amortisation | 756,640 | 1,048,280 | 796,297 | 567,765 | 1,388,450 | 4,557,432 | 926,410 | - | 5,483,842 |
| Segment Assets | 7,810,359 | 8,003,533 | 17,977,955 | 6,693,200 | 6,278,107 | 46,763,154 | 38,125,336 | (11,445,737) | 73,442,753 |
| Capital expenditure | 1,178,401 | 1,527,008 | 1,663,193 | 857,869 | 727,052 | 5,953,523 | 895,817 | | 6,849,340 |
| Segment Liabilities | 3,998,260 | 2,794,348 | 4,265,050 | 2,150,251 | 5,601,673 | 18,809,582 | 49,246,484 | (10,986,087) | 57,069,979 |
| Income Tax Expense | - | (266,887) | 166,563 | 71,910 | 409,878 | 381,464 | (142,647) | (511,537) | (272,720) |

## 6. Other operating income

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Consultancy fees | **9,074** | 19,320 | **700,953** | 911,820 |
| Support services | **-** | - | **964,461** | 1,085,985 |
| Other income | **77,791** | 48,539 | **-** | - |
| | **86,865** | 67,859 | **1,665,414** | 1,997,805 |

## 7. Investment income

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Interest income on bank deposits | **3,762** | 7,518 | **1,946** | 7,518 |
| Interest income on subsidiary loans | **-** | - | **146,376** | 491,961 |
| Gains on derivative financial instrument | **5,960** | - | **5,960** | - |
| Other interest income | **128,986** | 47,046 | **14,651** | 47,046 |
| Interest income on related party loans | **-** | - | **83,338** | - |
| Gain on business combination | **-** | 734,955 | **-** | - |
| Gain on disposal of investment in subsidiary | **-** | 1,888,787 | **1,551,883** | 1,770,918 |
| Reversal of provision for impairment | **-** | 1,487,000 | **-** | - |
| Dividends from investments in subsidiaries | **-** | - | **2,396,617** | 1,701,537 |
| | **138,708** | 4,165,306 | **4,200,771** | 4,018,980 |

## 8. Investment losses

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Impairment loss on land and buildings | **175,000** | - | **-** | - |

## 9. Finance costs

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Interest on bank overdraft and loans | **483,624** | 786,996 | **-** | 207,244 |
| Interest on bonds | **1,664,730** | 1,696,870 | **1,664,730** | 1,696,870 |
| Amortisation of bond issue expenses | **57,907** | 57,907 | **57,907** | 57,907 |
| Interest on amounts payable to related parties | **-** | 5,146 | **116,810** | 78,324 |
| Loss for the year on derivative financial instrument | **-** | 190,236 | **-** | 190,236 |
| Other finance costs | **94,545** | 85,031 | **78,309** | 85,031 |
| | **2,300,806** | 2,822,186 | **1,917,756** | 2,315,612 |

## 10. (Loss)/ profit before tax

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| This is stated after charging/ (crediting): | | | | |
| Depreciation of property, plant and equipment and amortisation of intangible assets | **5,325,002** | 5,483,842 | **695,136** | 664,987 |
| Net exchange differences | **8,080** | 15,135 | **-** | - |

The analysis of the amounts that are payable to the auditors and that are required to be disclosed are as follows:

**Group**

Total remuneration payable to the parent company's auditors in respect of the audit of the financial statements and the undertakings included in the consolidated financial statements amounted to *Eur43,000* (2012 – *Eur35,500*) and the remuneration payable to the other auditors in respect of the audits of the undertakings included in the consolidated financial statements amounted to *Eur71,000* (2012 – *Eur74,750*). Other fees payable to the parent company's auditors for non-audit services other than other assurance services and tax advisory services amounted to *Eur18,818* (2012 – *Eur31,005*).

**Holding company**

Total remuneration payable to the parent company's auditors for the audit of the company's financial statements amounted to *Eur5,000* (2012 – *Eur5,000*). Other fees payable to the parent company's auditors for non-audit services other than other assurance services and tax advisory services amounted to *Eur13,355* (2012 – *Eur24,680*).

## 11. Key management personnel compensation

| | Group and Holding | |
|---|---|---|
| | **2013** | 2012 |
| | **Eur** | Eur |
| ***Directors' compensation:*** | | |
| Short term benefits: | | |
| Salaries and social security contribution | **186,984** | 127,102 |
| ***Other key management personnel compensation:*** | | |
| Short term benefits: | | |
| Salaries and social security contribution | **890,353** | 931,781 |
| | **1,077,337** | 1,058,883 |

## 12. Staff costs and employee information

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| ***Staff costs:*** | | | | |
| Wages and salaries | **20,993,905** | 20,057,584 | **898,351** | 962,240 |
| Social security costs | **4,546,352** | 4,489,596 | **19,275** | 18,652 |
| | **25,540,257** | 24,547,180 | **917,626** | 980,892 |

The average number of persons employed during the year by the group and the company excluding executive directors, was made up as follows:

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Number** | Number | **Number** | Number |
| Operations | **2,279** | 2,208 | **-** | - |
| Administration | **145** | 138 | **15** | 15 |
| | **2,424** | 2,346 | **15** | 15 |

## 13. Income tax expense/(credit)

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Current tax expense | **44,065** | 183,476 | **-** | - |
| Deferred tax expense/(credit) | **55,466** | (456,196) | **(102,066)** | (173,483) |
| | **99,531** | (272,720) | **(102,066)** | (173,483) |

Tax applying the statutory domestic income tax rate and the income tax expense for the year are reconciled as follows:

The tax rate used for the 2013 and 2012 reconciliations is the corporate tax rate of 35% payable by corporate entities in Malta on taxable profits under tax law in Malta.

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| (Loss)/ profit for the year before tax | **(23,703)** | 1,937,662 | **1,614,346** | 1,282,478 |
| Tax at the applicable rate of 35% | **(8,296)** | 678,182 | **565,021** | 448,867 |
| Tax effect of: | | | | |
| Non-deductability of depreciation and amortisation | **322,269** | 434,790 | **2,520** | - |
| Effect of provision/ (reversal of provision) for impairment | **61,250** | (520,450) | **-** | - |
| Effect of gain on business combination | **-** | (257,234) | **-** | - |
| Unabsorbed trading losses acquired on merger utilised in current year | **(48,904)** | - | **-** | - |
| Deferred tax not accounted for | **121,333** | - | **-** | - |
| Disallowable expenses | **75,599** | 184,326 | **1,750** | - |
| Effect of different tax rates of subsidiaries | **(498,604)** | (214,755) | **-** | - |
| Profits not chargeable to tax and tax exemptions | **-** | (661,075) | **(543,159)** | (619,821) |
| Dividend from untaxed account | **-** | - | **(128,198)** | - |
| Other permanent differences | **74,884** | 83,496 | **-** | (2,529) |
| Income tax expense/(credit) for the year | **99,531** | (272,720) | **(102,066)** | (173,483) |

## 14. Intangible assets

### Group

| | Support services licence Eur | Computer software Eur | Acquired rights and franchise fee Eur | Total Eur |
|---|---|---|---|---|
| **Cost** | | | | |
| At 01.01.2012 | 12,366,964 | 92,152 | 650,321 | 13,109,437 |
| Additions | - | 118,511 | 24,300 | 142,811 |
| Acquired through business combination | | | 18,472 | 18,472 |
| Disposals | - | (2,452) | | (2,452) |
| At 01.01.2013 | 12,366,964 | 208,211 | 693,093 | 13,268,268 |
| Additions | - | 171,237 | 78,393 | 249,630 |
| Disposals | - | (2,015) | - | (2,015) |
| At 31.12.2013 | 12,366,964 | 377,433 | 771,486 | 13,515,883 |
| **Amortisation** | | | | |
| At 01.01.2012 | 2,473,393 | 26,180 | 261,409 | 2,760,982 |
| Provision for the year | 618,351 | 18,642 | 31,869 | 668,862 |
| Acquired through business combination | - | - | 15,240 | 15,240 |
| At 01.01.2013 | 3,091,744 | 44,822 | 308,518 | 3,445,084 |
| Provision for the year | 618,352 | 51,758 | 39,948 | 710,058 |
| Released on disposal | - | (2,015) | - | (2,015) |
| At 31.12.2013 | 3,710,096 | 94,565 | 348,466 | 4,153,127 |
| **Carrying amount** | | | | |
| At 31.12.2012 | 9,275,220 | 163,389 | 384,575 | 9,823,184 |
| **At 31.12.2013** | **8,656,868** | **282,868** | **423,020** | **9,362,756** |

## 14. Intangible assets (continued)

### Holding company

| | Support services licence Eur | Computer Software Eur | Assets not yet in use Eur | Total Eur |
|---|---|---|---|---|
| **Cost** | | | | |
| At 01.01.2012 | 12,197,438 | - | 50,158 | 12,247,596 |
| Transfers between categories | | 50,158 | (50,158) | - |
| Additions | - | 115,918 | | 115,918 |
| At 01.01.2013 | 12,197,438 | 166,076 | - | 12,363,514 |
| Additions | - | 1,180 | - | 1,180 |
| At 31.12.2013 | 12,197,438 | 167,256 | - | 12,364,694 |
| **Amortisation** | | | | |
| At 01.01.2012 | 2,439,495 | - | - | 2,439,495 |
| Provision for the year | 609,876 | 13,510 | - | 623,386 |
| At 01.01.2013 | 3,049,371 | 13,510 | - | 3,062,881 |
| Provision for the year | 609,876 | 41,630 | | 651,506 |
| At 31.12.2013 | 3,659,247 | 55,140 | - | 3,714,387 |
| **Carrying amount** | | | | |
| At 31.12.2012 | 9,148,067 | 152,566 | - | 9,300,633 |
| **At 31.12.2013** | **8,538,191** | **112,116** | - | **8,650,307** |

The amortisation expense on intangible assets has been included in the line items 'Distribution expenses' and 'Administrative expenses' in the statement of comprehensive income.

The support services licence with a carrying amount of *Eur8,538,191* will be fully amortised by 2027, and relates to the licence paid to Mc Donald's corporation to operate the Mc Donald's brand in the Baltic countries.

## 15. Property, plant and equipment

### Group

| | Land and buildings Eur | Improvements to premises Eur | Motor vehicles Eur | Plant and equipment Eur | Other equipment Eur | Total Eur |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 01.01.2012** | 25,532,422 | 8,301,762 | 317,231 | 22,736,201 | 2,298,650 | 59,186,266 |
| Net acquisitions through business combination | - | 873,707 | - | 579,258 | - | 1,452,965 |
| Additions | 2,125,816 | 904,086 | 43,600 | 2,488,870 | 1,144,156 | 6,706,528 |
| Disposals | (129,520) | (1,238,478) | (32,185) | (778,828) | (420,690) | (2,599,701) |
| Effect of disposal of subsidiary | (10,519,198) | - | - | - | (65,341) | (10,584,539) |
| At 01.01.2013 | 17,009,520 | 8,841,077 | 328,646 | 25,025,501 | 2,956,775 | 54,161,519 |
| Additions | 901,628 | 456,186 | - | 1,821,450 | 2,331,420 | 5,510,684 |
| Disposals | (7,030) | (50,926) | (10,861) | (120,552) | (131,618) | (320,987) |
| Impairment loss | (175,000) | - | - | - | - | (175,000) |
| Transfers between categories | (1,397,450) | 1,397,450 | - | - | - | - |
| **At 31.12.2013** | 16,331,668 | 10,643,787 | 317,785 | 26,726,399 | 5,156,577 | 59,176,216 |
| **Accumulated depreciation** | | | | | | |
| At 01.01.2012 | 7,197,664 | 4,494,656 | 183,118 | 10,637,082 | 899,754 | 23,412,274 |
| Provision for the year | 994,997 | 947,974 | 53,879 | 1,819,143 | 998,987 | 4,814,980 |
| Net acquisitions through business combination | - | 708,106 | - | 427,178 | - | 1,135,284 |
| Released on disposal | (129,520) | (1,179,566) | (23,361) | (660,594) | (425,509) | (2,418,550) |
| Effect of disposal of subsidiary | (437,443) | - | - | - | (37,879) | (475,322) |
| **At 01.01.2013** | 7,625,698 | 4,971,170 | 213,636 | 12,222,809 | 1,435,353 | 26,468,666 |
| Provision for the year | 718,557 | 987,334 | 49,638 | 1,964,694 | 894,721 | 4,614,944 |
| Released on disposal | (310) | (50,839) | (10,785) | (125,164) | (51,077) | (238,175) |
| Transfers between categories | (1,060,831) | 1,060,831 | - | - | - | - |
| **At 31.12.2013** | 7,283,114 | 6,968,496 | 252,489 | 14,062,339 | 2,278,997 | 30,845,435 |
| **Carrying amount** | | | | | | |
| At 31.12.2012 | 9,383,822 | 3,869,907 | 115,010 | 12,802,692 | 1,521,422 | 27,692,853 |
| **At 31.12.2013** | **9,048,554** | **3,675,291** | **65,296** | **12,664,060** | **2,877,580** | **28,330,781** |

No interest has been capitalised by the group during 2013 and 2012.

The group's property, plant and equipment with a carrying amount of Eur22m (2012 - *Eur22m*) are held as security in connection with bank borrowings.

## 15. Property, plant and equipment (continued)

### Holding

| | Motor Vehicles Eur | Furniture, fixtures and other equipment Eur | Total Eur |
|---|---|---|---|
| **Cost** | | | |
| At 01.01.2012 | 50,000 | 138,142 | 188,142 |
| Additions | - | 16,933 | 16,933 |
| At 01.01.2013 | 50,000 | 155,075 | 205,075 |
| Additions | - | 9,696 | 9,696 |
| Disposals | - | (2,522) | (2,522) |
| At 31.12.2013 | 50,000 | 162,249 | 212,249 |
| **Accumulated depreciation** | | | |
| At 01.01.2012 | - | 45,326 | 45,326 |
| Provision for the year | 10,000 | 31,601 | 41,601 |
| At 01.01.2013 | 10,000 | 76,927 | 86,927 |
| Provision for the year | 10,000 | 33,630 | 43,630 |
| Released on disposal | - | (924) | (924) |
| At 31.12.2013 | 20,000 | 109,633 | 129,633 |
| **Carrying amount** | | | |
| At 31.12.2012 | 40,000 | 78,148 | 118,148 |
| **At 31.12.2013** | **30,000** | **52,616** | **82,616** |

## 16. Deferred taxation

### Group

| | Opening balance Eur | Recognised in profit and loss Eur | Closing balance Eur |
|---|---|---|---|
| **Deferred tax assets** | | | |
| 2012 | | | |
| *Arising on:* | | | |
| Temporary differences on tangible assets | 85,731 | 55,856 | **141,587** |
| Unused tax losses | 1,742,480 | 245,166 | **1,987,646** |
| Other differences | 35,028 | (35,028) | **-** |
| | 1,863,239 | 265,994 | **2,129,233** |
| **2013** | | | |
| *Arising on:* | | | |
| Temporary differences on tangible assets | 141,587 | (51,989) | **89,598** |
| Unused tax losses | 1,987,646 | (138,737) | **1,848,909** |
| | 2,129,233 | (190,726) | **1,938,507** |
| **Deferred tax liabilities** | | | |
| 2012 | | | |
| *Arising on:* | | | |
| Temporary differences on intangible assets | 3,399,507 | (230,231) | **3,169,276** |
| Temporary differences on property, plant and equipment | 429,045 | 40,029 | **469,074** |
| | 3,828,552 | (190,202) | **3,638,350** |
| **2013** | | | |
| *Arising on:* | | | |
| Temporary differences on intangible assets | 3,169,276 | (240,803) | **2,928,473** |
| Temporary differences on property, plant and equipment | 469,074 | 105,543 | **574,617** |
| | 3,638,350 | (135,260) | **3,503,090** |

Deferred tax assets have been recognised for all unused tax losses, except for losses of *Eur466,664* arising from Premier Capital Hellas SA, to the extent that it is probable that taxable profits will be available against which the losses can be utilised. The majority of the deferred tax asset arising on unutilised tax losses reverses when dividends are declared from the subsidiaries. The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised, amounts to *Eur4,148,639* (2012 – *Eur1,861,268*).

## 16. Deferred taxation (continued)

### Holding

| | Opening balance Eur | Recognised in profit or loss Eur | Closing balance Eur |
|---|---|---|---|
| **Deferred tax assets** | | | |
| 2012 | | | |
| *Arising on:* | | | |
| Unused tax losses | 1,742,480 | (56,749) | **1,685,731** |
| **2013** | | | |
| *Arising on:* | | | |
| Unused tax losses | 1,685,731 | (138,737) | **1,546,994** |
| **Deferred tax liabilities** | | | |
| 2012 | | | |
| *Arising on:* | | | |
| Temporary differences on intangible assets | 3,399,508 | (230,232) | **3,169,276** |
| **2013** | | | |
| *Arising on:* | | | |
| Temporary differences on intangible assets | 3,169,276 | (240,803) | **2,928,473** |

Deferred tax assets have been recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The deferred tax asset arising on unutilised tax losses reverses when dividends are declared from the subsidiaries.

## 17. Financial assets

### *(a) Investments in subsidiaries*

| | **Holding Investments in subsidiaries Eur** |
|---|---|
| **Cost** | |
| At 01.01.2012 | 27,756,791 |
| Additions | 1,973,500 |
| Disposals | (1,229,082) |
| At 01.01.2013 | 28,501,209 |
| Additions | 498,950 |
| Disposals | (3,748,117) |
| **At 31.12.2013** | **25,252,042** |

## 17. Financial assets (continued)

### *(a) Investments in subsidiaries (continued)*

During the year under review the company increased its investment in Premier Capital Hellas S.A. through an increase in share capital of the subsidiary of *Eur498,950*. Subsequently, the company disposed of its entire investment of *Eur3,748,117* in Premier Capital Hellas S.A. to one of its subsidiaries, Premier Capital B.V., for a consideration of *Eur5,300,000*. This change in the ownership did not result in a change in the classification of Premier Capital Hellas S.A. as a subsidiary.

During the prior year, the company increased its investment in Premier Restaurants Malta Limited, through the acquisition of 15,000 Ordinary A shares and 150,000 Ordinary B shares from a former shareholder, for a consideration of *Eur1,973,500*. This consideration was settled partly in cash and partly by way of a set-off against loans receivable from the same former shareholder, leaving a balance of *Eur881,000* still to be settled at the end of the year (note 22). The latter was settled in full during 2013.

This acquisition brought the shareholding up to 92.12% from the 78.81% holding held on the 31 December 2011. This change in the ownership interest did not result in a change in the classification of Premier Restaurants Malta Limited as a subsidiary. Accordingly, the difference between the amount by which the non-controlling interests had been adjusted and the fair value of the consideration paid amounting to *Eur1,360,079*, had been recognized directly in equity and attributed to the owners of the parent.

During 2012, the company also disposed of the holding in SIA Premier Estates (subsidiary in Latvia), disposing of the entire investment of *Eur1,229,082*, for a consideration of *Eur3,000,000*. This transaction is described in more detail in note 30.

## 17. Financial assets (continued)

Details of the company's subsidiaries at 31 December 2013 and 2012 are as follows:

| Name of subsidiary | Place of incorporation and ownership | Proportion of ownership interest 2013 % | Proportion of ownership interest 2012 % | Holding | Proportion of voting power held 2013 % | Proportion of voting power held 2012 % | Principal activity |
|---|---|---|---|---|---|---|---|
| SIA Premier Restaurants Latvia | Latvia | 100 | 100 | Direct | 100 | 100 | Operates McDonald's restaurants in Latvia |
| AS Premier Restaurants Eesti | Estonia | 100 | 100 | Indirect | 100 | 100 | Operates McDonald's restaurants in Estonia |
| Premier Restaurants UAB | Lithuania | 100 | 100 | Indirect | 100 | 100 | Operates McDonald's restaurants in Lithuania |
| Premier Restaurants Malta Limited | Malta | 92.12 | 92.12 | Direct | 100 | 100 | Operates McDonald's restaurants in Malta |
| Arcades Limited | Malta | 92.01 | 92.01 | Indirect | 99.88 | 99.88 | Operates McDonald's restaurants in Malta |
| Premier Arcades Limited | Malta | 92.12 | 92.12 | Indirect | 100 | 100 | Holding Company |
| Premier Assets (Malta) Limited | Malta | 92.12 | 92.12 | Indirect | 100 | 100 | Development and leasing of property |
| Premier Capital B.V. | Netherlands | 100 | 100 | Direct | 100 | 100 | Holding Company |
| Premier Capital Hellas S.A. | Greece | 100 | 100 | 2013 - Indirect (2012 - Direct) | 100 | 100 | Operates McDonald's restaurants in Greece |

## 17. Financial assets (continued)

### *(b) Available-for-sale investments*

**Group and Holding**

| | Local listed debt Eur |
|---|---|
| **Fair value** | |
| At 31.12.2012 | - |
| **At 31.12.2013** | **538,545** |

These financial assets represent investments in 4.5% Malta Government Stock 2028 which present the company with opportunity for return through interest income.

Available-for-sale financial assets have been earmarked to build up the sinking fund in accordance with the prospectus (note 24).

### *(c) Other financial assets*

At 31 December 2013 the company held funds of *Eur133,496* with HSBC Bank Malta plc as trustee of the funds allocated to the sinking fund in accordance with the prospectus (Note 24).

## 17. Financial assets (continued)

*(d) Loans and receivables*

| | Group | | Holding | | |
|---|---|---|---|---|---|
| | Loans to other related parties Eur | Total Eur | Loan to subsidiaries Eur | Loans to other related parties Eur | Total Eur |
| **Amortised cost** | | | | | |
| At 01.01.2012 | 293,378 | 293,378 | 12,351,095 | 637,029 | 12,988,124 |
| Increase | 4,560,679 | 4,560,679 | 994,825 | 3,774,757 | 4,769,582 |
| Repayments | - | - | (10,782,140) | (580,920) | (11,363,060) |
| At 01.01.2013 | 4,854,057 | 4,854,057 | 2,563,780 | 3,830,866 | 6,394,646 |
| Increase | 129,803 | 129,803 | 9,439,124 | 287,086 | 9,726,210 |
| Assignment of debt | - | - | - | (2,950,885) | (2,950,885) |
| Repayments | (3,938,447) | (3,938,447) | (1,413,780) | (986,337) | (2,400,117) |
| **At 31.12.2013** | 1,045,413 | 1,045,413 | 10,589,124 | 180,730 | 10,769,854 |
| **Carrying amount** | | | | | |
| At 31.12.2012 | 4,854,057 | 4,854,057 | 2,563,780 | 3,830,866 | 6,394,646 |
| Less: Amount expected to be settled within 12 months (shown under current assets) | (4,854,057) | (4,854,057) | (973,780) | (3,830,866) | (4,804,646) |
| Amount expected to be settled after 12 months | - | - | 1,590,000 | - | 1,590,000 |
| **At 31.12.2013** | **1,045,413** | **1,045,413** | **10,589,124** | **180,730** | **10,769,854** |
| **Less: Amount expected to be settled within 12 months (shown under current assets)** | **(1,045,413)** | **(1,045,413)** | **(2,489,124)** | **(180,730)** | **(2,669,854)** |
| **Amount expected to be settled after 12 months** | **-** | **-** | **8,100,000** | **-** | **8,100,000** |

### Loans to subsidiaries

Holding

Loans to subsidiaries amounting to *Eur6,700,000* (2012 – *Eur340,000*) bear interest at the rate of 6.8% per annum. A loan to a subsidiary amounting to *Eur1,300,000* (2012 – *Eur200,000*) bears interest at 5% per annum, whereas another loan amounting to *Eur100,000 (*2012 - *Eur700,000)* is interest free. The above loans are unsecured and are not expected to be settled within 12 months of the end of the reporting period. The remaining loans amounting to *Eur2,489,124* (2012 - *Eur1,323,780*) are unsecured, interest free and repayable on demand.

## 17. Financial assets (continued)

*(d) Loans and receivables (continued)*

**Loans to other related parties**

Holding

Loans to related parties amounting to *EurNil* (2012 – *Eur2,950,885*) are unsecured, bear interest at the rate of 6.8% per annum and are repayable on demand. The remaining loans to related parties amounting to *Eur180,730* (2012 – *Eur879,981*) are unsecured, interest free and repayable on demand. These loans are expected to be settled within 12 months.

Group

Loans to related parties amounting to *Eur681,000* (2012 – *Eur3,853,676*) are unsecured, bear interest at the rate of 6.8% per annum and are repayable on demand. The remaining loans to related parties amounting to *Eur364,413* (2012– *Eur1,000,381*) are unsecured, interest free and repayable on demand. These loans are expected to be settled within 12 months.

## 18. Prepayments

These relate mainly to prepaid rents and guarantee deposits made by the group's subsidiaries in Estonia, Greece and Malta. The total amount as at the end of the reporting period stands at *Eur1,789,157* (2012 – *Eur2,050,665*) after having recorded prepayments within a twelve month period of *Eur295,466* (2012 – *Eur323,553*) as current assets.

## 19. Inventories

| | **Group** | | **Holding** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Raw materials and consumables | **2,262,916** | 2,264,804 | **-** | - |

## 20. Trade and other receivables

| | | Group | | Holding |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Trade receivables | **82,527** | 353,812 | **428** | 1,169 |
| Other receivables | **662,317** | 208,662 | **66,347** | 90,873 |
| Amounts due from related companies | **-** | 3,031,908 | **96,734** | 3,031,908 |
| Prepayments and accrued income | **977,797** | 1,019,035 | **81,532** | 88,739 |
| | **1,722,641** | 4,613,417 | **245,041** | 3,212,689 |

No interest is charged on trade and other receivables. The amounts due from related parties are unsecured, interest-free and are repayable on demand. In the prior year an amount of *Eur3,000,000* included within amounts due by related parties, relates to the consideration receivable on the disposal of investment in subsidiary, and was received in January 2013 (note 30).

## 21. Trade and other payables

| | | Group | | Holding |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Trade payables | **4,471,436** | 5,399,931 | **14,918** | 116,942 |
| Other payables | **1,479,623** | 1,193,908 | **2,154** | - |
| Social security liabilities | **1,189,819** | 1,695,944 | **-** | - |
| VAT and other liabilities | **1,125,260** | 888,323 | **-** | - |
| Amounts due to related companies | **96,904** | 34,935 | **-** | - |
| Accruals and deferred income | **3,117,695** | 2,622,991 | **1,417,590** | 1,447,594 |
| | **11,480,737** | 11,836,032 | **1,434,662** | 1,564,536 |

No interest is charged on trade and other payables.

## 22. Other financial liabilities

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Amounts due to former shareholder | **-** | 881,000 | **-** | 881,000 |
| Amounts due to related companies | **359,302** | 169,297 | **359,302** | 69,297 |
| Amounts due to subsidiaries | **-** | - | **2,352,060** | 3,778,864 |
| Derivative financial liability held for trading | **103,187** | 360,980 | **103,187** | 360,980 |
| | **462,489** | 1,411,277 | **2,814,549** | 5,090,141 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(462,489)** | (1,355,462) | **(500,303)** | (1,725,851) |
| | **-** | 55,815 | **2,314,246** | 3,364,290 |

Other financial liabilities are repayable as follows:

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| On demand or within one year | **462,489** | 1,355,462 | **500,303** | 1,725,851 |
| In the second year | **-** | 55,815 | **-** | 55,815 |
| After five years | **-** | - | **2,314,246** | 3,308,475 |
| | **462,489** | 1,411,277 | **2,814,549** | 5,090,141 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(462,489)** | (1,355,462) | **(500,303)** | (1,725,851) |
| | **-** | 55,815 | **2,314,246** | 3,364,290 |

Included in the amount due to related parties is an amount of *EurNil* (2012 - *Eur68,070)* which is unsecured and bears interest at 4.25% per annum, and is due for settlement within 12 months. The remaining balances due to related parties are unsecured, interest free and repayable on demand.

## 22. Other financial liabilities (continued)

Included in the amounts owed to group companies, is an amount of *Eur2,314,246* (2012 - *Eur3,308,475*) which is unsecured and bears interest at the rate of 3-month EURIBOR +2.95%. In the prior year there was also an amount of *Eur340,000* which is unsecured and bore interest at the rate of 6.8% per annum. The remaining balances due to group companies are unsecured and interest free.

Derivative financial instruments of *Eur103,187* (2012 – *Eur360,980*) comprise an interest rate swap whereby the company had entered into a contract to swap the floating rate on the holding company's previous bank loans (note 23) to a fixed rate. The interest rate swap is stated at fair value and is classified with financial liabilities classified as held for trading. The amount of *Eur103,187 (2012 – Eur305,165)* is classified with current liabilities.

The notional principal amounts of the outstanding interest rate swaps at the end of the reporting period amounted to *Eur9,696,966* (2012 – *Eur12,121,212*) and the swap matures on the 16 June 2014.

At the end of the reporting period, the fixed interest rates on interest rate swaps amount to 2.45% (2012 – 2.45%). The floating rate is three-month EURIBOR. The interest rate swaps settle on a quarterly basis and the group settles the difference between the fixed and floating interest rates on a net basis.

## 23. Bank overdraft and loans

| | **Group** | | **Holding** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Bank overdrafts | **267,901** | 717,050 | - | - |
| Bank loans | **13,060,191** | 15,104,434 | - | - |
| | **13,328,092** | 15,821,484 | - | - |

## 23. Bank overdraft and loans (continued)

Bank overdraft and loans are repayable as follows:

| | Group | | | Holding |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| On demand or within one year | **2,455,401** | 2,904,550 | - | - |
| In the second year | **2,187,500** | 2,187,500 | - | - |
| In the third year | **2,187,500** | 2,187,500 | - | - |
| In the fourth year | **2,187,500** | 2,187,500 | - | - |
| In the fifth year | **2,187,500** | 2,187,500 | - | - |
| After five years | **2,122,691** | 4,166,934 | - | - |
| | **13,328,092** | 15,821,484 | - | - |
| Less: amount due for settlement within 12 months (shown under current liabilities) | **(2,455,401)** | (2,904,550) | - | - |
| | **10,872,691** | 12,916,934 | - | - |

During 2012, the group had undergone a major refinancing of banking facilities, by settling the amount of *Eur13,939,394* due by Premier Capital plc to Nordea Bank Finland Plc on the 1 June 2012. This repayment was made by SIA Premier Restaurants through a new loan obtained from AS DNB Banka in Latvia, the latter subsidiary in turn settled its loans payable to Premier Capital plc amounting to *Eur10,563,708*. The loan taken from AS DNB Banka, has a drawdown limit of *Eur17,500,000*, of which *Eur16,523,733* had been drawn down at year end (2012 – *Eur15,104,434*), has been granted at adjusted 3m EURIBOR +2.95%. The loan is secured by a pledge agreement between the bank and the company, together with pledges over the Baltic subsidiaries' shares and a pledge over the subsidiaries' immovable and movable property.

The remaining bank borrowings relate to an overdraft balance of *Eur267,901* (2012 – *Eur717,050*) of a group subsidiary in Malta. The overdraft facility has a limit of *Eur1,000,000* (2012 – *Eur1,000,000*) and is in the name of Premier Restaurants Malta Limited, bearing interest at 250 basis point over the bank's base rate, presently 2.5% (2012: 2.5%) per annum. Premier Restaurants Malta Limited also has an additional undrawn loan facility of *Eur1,250,000*. These facilities are secured by a first general hypothec over the assets of the subsidiary company, over those of related companies, as well as by guarantees provided by shareholders and related companies together with pledges on various insurance policies.

## 24. Debt securities in issue

| | Group and Holding | |
|---|---|---|
| | **2013** | 2012 |
| | **Eur** | Eur |
| 6.8% bonds redeemable 2017-2020 | **24,318,878** | 24,315,771 |

In April 2010 the company issued 250,000 6.8% bonds of a nominal value of *Eur100* per bond. The bonds are redeemable at their nominal value on 15 March 2020, subject to the issuer's option to redeem all or any part of the Bonds on any of the designated early redemption dates. The latter fall on any date between 16 March 2017 and 14 March 2020 as the Issuer may determine by giving thirty days prior notice to the Bondholders.

According to clause 20.11 of the bond issue prospectus dated 1 March 2010, "The issuer (Premier Capital plc) hereby undertakes that from the outset of the financial year commencing 1 January 2012, over a period of 8 years therefrom, build a sinking fund the value of which will by the end of such period be equivalent to 50% of the value of the issued bonds, thus creating a cash reserve from its annual surpluses to meet part of the redemption proceeds on the Redemption Date".

The board has appointed HSBC Bank Malta plc as trustee of the funds allocated to the sinking fund in accordance with the prospectus.

In view of the sinking fund commitment, until 31 December 2013 the company redeemed *Eur319,200* (2012 – *Eur264,400*) in nominal value of bonds thereby reducing the sinking fund requirement by this amount. The company has also put aside funds in the form of cash (note 17c) and financial instruments (note 17b) amounting to in total *Eur672,041* (2012 – *EurNil*).

Interest on the bonds is due and payable annually on 15 March of each year.

The bonds are listed on the Official List of the Malta Stock Exchange. The carrying amount of the bonds is net of direct issue costs of *Eur361,911* (2012 – *Eur419,829*) which are being amortised over the life of the bonds. The market value of debt securities on the last trading day before the statement of financial position date was *Eur26,161,648* (2012 – *Eur25,725,024*).

## 25. Share capital

| | 2013 and 2012 | |
|---|---|---|
| | Authorised | Issued and called up |
| | Eur | Eur |
| 47,637 ordinary 'A' shares of Eur100 each, of which 45,249 have been issued and called up | 4,763,700 | 4,524,900 |
| 47,637 ordinary 'B' shares of Eur100 each, of which 45,249 have been issued and called up | 4,763,700 | 4,524,900 |
| 47,637 ordinary 'C' shares of Eur100 each, of which 45,249 have been issued and called up | 4,763,700 | 4,524,900 |
| | 14,291,100 | 13,574,700 |

Save for the selection of directors in terms of Clause 55 of the Articles of Association of the company, ordinary shares in the company, irrespective of the class to which they belong, shall have equal rights as regards dividends and in all other respects each shareholder shall be entitled to one vote in general meetings for each of such shares held.

## 26. Other equity

### Group

| | Legal reserve Eur | Other reserve Eur | Total Eur |
|---|---|---|---|
| **Balance at 1 January 2012** | **84,907** | **(158,474)** | **(73,567)** |
| Transfer from retained earnings | 12,864 | - | 12,864 |
| Effect of acquisition of part of non-controlling interest (note 17a) | - | (1,360,079) | (1,360,079) |
| **Balance at 1 January 2013** | **97,771** | **(1,518,553)** | **(1,420,782)** |
| Transfer from retained earnings | 65,595 | - | 65,595 |
| **Balance at 31 December 2013** | **163,366** | **(1,518,553)** | **(1,355,187)** |

The legal reserve represents reserves created by the subsidiaries in Estonia and Lithuania pursuant to the legal requirements in these jurisdictions.

## 26. Other equity (continued)

The other reserve represents a cash capital contribution made by the parent company to one of its subsidiaries attributable to non-controlling interests amounting to *Eur370,825*, a loss offset reserve of *Eur212,351* as explained below and the effect of acquisition of part of a non-controlling interest during 2012 amounting to *Eur1,360,079* as explained in note 17a.

**Holding**

| | Other reserve Eur |
|---|---|
| Balance at 1 January 2012 | 212,351 |
| Balance at 1 January 2013 | 212,351 |
| **Balance at 31 December 2013** | **212,351** |

The other reserve represents a loss offset reserve amounting to *Eur212,351* for the purpose of offsetting any losses that may be incurred by the company from time to time and was created by a reduction of share capital in 2010.

## 27. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the statement of financial position:

| | **Group** | | **Holding** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Cash at bank and on hand | **4,704,050** | 2,843,999 | **820,464** | 307,371 |
| Bank overdrafts | **(267,901)** | (717,050) | **-** | - |
| | **4,436,149** | 2,126,949 | **820,464** | 307,371 |

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2013 was 2% - 3% (2012 – 2% - 3%). The interest rate on bank overdrafts is disclosed in note 23.

## 28. Significant non-cash transactions

During 2013 there were the following significant non-cash transactions:

a) As explained in more detail in note 17a, during the year the company disposed of its investment in Premier Capital Hellas S.A. The consideration has not yet been paid as at year end.

b) During the year under review the company has assigned amounts receivable of *Eur2,950,885* to a related party.

During 2012 there were the following significant non-cash transactions:

c) As explained in more detail in note 23, the company settled its bank loan with Nordea Bank Finland plc via its subsidiary SIA Premier Restaurants which took out a new bank loan and in turn the subsidiary settled loans payable to the company.

d) As explained in more detail in note 17a, during the year, the company increased its investment in Premier Restaurants Malta Ltd and the consideration was partly settled by way of offsetting loans receivable, with the remaining balance paid in cash by the end of January 2013.

e) As explained in more detail in note 29, during the year the group acquired a further interest in Arcades Limited, bringing the group's interest to 92.01%. The fair value of the consideration transferred, amounted to *Eur1,250,000* and did not involve the movement of cash and cash equivalents.

f) As explained in more detail in note 30, the company sold its entire 100% holding in SIA Premier Estates for a total consideration of *Eur3,000,000*. This amount was paid in full by the end of January 2013.

## 29. Business combinations

On the 11 September 2012, the group through its directly owned subsidiary Premier Restaurants Malta Limited acquired a further indirect interest in Arcades Limited, a company which at the time operated one outlet in Malta, bringing the group's interest to 92.01%. During 2013 Arcades Limited started to operate another outlet in Sliema, Malta.

The fair value of the consideration transferred amounted to *Eur1,250,000*, which was made by settlement of outstanding loans. As a result of this transaction, Arcades Limited was no longer a jointly controlled entity and effectively became a subsidiary of the group.

## 29. Business combinations (continued)

Assets acquired and liabilities recognised at date of acquisition:

| | 2012 |
|---|---|
| | Eur |
| **Non-current assets** | |
| Property, plant and equipment | 609,658 |
| **Total non-current assets** | **609,658** |
| | |
| **Current assets** | |
| Inventories | 14,836 |
| Cash and cash equivalents | 25,679 |
| Trade and other receivables | 151,093 |
| **Total current assets** | **191,608** |
| | |
| **TOTAL ASSETS** | 801,266 |
| | |
| **Current liabilities** | |
| Trade and other payables | 278,058 |
| **Total current liabilities** | **278,058** |
| | |
| **Non - Current liabilities** | |
| Deferred tax liability | 8,208 |
| **Total non current liabilities** | **8,208** |
| | |
| **Total liabilities** | 286,266 |
| **Net assets acquired** | **515,000** |

Goodwill arising on acquisition

| | 2012 |
|---|---|
| | Eur |
| Consideration transferred | 1,250,000 |
| Fair value of previously held equity interest | 1,250,000 |
| Less | |
| Fair value of identifiable assets and liabilities of Arcades Limited | (515,000) |
| **Goodwill arising on acquisition** | 1,985,000 |

The goodwill arising on acquisition recognised in 2012 mainly represents the excess assembled value of the acquiree's net assets over the fair value of identifiable assets and liabilities of the acquiree. It is also affected by the acquisition date fair value of the group's previously held interest in the acquiree. There were no acquisition related costs in connection with this acquisition and none of the goodwill arising on this acquisition is deductible for tax purposes.

**29. Business combinations (continued)**

Impact of acquisition on the results of the group in the prior year:

In the group financial statements, the results of Arcades Limited are taken pro-rata with a proportionate consolidation until 10 September 2012, and fully consolidated thereafter.

Included in the profit for the year 2012, is a profit of *Eur10,317* attributable to the newly acquired subsidiary. Had the acquisition of the subsidiary been effected on 1 January 2012, the revenue of the group for the year ended 31 December 2012 would have been *Eur83.9m*. There would have been no material change on the profit for the year. The directors consider the numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

During the prior year, the group recognised a gain of *Eur734,955* (note 7) as a result of the re-measuring to fair value its previously held equity interest in Arcades Limited.

**30. Disposal of subsidiary**

**2012**

On the 27 December 2012, the group publicly announced the decision of the board of directors to dispose of SIA Premier Estates. The business of SIA Premier Estates was focused on the acquisition and development of investment property for long term lease to the Restaurant subsidiaries in the three Baltic countries. SIA Premier Estates is a company registered under the laws of the Republic of Latvia, and in turn owns two other Estates companies namely: OU Premier Estates Eesti and Premier Estates Lietuva UAB, who own and lease investment property to Mc Donald's operating companies in Estonia and Lithuania respectively. The board proposed to sell its ownership in Premier Estates Latvia to enable management of Premier Capital plc. to focus entirely on the McDonald's restaurant business and not on real estate development. The effective date of the transfer of the investment in accordance with the agreement between the parties was 31 December 2012. The investment was disposed of for a consideration of *Eur3,000,000*, which was settled in full in 2013.

Consideration received and net cash inflow on disposal

| | Eur |
|---|---|
| Consideration (received in January 2013) | 3,000,000 |
| Cash and cash equivalents disposed of | (154,848) |
| Net cash inflow | 2,845,152 |

## 30. Disposal of subsidiary (continued)

Analysis of assets and liabilities over which control was lost:

| | 2012 Eur |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 10,020,748 |
| Total non-current assets | 10,020,748 |
| **Current assets** | |
| Trade and other receivables | 32,020 |
| Cash and cash equivalents | 154,848 |
| **Total current assets** | 186,868 |
| **TOTAL ASSETS** | 10,207,616 |
| **Current liabilities** | |
| Trade and other payables | 60,492 |
| Bank overdrafts and loans | 637,596 |
| **Total current liabilities** | 698,088 |
| **Non - Current liabilities** | |
| Bank loans | 4,369,542 |
| Other financial liabilities | 3,994,150 |
| Deferred tax liability | 34,623 |
| **Total non current liabilities** | 8,398,315 |
| Total liabilities | 9,096,403 |
| **Net assets disposed of** | **1,111,213** |

Gain on disposal of subsidiary:

| **Holding** | **2012 Eur** |
|---|---|
| Consideration receivable | 3,000,000 |
| Cost of Investment | (1,229,082) |
| Gain on disposal (note 7) | 1,770,918 |
| **Group** | |
| Consideration receivable | 3,000,000 |
| Net assets disposed of | (1,111,213) |
| Gain on disposal (note 7) | 1,888,787 |

## 30. Disposal of subsidiary (continued)

### 2013

As disclosed in note 17 the company disposed of its investment in Premier Capital Hellas S.A. to one of its subsidiaries, Premier Capital B.V., for a consideration of *Eur5,300,000*.

| | 2013 Eur |
|---|---|
| **Holding** | |
| Consideration receivable | 5,300,000 |
| Cost of investment | (3,748,117) |
| Gain on disposal (note 7) | 1,551,883 |

## 31. Related party disclosures

Premier Capital p.l.c. is the parent company of the undertakings highlighted in note 17.

The parent company of Premier Capital p.l.c. is Premier Capital Holdings Limited which is incorporated in Malta.

During the course of the year, the group and the company entered into transactions with related parties, as set out below.

### Group

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Related party activity Eur** | **Total activity Eur** | **%** | **Related party activity Eur** | **Total activity Eur** | **%** |
| Other operating income *Related party transactions with:* | | | | | | |
| Other related parties | **9,702** | **86,865** | **11** | 19,320 | 67,859 | 28 |
| Administrative expenses: *Related party transactions with:* | | | | | | |
| Other related parties | **135,718** | | | 327,017 | | |
| Key management personnel | **151,859** | | | 127,102 | | |
| | **287,577** | **7,775,384** | **4** | 454,119 | 8,643,551 | 5 |
| Investment income: *Related party transactions with:* | | | | | | |
| Subsidiaries | | | | | | |
| Other related parties | **113,478** | **138,708** | **82** | 1,888,787 | 4,165,306 | 45 |
| Finance costs: *Related party transactions with:* | | | | | | |
| Other related parties | **-** | **2,300,806** | **-** | 5,146 | 2,822,186 | 1 |

## 31. Related party disclosures (continued)

**Holding**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Related party activity Eur | Total activity Eur | % | Related party activity Eur | Total activity Eur | % |
| Other operating income: | | | | | | |
| *Related party transactions with:* | | | | | | |
| Subsidiaries | 1,655,712 | | | 1,978,485 | | |
| Other related parties | 9,792 | | | 19,320 | | |
| | 1,665,504 | 1,665,414 | 100 | 1,997,805 | 1,997,805 | 100 |
| Administrative Expenses | | | | | | |
| *Related party transactions with:* | | | | | | |
| Other related parties | 132,379 | | | 126,440 | | |
| Key management personnel | 151,859 | | | 127,102 | | |
| | 284,238 | 2,334,083 | 12 | 253,542 | 2,418,695 | 10 |
| Investment income: | | | | | | |
| *Related party transactions with:* | | | | | | |
| Subsidiaries | 4,094,875 | | | 2,193,498 | | |
| Other related parties | 83,332 | | | 1,770,918 | | |
| | 4,178,207 | 4,200,771 | 99 | 3,964,416 | 4,018,980 | 99 |
| Finance costs: | | | | | | |
| *Related party transactions with:* | | | | | | |
| Other related parties | 116,810 | 2,315,612 | 5 | 78,324 | 2,637,708 | 3 |

No expense has been recognised during the year arising from bad and doubtful debts in respect of amounts due by related parties.

The amounts due from/to related parties at year-end are disclosed in notes 17, 20, 21 and 22. Other than as disclosed in the respective notes, no guarantees have been given or received.

During the year under review the company increased its investment in Premier Capital Hellas S.A. through an increase in share capital of the subsidiary of *Eur498,950*. Subsequently, the company disposed of its entire investment of *Eur3,748,117* in Premier Capital Hellas S.A. to one of its subsidiaries, Premier Capital B.V., for a consideration of *Eur5,300,000*.

## 32. Operating leases

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Minimum lease payments and contingent rent under operating leases recognised as an expense for the year | **6,237,252** | 5,073,501 | **132,379** | 126,440 |

The group is party to several operating lease agreements for lease of premises and land on which the restaurants in the Baltics, Malta and Greece are situated. The group also leases certain properties whereby it is committed to pay monthly payments to the lessor based on the sales of each particular restaurant.

At the end of the reporting period, the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | **2013** | 2012 |
|---|---|---|
| | **Eur** | Eur |
| Within one year | **5,281,568** | 4,435,220 |
| Between two to five years | **18,520,031** | 14,839,768 |
| Over five years | **30,970,667** | 19,636,176 |
| | **54,772,266** | 38,911,164 |

## 33. Commitments

(i) The subsidiaries operate under franchise agreements ('the Agreement') entered into with McDonald's International Property Company ('the Franchisor'). The franchise agreements are for a period of 20 years which allows the respective company to use the McDonald's system in the restaurants. These franchise agreement stipulate certain financial and non-financial obligations, including but not necessarily limited to, maintaining certain financial ratios, performing marketing and other activities. The subsidiaries are obliged to pay a royalty fee based on their annual net sales of the respective company on an annual basis.

Upon the expiration of these Agreements, the Franchisor shall have the right to purchase all of the equity interest in the Franchisee's McDonald's Restaurant business ("FMRB"). If the Franchisor elects to exercise its right to purchase FMRB, the Purchase price shall be equal to the Fair Market Value, as defined in the Agreement. In the event that the Franchisor does not exercise its right to purchase FMRB, it shall have the right to lease or sublease or purchase, as the case may be, the premises associated with the Restaurants from Franchisee at fair market rental or fair market price, as the case may be.

**33. Commitments (continued)**

(ii) At the end of the reporting period the group and the company had the following further capital commitments in respect of property, plant and equipment:

| | Group | | Holding | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **Eur** | Eur | **Eur** | Eur |
| Contracted but not provided for | **2,025,000** | - | - | - |

**34. Contingent liabilities**

At the end of the reporting period, the company acted as a guarantor for bank facilities held in the name of its subsidiaries. The company guaranteed *Eur4,999,499* (2012 – *Eur4,999,499*) in favour of Premier Restaurants Malta Ltd, and guaranteed the amount of *Eur17,500,000* (2012 – *Eur17,500,000*) in favour of SIA Premier Restaurants (Latvia subsidiary), on the loan which the latter has with AS DNB Banka, which as at 31 December 2013 amounted to *Eur13,060,191*.

Certain subsidiaries of the group, have also guaranteed the amount of *Eur3,696,803* (2012 – *Eur4,704,209*) in favour of related companies in connection with bank facilities of the respective related company.

**35. Fair value of financial assets and financial liabilities**

At 31 December 2013 and 2012 the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values due to the short term maturities of these assets and liabilities.

The fair values of non-current financial assets and non-current financial liabilities that are not measured at fair value, other than the shares in subsidiary companies that are carried at cost, and the debt securities in issue (where fair value is disclosed in note 24), are not materially different from their carrying amounts.

## 35. Fair value of financial assets and financial liabilities (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3.

| | Group and Holding Company | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | Eur | Eur | Eur | Eur |
| **Available-for-sale investments** | | | | |
| - local listed debt instruments | | | | |
| As at 31.12.2012 | - | - | - | - |
| **As at 31.12.2013** | **538,545** | - | - | **538,545** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Financial liabilities held for trading | | | | |
| - derivative financial instruments | | | | |
| As at 31.12.2012 | - | 360,980 | - | 360,980 |
| **As at 31.12.2013** | - | **103,187** | - | **103,187** |

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The fair value of the company's derivative financial instruments is established by using a valuation technique. Valuation techniques comprise discounted cash flow analysis. The valuation technique is consistent with generally accepted economic methodologies for pricing financial instruments. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the rates at end of the reporting period and the credit risk inherent in the contract.

The following table provides an analysis of financial instruments that are not measured subsequent to initial recognition at fair value, other than those with carrying amounts that are reasonable approximations of fair value and other than shares in subsidiary companies, grouped into Levels 1 to 3.

## 35. Fair value of financial assets and financial liabilities (continued)

### Group

| | Fair value measurement at end of reporting period using: | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Carrying amount |
| | Eur | Eur | Eur | Eur | Eur |
| **Financial assets** | | | | | |
| **Loans and receivables** | | | | | |
| Receivables from related parties | - | 1,045,413 | - | 1,045,413 | 1,045,413 |
| **Total** | - | **1,045,413** | - | **1,045,413** | **1,045,413** |
| **Financial liabilities** | | | | | |
| **Financial liabilities at amortised cost** | | | | | |
| Amounts due to related parties | - | 359,302 | - | 359,302 | 359,302 |
| Bank loans | - | 13,060,191 | - | 13,060,191 | 13,060,191 |
| Debt securities | - | 26,161,648 | - | 26,161,648 | 24,318,878 |
| **Total** | - | **39,581,141** | - | **39,581,141** | **37,738,371** |

### Holding

| | Fair value measurement at end of reporting period using: | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Carrying amount |
| | Eur | Eur | Eur | Eur | Eur |
| **Financial assets** | | | | | |
| **Loans and receivables** | | | | | |
| Receivables from subsidiaries | | 10,589,124 | | 10,589,124 | 10,589,124 |
| Receivables from related parties | - | 180,730 | - | 180,730 | 180,730 |
| **Total** | - | **10,769,854** | - | **10,769,854** | **10,769,854** |
| **Financial liabilities** | | | | | |
| **Financial liabilities at amortised cost** | | | | | |
| Amounts due to related parties | - | 2,711,362 | - | 2,711,362 | 2,711,362 |
| Debt securities | - | 26,161,648 | - | 26,161,648 | 24,318,878 |
| **Total** | - | **28,873,010** | - | **28,873,010** | **27,030,240** |

## 36. Financial risk management

The exposures to risk and the way risks arise, together with the group's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

## 36. Financial risk management (continued)

The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development. Where applicable, any significant changes in the group's exposure to financial risks or the manner in which the group manages and measures these risks are disclosed below.

Where possible, the group aims to reduce and control risk concentrations of financial risk areas when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

*Credit risk*

Financial assets which potentially subject the group to concentrations of credit risk, consist principally of loans and receivables, investments and cash at bank. Loand and receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Cash at bank and the sinking fund are placed with reliable financial institutions.

Credit risk with respect to trade receivables is limited due to the nature of the group's operations. Loans and receivables comprise amounts due from related parties. The group's and company's concentration to credit risk arising from these receivables is considered limited as there were no indications that these counterparties are unable to meet their obligations.

Management considers the credit quality of these financial assets as being acceptable.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

During 2011, the group impaired receivables in connection with Arcades Limited at the time a jointly controlled entity, for an amount of *Eur1,000,000*. This impairment loss was taken due to the fact that the Court of Malta had ordered the eviction of Arcades Limited from the Valletta outlet in February 2012. Following receipt of this judgement, the company re-negotiated the leasehold agreement with the landlord, whereby a new agreement was signed in July 2012, extending the lease period for a further 15 years. Consequently the provision of *Eur1,000,000* taken in 2011 was reversed in 2012.

Quoted investments are acquired after assessing the quality of the related investments.

## 36. Financial risk management (continued)

*Currency risk*

Foreign currency transactions arise when the group buys or sells goods or services whose price is denominated in foreign currency, borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency or acquires or disposes of assets, or incurs or settles liabilities, denominated in foreign currency.

The risk arising from foreign currency transactions entered into by the company's subsidiaries in their local currency is mitigated by the fact that such currency has joined the Exchange Rate Mechanism (ERM II) as follows:

The Latvian Lats joined the Exchange Rate Mechanism (ERM II) on 2 May 2005, and observes a central rate of 0.702804 to the Euro with standard fluctuation margins of +/- 15%. However, Latvia unilaterally maintains a 1% fluctuation band around the central rate.

The Lithuanian Litas joined the Exchange Rate Mechanism (ERM II) on 28 June 2004, and observes a central rate of 3.4528 to the Euro with standard fluctuation margins of +/- 15%.

*Interest rate risk*

The group has taken out bank and other facilities to finance its operations as disclosed in notes 23 and 24. The interest rates thereon and the terms of such borrowings are disclosed accordingly. The effective interest rate on loans and receivables, other financial liabilities, bank borrowings, debt securities in issue and cash at bank are disclosed in notes 17, 22, 23, 24 and 27 respectively.

The group is exposed to cash flow interest rate risk on borrowings and debt instruments carrying a floating interest rate and to fair value interest rate risk on borrowings and debt instruments carrying a fixed interest rate. Investments in equity instruments are not exposed to interest rate risk.

Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by adjusting its selling prices or by restructuring its financing structure. In a prior year, the group entered into an interest rate swap to hedge its exposure arising from floating interest rates on the majority of its bank loans.

The carrying amounts of the group's financial instruments carrying a rate of interest at the reporting date are disclosed in the notes to the financial statements.

## 36. Financial risk management (continued)

*Sensitivity analysis*

As disclosed in note 23, the company's bank borrowings were settled by a group entity during 2012. As at the end of the reporting period and the comparative period, the Company's exposure to cash flow interest rate risk is not material. As at the end of the reporting period, the Group's exposure to cash flow interest rate risk is also not material, since the bank borrowings that are not hedged by virtue of the interest rate swaps, substantively match the Group's cash at bank. The exposure in other comprehensive income to fair value interest rate risk arising from the available-for-sale investments is also considered not to be material to the Group and the Company The interest rate swap exposes the Group and the Company to fair value interest rate risk to the same extent.

The Group and the Company have used a sensitivity analysis technique that measures the change in the cash flows, or fair value, as appropriate on the relevant financial instruments at the reporting date for hypothetical changes in the relevant market risk variables. The sensitivity of profit or loss due to changes in the relevant risk variables are set out below.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

The methods and assumptions used are the same as those applied in the previous reporting period.

The estimated change in cash flows and fair value for changes in market interest rates are based on an instantaneous increase or decrease of 50 basis points at the reporting date, with all other variables remaining constant.

The sensitivity of the relevant risk variables is as follows:

| | **Group and Holding** | |
|---|---|---|
| | **2013** | 2012 |
| | **Eur** | Eur |
| Market interest rates - fair value | **+/- 11k** | +/- 64k |

**36. Financial risk management (continued)**

*Liquidity risk*

The group and the company monitor and manage their risk to a shortage of funds by maintaining sufficient cash, by matching the maturity of both their financial assets and financial liabilities and by monitoring the availability of raising funds to meet financial obligations.

Funds are transferred within the group as and when the need arises. Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period, which is adjusted monthly and monitored on a weekly basis, to ensure that any additional financing requirements are addressed in a timely manner.

The group and the company are exposed to liquidity risk in relation to meeting the future obligations associated with their financial liabilities, which comprise principally trade and other payables, other financial liabilities and interest-bearing borrowings (refer to notes 21, 22, 23, and 24). 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 and group's obligations.

At the end of the reporting period, the group reported a net current liability position of *Eur3,820,256* (2012 – *Eur988,290*). This arose principally because the group financed a significant amount of investment in property, plant and equipment from working capital.

As disclosed in note 23, at 31 December 2013 the group had additional undrawn overdraft and loan facilities amounting to *Eur2,958,366*.

The directors have reviewed cash flow projections that have been prepared for the next 12 months and based on continued operating profitability are confident that the group will have no difficulty to continue to meet its commitments as and when they fall due.

As further disclosed in note 24, in terms of the prospectus, the company is required to build up a sinking fund, the value of which by the year prior to the redemption date of the bonds, be equivalent to 50% of the value of the bonds.

The following maturity analysis for financial liabilities shows the remaining contractual maturities using the contractual undiscounted cash flows on the basis of the earliest date on which the group can be required to pay. The analysis includes both interest and principal cash flows.

## 36. Financial risk management (continued)

*Liquidity risk (continued)*

### Group

| | On demand or within 1 year Eur | 2 years Eur | 3 years Eur | 4 years Eur | After 5 years Eur | Total Eur |
|---|---|---|---|---|---|---|
| ***2013*** | | | | | | |
| ***Non-derivative financial liabilities*** | | | | | | |
| Non-interest bearing | 11,840,039 | - | - | - | - | **11,840,039** |
| Variable rate instruments | 2,894,569 | 2,546,387 | 2,466,106 | 2,385,825 | 4,389,281 | **14,682,168** |
| Fixed rate instruments | 1,678,294 | 1,678,294 | 1,678,294 | 1,678,294 | 29,715,683 | **36,428,859** |
| Derivative financial liabilities | 103,187 | - | - | - | - | **103,187** |
| | 16,516,089 | 4,224,681 | 4,144,400 | 4,064,119 | 34,104,964 | **63,054,253** |
| ***2012*** | | | | | | |
| ***Non-derivative financial liabilities*** | | | | | | |
| Non-interest bearing | 11,136,238 | - | - | - | - | **11,136,238** |
| Variable rate instruments | 2,746,733 | 2,666,364 | 2,585,995 | 2,505,626 | 7,954,497 | **18,459,215** |
| Fixed rate instruments | 1,750,091 | 1,682,021 | 1,682,021 | 1,682,021 | 30,202,169 | **36,998,323** |
| Derivative financial liabilities | 305,165 | 55,815 | - | - | - | **360,980** |
| | 15,938,227 | 4,404,200 | 4,268,016 | 4,187,647 | 38,156,666 | **66,954,756** |

### Holding

| | On demand or within 1 year Eur | 2 years Eur | 3 years Eur | 4 years Eur | After 5 years Eur | Total Eur |
|---|---|---|---|---|---|---|
| ***2013*** | | | | | | |
| ***Non-derivative financial liabilities*** | | | | | | |
| Non-interest bearing | 1,793,946 | - | - | - | - | **1,793,946** |
| Variable rate instruments | - | - | - | - | - | - |
| Fixed rate instruments | 1,678,294 | 1,678,294 | 1,678,294 | 1,678,294 | 29,715,683 | **36,428,859** |
| Derivative financial liabilities | 103,187 | - | - | - | - | **103,187** |
| | 3,575,427 | 1,678,294 | 1,678,294 | 1,678,294 | 29,715,683 | **38,325,992** |
| ***2012*** | | | | | | |
| ***Non-derivative financial liabilities*** | | | | | | |
| Non-interest bearing | 2,577,152 | - | - | - | - | **2,577,152** |
| Variable rate instruments | 95,946 | 95,946 | 95,946 | 95,946 | 3,692,258 | **4,076,042** |
| Fixed rate instruments | 1,773,211 | 1,705,141 | 1,705,141 | 1,705,141 | 30,634,647 | **37,523,281** |
| Derivative financial liabilities | 305,165 | 55,815 | | | | **360,980** |
| | 4,751,474 | 1,856,902 | 1,801,087 | 1,801,087 | 34,326,905 | **44,537,455** |

## 36. Financial risk management (continued)

*Liquidity risk (continued)*

*Derivative financial instruments*

The group does not use derivative financial instruments for speculative purposes.

The group uses interest rate swaps to convert a proportion of its floating rate debt to fixed rates.

During the year under review and during the prior year, the company did not designate any of its derivative financial instruments in a hedging relationship for accounting purposes.

*Capital risk management*

The company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of items presented within equity in the statement of financial position, debt securities and bank borrowings as disclosed in notes 23 and 24 and cash and cash equivalents as disclosed in note 27.

The company's directors manage the capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an on-going basis. Based on recommendations of the directors, the company balances its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

The group's overall strategy remains unchanged from the prior year.

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Company Ref No: C51312
VAT Reg No: MT2013 6121
Exemption number: EXO2155

# Independent auditor's report
to the members of

## Premier Capital p.l.c.

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We have audited the accompanying financial statements of Premier Capital p.l.c. and its group set out on pages 11 to 76, which comprise the statements of financial position of the company and the group as at 31 December 2013, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the company and the group for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Directors' responsibility for the financial statements***

As explained more fully in the statement of directors' responsibilities on page 5, the directors of the company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Companies Act (Chap. 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 and error.

***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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



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## Independent auditor's report (continued)
**to the members of**

## Premier Capital p.l.c.

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***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of Premier Capital p.l.c. and its group as at 31 December 2013 and of the company's and its group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Chap. 386).

Annabelle Zammit Pace as Director
in the name and on behalf of
**Deloitte Audit Limited**
Registered auditor

25 April 2014