ANNUAL REPORT 2019-20

A member of PG Group

PG plc

A member of PG Group

PG PLC

ANNUAL REPORT 2019-20

CONTENTS

CHAIRMAN'S STATEMENT

The PG Group attained a turnover of €120.0 million in the year ended 30 April 2020, representing a growth of 11.1% on the previous year, which had registered a turnover of €108.0 million. Operating profit amounted to €15.1 million, compared to €12.6 million in 2019.

The group performed particularly well in the first ten months of the financial year, bolstered by the successful operation of its Sliema Zara® outlet, a steady performance at Pama and sustained growth at Pavi, which has benefited from a substantial refurbishment programme that is now in its final stages. In the final two months of the financial year, however, the group's operations were inevitably materially impacted by the outbreak of COVID-19.

Our Pama and Pavi supermarket operations are an essential component of the food supply chain, and our first priority since the outbreak of the COVID-19 pandemic has been that of safeguarding continuity of service through ensuring the safety of our customers and staff. Various measures were and continue to be taken to ensure this continuity of service, in full co-operation with public health authorities, and to date our outlets have not been linked to any known cases of infection. This success has inevitably come at a cost – both in terms of higher operating expenses and, more importantly, in terms of an element of personal risk to our staff. We have taken prudent measures to protect all our employees but remain conscious that certain members of our staff, particularly our cashiers and shop staff, are in continual contact with large numbers of customers.

My board and I would like to extend a message of thanks to all our employees for their efforts during this difficult period. We also thank our employees, and our customers, for contributing, through their behaviour and the observance of the applicable safety rules, to sustain our uninterrupted continuity of operation.

COVID-19 inevitably impacted our results in March and April, particularly through the closure of our Zara® and Zara Home® operations, and the closure of retail operations at Pama and Pavi. Within the food supermarkets, an initial surge of panic buying quickly subsided as clients noted that the stores remained well supplied, and was inevitably followed by a quieter period, one that was characterised by a higher focus on basic commodities and less impulse buying.

In spite of these setbacks, the PG Group's overall performance in the second half of the financial year remained in line with that recorded a year earlier, and the improvement in results that we reported in the first half of the year has not been diluted. The group's net profit after taxation for the year ended 30 April 2020 amounted to €9.7million, compared to €8.9 million in 2019, representing an increase of 8%.

Net cash generated from operating activities totalled €15.5 million, compared to €10.0 million in 2019. Capital expenditure incurred during the period was relatively contained, and the opportunity was taken of accelerating the repayment of long term bank borrowings. Our net bank liabilities as at 30 April 2020 totalled €14.9m, compared to €22.0m in 2019, and are relatively contained in the context of our business activities. The group currently has no major capital commitments, and in the absence of unforeseen events would expect to effect further accelerated reductions in borrowings in the current financial year.

An interim net dividend of €2.0 million was distributed to shareholders in December 2019, while a second interim net dividend of €2.8 million was paid in July 2020. These two distributions, totalling €4.8 million, entail a growth of 6.7% over the dividends paid in respect of 2019.

Looking ahead, the group expects that COVID-19 will continue to impact its operations. It is inevitable that consumer confidence suffers in a period of high economic uncertainty. While Zara® and Zara Home® franchise operations resumed operations in May, the performance of the group's main outlet in Sliema has also been, as expected, adversely impacted by the downturn in tourism. Sales levels at retail and catering operations at Pama and Pavi remain below pre-pandemic levels. Unfortunately at the time of writing this report the Maltese islands are experiencing a significant surge in the number of reported COVID-19 cases, pointing to the possibility of the re-introduction of precautionary restrictions.

On the positive side, the current economic climate may also bring investment opportunities, and the group's operating cash flows and low borrowing levels would enable it to capitalise on such openings. We remain committed to pursue growth, particularly in the supermarket and associated retail sector.

We reported in 2019 that to attain this objective, we need to implement a modern multi-location retail and stock control system across all our outlets. A considerable amount of progress has been achieved over the past year in our project to upgrade the group's core supermarket systems. This project is now in its implementation stage, including an extensive testing and parallel running process, and the first phase is expected to go live by May 2021.

Our success in recent years was in part attributable to the economic conditions and the population growth being recorded in Malta. The COVID-19 outbreak has brought about a humbling reversal in fortunes, with severe unforeseeable consequences on certain sectors of the country's economy. The impact on this group has however been, and continues to be, much more contained, given the import of our food supermarket operations. Looking longer term, I am confident that the group will continue to enjoy the benefit of its key strengths - the quality of our physical facilities; the versatility of our management in coping with change; and the adequacy of our financial resources and resilience.

John B Zarb
Chairman

27 August 2020

BOARD OF DIRECTORS

JOHN B ZARB
Chairman

PAUL GAUCI
Executive Vice-Chairman

CHARLES BORG
Executive Director &
Chief Executive Officer

GIANLUCA BORG
Executive Director &
Chief Purchasing Officer

CLAIRE ALEXIA BORG GAUCI
Non-Executive Director

LAWRENCE ZAMMIT
Non-Executive Director

WILLIAM SPITERI BAILEY
Non-Executive Director

DR EMMA GRECH
Company Secretary

SENIOR MANAGEMENT, GROUP SERVICES AND OPERATIONS

SENIOR MANAGEMENT

LEFT TO RIGHT

Gianluca Borg
Executive Director & Chief Purchasing Officer

Mark Seguna
Head Information Technology

Malcolm Camilleri
Deputy Chief Executive Officer

Charles Borg
Executive Director & Chief Executive Officer

Kevin Azzopardi
Head Marketing

Ian Micallef
Chief Financial Officer

Silvio Carabott
Chief Operations Officer

GENERAL MANAGERS RETAIL

LEFT TO RIGHT

Manuel Caruana General Manager - Pavi

Stephen Gauci General Manager - Pama

Adriana Cassar Camilleri Brand Manager - Zara®

Jackie Micallef Brand Manager - Zara Home®

OPERATIONS MANAGEMENT

LEFT TO RIGHT

Michelle-Marie Buttigieg Finance Manager

Giannella Gauci Finance Manager

Mark Mifsud Finance Manager

Michael Micallef Head Purchasing

Marthese Gatt Human Resources Manager

Claire Eddlestone Finance Manager

OPERATING REVIEW

Operations of the group

The outbreak of COVID-19 impacted the group's franchise and retail operations in the course of the financial year ended 30 April 2020. Sales levels at the group's Zara® and Zara Home® suffered a severe downturn as from the second week of March 2020. The stores were closed as from 23 March 2020, and remained inoperative for the remainder of the financial year. The outbreak also impacted the group's retail and catering clients at Pama and Pavi.

The group's flagship Zara® and Zara Home® retail outlet in Sliema was refurbished and significantly expanded in the course of 2018. As a result, operations at this outlet ceased between July and November 2018 and the income and cash flow statements for the comparable year accordingly do not reflect a full year's operations of this facility.

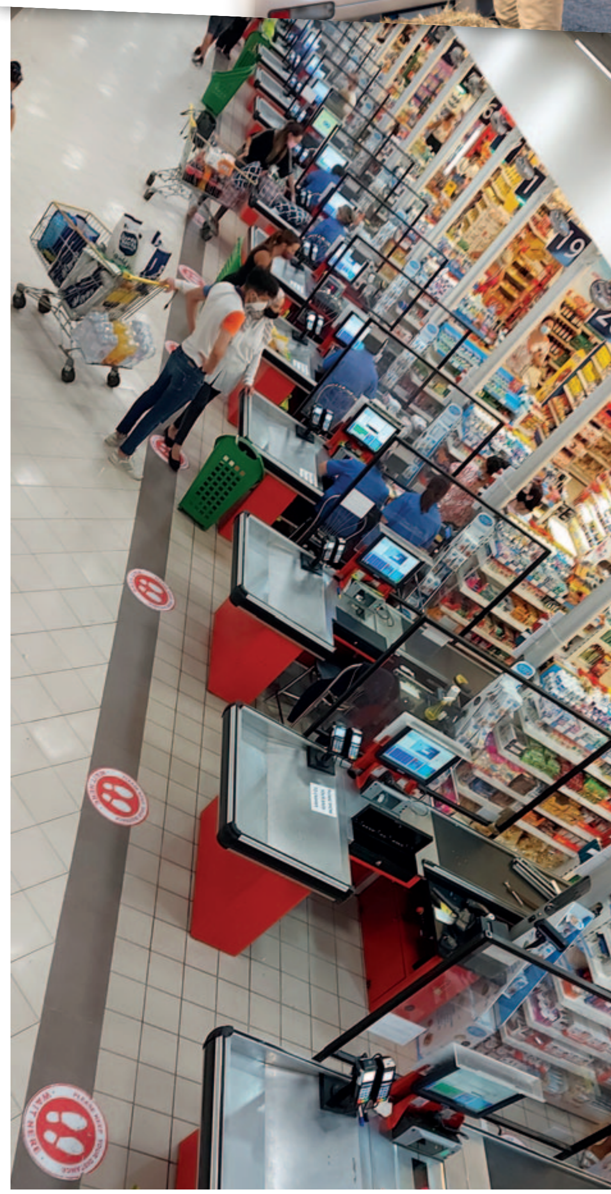
In other respects, the operations of the group were in all material respects unchanged during the two years ended 30 April 2020 and 2019 and consisted of supermarket and associated retail operations conducted at Pavi Shopping Complex and at Pama Shopping Village; and the operation of the Zara® and Zara Home® franchises.

Supermarket and associated retail operations

The strategy of the group with respect to the two supermarket complexes remains that of focusing its activities on areas closely aligned to its core expertise and to attain an adequate spread of risk. Revenue is generated from three types of activity, namely:

- the retailing of food and non-food products, directly procured by the business and carried at its own risk;
- rental arrangements with third party operators in respect of certain specialist activities carried out from designated areas within the supermarkets; and
- the management, operation and letting of other retail and commercial outlets within the two complexes.

The overall objective is that of creating destinations that cater for a number of the day-to-day needs of shoppers, going beyond a routine visit to a supermarket, albeit that the latter remains of fundamental importance to the group.



The supermarkets are the key anchors of each complex. In both cases, they are set out on one floor, employing a logical and customer-friendly layout that has proved popular with patrons, supported by numerous check-out points that facilitate customer flows and minimise queues during peak shopping hours. The overall shopping experience is accentuated by high levels of customer service, supported by continual staff training.

Conveniently accessible locations, coupled with extensive free car parking, characterise the shopping facilities available both at Pama and at Pavi, and have contributed to the consistent growth in footfall that has driven sales.

The group has continued to invest in upgrading its facilities both at Pama and at Pavi.

The refurbishment of the Pavi supermarket continued during late 2019 and in 2020 with the completion of the deli, Chinese and bakery areas.

Within the retail sector, Pavi benefited from the refurbishment of the main catering facility, which will shortly be extended to include the underground space occupied in the past by the wines and spirits section. New retail openings are expected at Pavi in coming months utilising new space made available on the first floor. In the meantime, an application has been lodged with the Planning Authority for the construction of an additional floor of car parking, which will increase our parking offer by 300 spaces.
The bakery refurbishment at Pavi included an on-site baking facility that

proved popular with customers and that has since been replicated at Pama.

Our offering at Pama was also recently enhanced with the opening of the Dr Juice outlet, which has quickly established itself with our clientele.

Turnover within the supermarket and associated retail operations segment increased by 8% when compared to the previous financial year, in spite of all catering and retail outlet rentals being waived by the group in March and April 2020. The total footfall within the two supermarkets totalled 4.8 million persons during the financial year (4.6 million in 2019).

The overall commercial strategy is for the supermarkets to carry a wide range of brands aimed at catering for different tastes and means of customers, without compromising the maintenance of margins, while offering patrons highly competitive prices.

Purchasing of stock directly procured by the business and carried at its own risk is closely controlled to safeguard the competitiveness of our consumer pricing. Procurement is based on supplier negotiations that take advantage of the purchase volumes of the group and of the optimum utilisation of shelf space, while benefiting suppliers through prompt settlement and, where feasible, through efficient logistical arrangements. To maximise efficiency and margins, the group imports certain products directly. The group took advantage of this also to increase stockholdings of various essential commodities as the COVID-19 threat materialised.

To further enhance operational efficiency and reduce operating risk, a number of specialist activities within the supermarkets are sub-contracted to such operators. These include, inter alia, the butcher shops, delicatessen counters, fruit and vegetable counters, pasta shops and fish section. The directors believe that such areas within a supermarket require particular attention to ensure varied, quality and fresh produce and that this focus is better attained through specialist and experienced operators with a known reputation in their markets. The group, therefore, does not operate these sections itself but sub-contracts them to experienced operators. This approach is believed to better ensure the success of the retail food sector and operates to improve overall customer satisfaction, whilst insulating the group from the particular stock expiry and control risks associated with fresh and perishable foods generally.

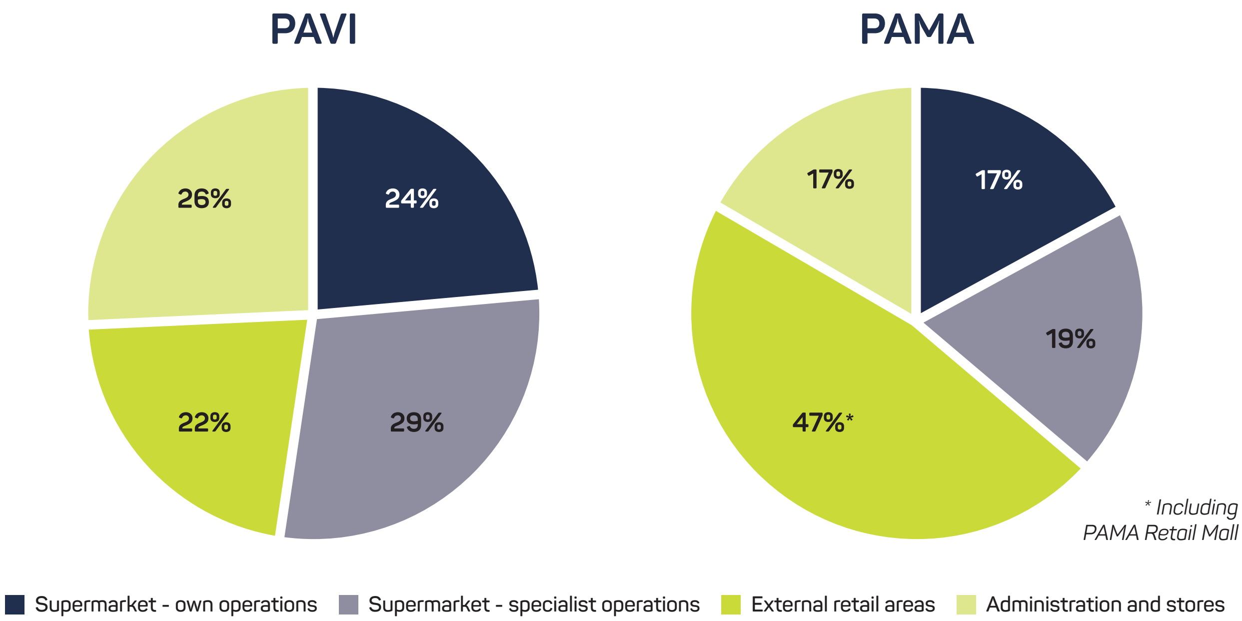
The group makes retail and storage space available to the third party operators and enters into rental arrangements with them in respect of these facilities. The sales of such operators are invoiced to customers by the supermarkets and are hence included within the group's turnover, with the relative proceeds being passed on to the operators concerned in settlement for the goods acquired, after deducting rents and a margin retained to cover, inter alia, the costs of check out, security, cleaning and other services provided.

The group closely monitors the performance of third party operators to ensure the quality and freshness of all products sold, and to ensure price competitiveness.

The success of the group's supermarkets and the high level of footfall they generate has in turn enabled the group to maximise its rental income from other retail outlets situated within the complexes. The presence of these outlets is an added convenience to shoppers and serves to enhance the attraction of the complexes as a whole, providing customers with a more comprehensive selection of outlets.

Rentals from the outlets operated by third parties within the complexes is generally set on an income-sharing basis, subject to an appropriate minimum annual rent depending on the size, location and nature of the outlet. Rental income from such outlets was waived for March, April and May 2020 to help tenants cope with the impact of COVID-19, in line with the long term relationships that the group seeks to foster with all its stakeholders. Such income nevertheless totalled €3.63 million during the financial year ended 30 April 2020, only marginally down from the €3.95 million registered in 2019.

The relative importance of the different sub-segments comprising the group's supermarket and associated retail activity is best illustrated by how space is utilised within the two complexes:



The group's procurement relationships are geared towards enabling Pama and Pavi to offer a varied but price competitive product offering to their customers. Regular market surveys are held to test the group's positioning on this topic, and action is taken, as necessary, in response to the findings of this research.

In addition to its focus on competitive pricing, the group places its customers at the centre of its marketing and communication strategies and a large part of its marketing investment is directly targeted towards them.

This investment comes in the form of free loyalty scheme points, free cash vouchers and heavily discounted prices on specific items. Other incentives are made available on specific days of the week and can be availed of depending on the customers' value of purchase.

These incentives are complemented by other regular special offers which are available at specific times throughout the year. Such offers are accentuated further during seasonal festivities such as Easter and Christmas.

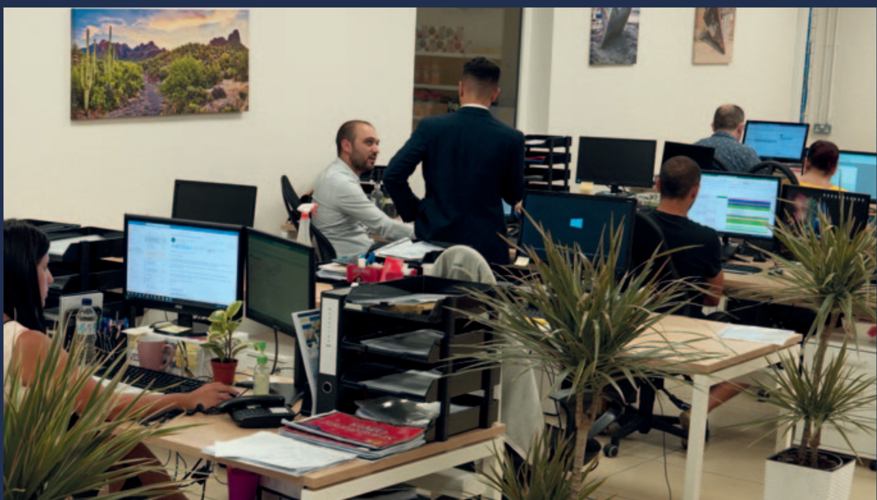
Most of these offers feature on the group's fortnightly magazine, which is today distributed door-to-door. During the COVID-19 shutdown, the two supermarkets relied extensively on communications via messaging or email.

The group continues to offer an entitlement of free mineral water to customers whose purchase exceed a certain value. This remains a popular measure and the group distributed 14.6 million litres of free mineral water during the financial year ended 30 April 2020, an increase of 1.0% over 2019.

The group's supermarket loyalty points scheme is also being sustained as one of the most advantageous in the industry. It remains the only loyalty scheme which gives customers the opportunity to redeem loyalty points for cash as well as free mineral water. The group has currently over 100,000 loyalty card holders.

This year the group also invested comprehensively to develop its digital communication channels. Particular attention was given to the content on the group's social media platform which is now providing more added value as well as being more engaging.


MCCAA




HOME OF THE WHOPPER
BURGER KING
Christmas Shop
PAVI
PAMA

The Zara® and Zara Home® franchise operations

The Zara® and Zara Home® brands belong to the Spanish firm Industria de Diseño Textil, S.A., better known as Inditex S.A., one of the world's largest clothes retailers, which reported sales of €28.3 billion in 2019. The Zara® business model is based on organising processes that ensure fast-to-market, quality fashion wear at affordable prices.

Zara® opened its first store in the coastal town of A Coruña in the northwest of Spain in 1975. Zara® today has 2,264 stores strategically located in leading cities in 96 countries, together with an on-line sales presence reaching 202 markets. Zara®'s designers and customers are inextricably linked. Specialist teams receive constant feedback on the decisions its customers are making at every Zara® store. This feedback inspires Zara®'s creative team which is made up of over 200 professionals.

Zara Home® was created in 2003 and specialises in the latest designs for the home. Its textile ranges, which include bedding and bed linen, tableware and bath linen, are complemented by dishware, cutlery, glassware and home decoration objects and accessories. Zara Home® is constantly refreshing its product range throughout the year. Today Zara Home® runs 587 stores in 70 markets.

The PG Group's Zara® franchise operations were initiated in 2001 at the Alhambra store in Tower Road, Sliema. The outlet is owned on a freehold basis and is situated in what is possibly Malta's prime retail location, attracting a high footfall. This outlet was significantly expanded in the course of 2018 through the construction of five additional levels on the back of the building, where the former cinema was situated. The project, which was successfully completed in late November 2018, served to increase the retail space within the building from 1,711 to 3,311 sqm, apart from supporting staff and storage facilities. The enlarged outlet houses one of the largest Zara® department stores in Europe. It also includes one floor dedicated completely to Zara Home®.

A second Zara Home® outlet was opened within the Pama retail mall in November 2016. This second store measures 880 sqm and is an ideal size to exhibit a substantial range of products available from this brand. A third outlet, measuring 480 sqm, was opened at Pavi in May 2018.

As the franchisee for Zara® and Zara Home®, the group is responsible, inter alia, for staff recruitment and management, accounting, stock control as well as the security and upkeep of the premises. Operations within the two stores are at the same time conducted in close liaison with the brands' owners, Inditex, which is closely involved in the placement of orders for stock, seeking to ensure that the range of merchandise retailed in Malta at all times represents the current offerings of the two brands.


ZARA
ZARA HOME
ZARA


ZARA HOME

Coping with COVID-19

The group's supermarket activities are an essential component of the food supply chain. Ensuring continuity in these operations in a safe and sustainable manner was a key objective of the group in recent months, one that went beyond pursuing our business objectives.

Health and safety

The group's priority was that of protecting customers and staff, particularly cashiers and other shop staff who are directly client facing. The group's Management Committee monitored events closely, with regular board oversight, evaluating the impacts and designing appropriate response strategies. Business continuity and crisis management plans were mobilised in all parts of the group and additional social distancing measures have been implemented, abiding and where appropriate going beyond the guidance issued by the Ministry of Health.

The measures adopted included floor marking to maintain safe flow and queuing distances; hand sanitizers installed in every instore entrance, monitored to ensure that all customers and staff sanitize their hands prior to entrance and supplemented by temperature readings; ensuring that customers and staff always wear a face mask or face visor whilst in instore; strict hygiene routines in the stores, with thorough daily cleaning, supplemented by the regular fumigation of trolleys and cash desks; the cessation of any food sampling instore; together with added precautions at cash tills, including the installation of protective screens at our checkouts and encouraging customers to pay at checkout by card. The number of cashiers was also increased, to reduce the incidence of queues.

In line with many other business, home working was adopted for duties not requiring a physical presence, supported by remote meeting facilities. Measures were also taken to segregate middle and top management into teams that avoided unnecessary contact both to minimise any cross-contamination and to help ensure business continuity in the event of any adverse incident.

The precautions taken have inevitably impacted our operating costs, but have served to reassure customers and staff. To date our outlets have not been linked to any known cases of infection.

Procurement

A second plank of our continuity strategy was ensuring that the group carried ample supplies of stock. Orders of directly sourced items were increased as soon as the spread of the

pandemic was noted in Italy and the group entered the initial lock down period carrying an enhanced level of stock.

As expected, the COVID-19 outbreak was initially accompanied by panic buying as consumers sought to stock up on more essential commodities; often in reaction to unfounded rumours of perceived shortages. Our immediate priority was that of reassuring customers, and of building upon this trust by ensuring the continued availability of food supplies throughout the crisis.

The group was pleased to note that the initial panic buying was of short duration as the Maltese food importation and retail sector responded efficiently and responsibly to the crisis. Stock replenishment from our local suppliers were uninterrupted and to our knowledge no food retailer was caught unawares, in spite of the rapidity with which events unfolded in mid-March.

Operational and financial impacts of the pandemic

As may be expected, the outbreak has impacted the group, even if it has had a less marked effect on our supermarket

operations than it had on other aspects of the business. The closure of bars and restaurants may have been expected to add to the demand for home supplies, but in the event this impact was in part offset by the reduction in overseas workers resident in Malta and by changes in consumer behaviour. The latter may in part have been attributable to economic uncertainty, but health concerns were clearly a major consideration.

Buying patterns accordingly changed. Home working and closed schools resulted in shoppers' visits being more evenly spread, avoiding the usual peak periods. Customers sought to limit the number of times that they visited a supermarket. The average chit size was for a period significantly higher than the norm, and this was offset by a reduction in the number of visits. Demand for basic necessities with a long shelf life, such as pasta and canned foods, grew substantially. On the other hand there was for a period a reduction in the sales of fresh produce and, understandingly, less impulse buying. In this respect, our experience during the lock-down period was similar to that reported by large supermarkets in other countries.

The self-isolation necessitated by COVID-19 resulted in a sharp increase in the demand for on-line shopping. It soon proved impractical to handle this demand across the 55,000 different stock items sold in our stores. A separate store was accordingly set up with a limited selection of 2,000 basic items that cater for most shoppers' needs, and the picking and delivery of on-line items was limited to this selection.

An on-line offering that permits picking and delivery costs not to be charged to customers may be a viable proposition when these costs can be offset by a reduced store operating cost. This was clearly not the case in the environment we were operating in, and the higher incidence of on-line shopping resulted in an additional unavoidable operating cost, albeit a contained one. It was an expense that nevertheless had to be incurred to support both our customers and the efforts of the Health Authorities to promote the practice.

The COVID-19 pandemic had a severe impact on the non-food retail and catering sectors.

Sales levels at the group's Zara® and Zara Home® outlets suffered a severe downturn from the second week of March 2020. The stores were closed as from 23 March 2020, and remained inoperative for the remainder of the financial year. Steps were taken to reduce costs during this enforced shutdown. The group benefited from the wage cost relief measures implemented by Government. At the same time, a number of our expatriate staff working within these outlets chose to return to their home country. The net earnings shortfall at our Zara® and Zara Home® outlets during March and April 2020 amounted to circa €0.6 million

The outbreak impacted in a similar manner the group's retail and catering clients at Pama and Pavi. The group has a long term interest in the well being of these strategic partners and, as already noted, has responded to their needs by waiving all rents due in March, April and May 2020. Waived rentals for March and April 2020 are estimated at €0.5 million. Rentals have since resumed on a percentage of sales basis, but waiving the contracted minimum rent terms.

Positioning ourselves for growth

The group continues to work on pursuing potential opportunities for future growth. These could entail the expansion of existing sites; or the acquisition and development of new sites similar to Pama and Pavi. The group is currently working on both these scenarios, and has lodged applications with the Planning Authority on a potential extension to the Pama site, which would house additional retail, storage and car parking facilities.

A robust IT platform is key to our ability to manage growth in a controlled manner. As we reported last year, the current core supermarket systems we utilise at Pama and Pavi are nearing the end of their useful life. The group therefore initiated in 2019 a project aimed at implementing a more modern, multi-store retailing system. This core systems upgrade project has been entrusted to a dedicated IT Project Committee, and is subject to regular monitoring by the board.

The project was launched through the issue of a call for offers following a process of defining the business's requirements; of identifying the leading market packages that are more likely to meet these requirements; and the suppliers who are hence of more interest to the group. A number of detailed proposals were received, and a final software and hardware selection was made in late 2019 after a process of evaluation, shortlisting and final adjudication.

The system selected offers a proven multi-location solution specialised on the supermarket industry, with a strong client base. Significant work has been performed in the first months of 2020 on parameterisation, implementation, testing and data transfer, including an ongoing period of parallel running, working to a detailed project plan. Inevitably, the onset of COVID-19 has impacted on timelines, but this impact has been very contained and both the group and the contracted suppliers have committed the resources necessitated by the project.

The target date of Phase 1 to go live is May 2021. Phase 1 will cater for all core processing and will also target a number of innovations aimed at enhancing our customer service. New point-of-sale systems will be installed which will offer an improved cash out experience, together with a loyalty scheme which will enable member recognition at all our supermarkets.

Future phases will see us embark, amongst other things, on integrating our online product offering with the main stream platform and on improving our in-store experience, e.g., through facilities aimed at assisting customers in locating goods within the stores, and of continuing shopping while queueing at specialised counters such as the butcher or deli. We will also be looking at introducing concepts which will enable us to bring latest technologies available to our supermarket offering.

Apart from the current emphasis on the IT project, the group continues to attach importance to the continued development of its human resources at all levels, including top management. The group today has an experienced and stable management team, and believes that its internal control environment is strong one that can cope effectively with the challenges posed by future growth.

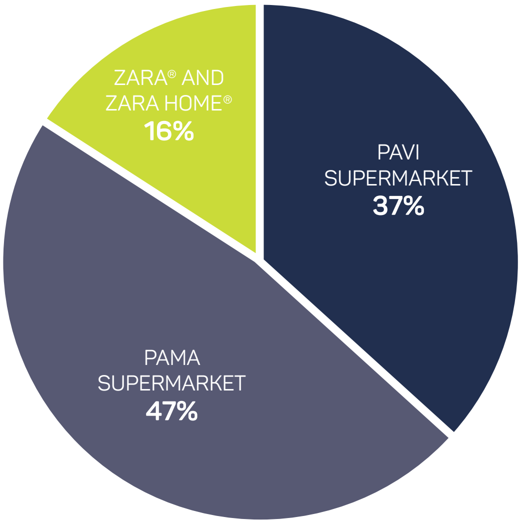
Review of operating performance

The group's operating performance for the year ended 30 April 2020 is summarised below:

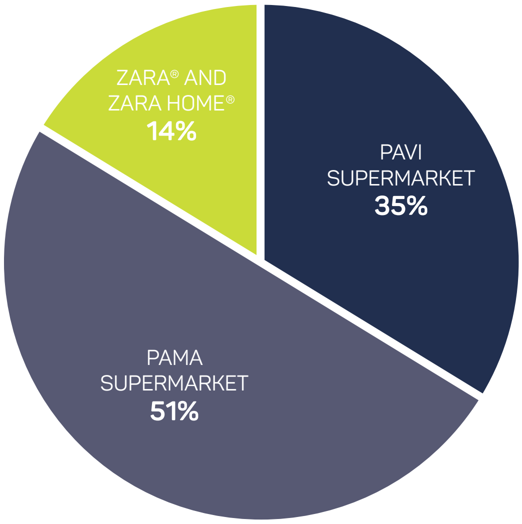
€'000	**Year ended 30 April 2020**	**Year ended 30 April 2019**
Turnover	119,997	107,977
Cost of sales	(101,201)	(91,589)
Gross profit	**18,796**	**16,388**
Gross profit percentage	**15.7%**	**15.2%**
Selling and marketing costs	(865)	(1,042)
Administrative expenses	(3,539)	(3,627)
Other income	726	886
Operating profit	**15,118**	**12,605**
Operating profit percentage	**12.6%**	**11.7%**
Share of results of associates	(94)	10

The group's turnover increased by 11.1% during the year. Both Pama and Pavi performed strongly, increasing sales by 3% and 16% respectively, notwithstanding the rental income waived in March and April. Our Zara® and Zara Home® sales recorded a growth of 30%, again notwithstanding the severe COVID-19 impacts registered in March and April 2020, reflecting the positive impact of the enlarged Sliema outlet in the first ten months of the financial year.

Turnover analysis



Year ended April 2020



Year ended April 2019

During the financial year, overall gross profit percentages increased slightly from 15.2% to 15.7% when compared to 2019. This improvement was in part the result of changes in sales mix. It was also attributable, in part, to new accounting rules.

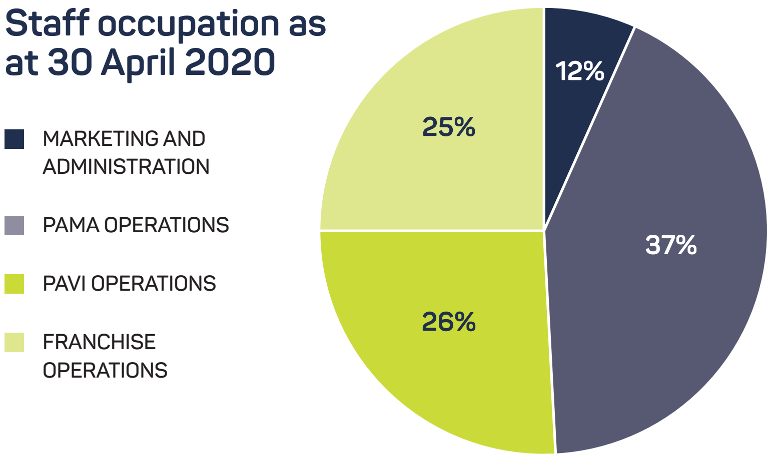
The group's financial statements have this year been materially impacted by International Financial Reporting Standard (IFRS) 16, which deals with operating leases such as that enjoyed by the group on the Pama site. In terms of this new standard, a new liability is recognised in the group's balance sheet, representing the discounted value of all future rental payments due on this site; while that a new equivalent asset has also been recognised to reflect the right of use of the site.

IFRS 16 does not impact the ultimate economic results yielded from a lease, but impacts how these results are reported over the years – typically increasing costs in the early years, with a corresponding benefit later in the lease period. The new standard has in fact negatively impacted the group's results by €380,000 in the financial year ended 30 April 2020. This impact is in part reflected in a reduction in cost of sales, and hence an increase in gross profit, of €625,000; while that the group's finance costs during the period have been increased by €1,007,000.

Marketing and administration costs amounted to 0.7% and 2.9% of turnover respectively (1.0% and 3.4% in 2019). A higher proportion of our marketing spend continues to be directed at customers in terms of discounted or free goods, and these are reflected within cost of sales. Administration costs were largely static during the two financial years, and were better contained in relation to turnover.

The group's overall employment cost increased from €8.0 million in 2019 to €8.4 million in the year ended 30 April 2020. The staff complement increased from 377 to 383 persons, with the average cost per employee increasing by 2.5%.

Staff occupation as at 30 April 2020



Some staff facts and numbers:

- 58% of employees are female
- 29% of employees are under the age of 30
- 24% of our employees are non-Maltese, up from 16% a year earlier
- Our employees hail from 34 countries

Finance costs and cash flow

Excluding the finance cost adjustment arising from the implementation of IFRS 16 (see above), net finance costs amounted to €586,000 in the year ended 30 April 2020, compared to €632,000 in the previous financial year. Taxation amounted to €3.8 million, representing an effective tax charge of 28.2% (25.4% in 2019), with the group benefiting from the 15% final taxation on rental income on part of its earnings. After deduction of taxation, the PG Group attained a profit for the year of €9.65 million, compared to €8.94 million in 2019, an increase of 8.0%.

The group generated a net cash flow from operating activities amounting to €15.5 million (€10.0 million in 2019). This cash flow was in large part applied towards the payment of dividends and towards the reduction in bank liabilities.

Dr Ramona Piscopo, an independent non-executive director, resigned from the group's board on 31 January 2020, having served as a director since 2017. The management and board of PG plc would like to place on record their appreciation for the valuable contribution made by Dr Piscopo during her period in office.

Mr Gianluca Borg, an executive of the group, was appointed to the board on 31 January 2020.

The group wishes to strengthen the board through the appointment of another non-executive director, and for this purpose an extraordinary resolution will be proposed at the next annual general meeting to increase the number of directors by one person.

As at 30 April 2020, the group had bank borrowings, net of cash in hand, of €14.9 million (2019 - €22.0m), including term loans on which it bears a servicing obligation, inclusive of interest and capital repayments, of €2.6 million per annum. The group does not envisage any major cash outflows in the current financial year, and in the absence of unforeseen events would expect to effect further accelerated reductions in borrowings.

Dividends

An interim net dividend of €2.0 million was distributed to shareholders in December 2019, while a second interim net dividend of €2.8 million was distributed in July 2020. These two distributions, totalling €4.8 million, represent 50% of the consolidated net profit for the year and are in line with the group's policy of targeting an annual distribution of not less than half of its post tax earnings. They represent a gross yield of 3.7% on the market value of the company's shares at 30 April 2020.

Current year prospects

The COVID-19 pandemic has inevitably brought to an abrupt end the cycle of economic growth that Malta has enjoyed in recent years. At the time of writing this report, the country is experiencing a surge in the number of infections, adversely impacting travel and tourism and resulting in a material degree of economic uncertainty. There are positive developments that hold out the promise of effective vaccines being developed, and these could in due course herald a rapid return to normality. Having said this, the economic outlook for the rest of 2020 is not a positive one.

The food supermarket business of the group, the popularity of Pama as a destination not limited to food shopping, and the strength of the Zara® and Zara Home® brands help to mitigate the adverse impact of the above.

The group's target for the current financial year is that of attaining a net result that is comparable to that reported for the financial year ended 30 April 2020. In the first quarter that ended on 31 July, the group's results are ahead of target, and this is a promising development.

It would nevertheless be imprudent to reach any conclusions from these initial observations. All economic operations currently remain subject to an uncontrollable degree of uncertainty. In addition, the COVID-19 pandemic will have longer term impacts on consumer behaviour that the market has yet to understand and react to. The group's success in the longer term will in part depend on its ability to cope with these challenges.

Caring for our community

This has again been a busy twelve months for our corporate social responsibility endeavours in the community, marketplace and workplace, with the group demonstrating a continued determination to be part of the solution to provide a better future for people in need. Our latest CSR initiatives are evidence of this commitment which shows developments in the strengthening of the communities where we live and there is now also a renewed interest in our CSR and social impact work from investors, customers, current and prospective employees.

The group ensures to assist organised and well-established not-for-profit organisations, of which the company helped around 15 entities this year. Driven by the extraordinary circumstances created by COVID-19, the group decided to assist entities directly offering support to families with the most urgent needs such as St. Jeanne Antide Foundation and the Jesuit Refugee Services. These where both given vouchers redeemable at the supermarkets to eventually directly distribute within the community. Other entities which the group assisted this year where Puttinu Cares, Dar Bjorn, Fondazzjoni Sebh, Malta Trust Foundation, Ursuline Homes, Food Bank and the Health Promotion and Disease Prevention department. The group also ensures that good approaching the optimum sell-by-date are distributed to homes and other institutes that require food stuff on a regular basis.

Apart from our now customary participation during L-Istrina, the group has also actively participated in two telethons organized by Inspire and Missio while contributing with donations to both. Several employees also registered to donate blood as PAMA Shopping Village, in collaboration with the National Blood Transfusion Service, hosted the Mobile Blood Donation Unit for three separate blood donation drives.

The group also extended its support for another year to the Sliema Local Council in offering their cab service which provides free transportation to elderly residents who require travel for their errands but do not own the means or do not have the physical ability to do so.

The need for businesses, government and social organizations to work together to tackle the most pressing societal challenges has never been clearer than today and this was the reason why the group took a holistic approach where CSR and social impact have been integrated to the extent that its now part of our culture and at the center of everything we do.

Apart from the CSR activities described above, the majority shareholder in the group, Mr. Paul Gauci, acting in a personal capacity, in January 2020 donated a number of shares to five foundations - Puttinu Cares, Dar Bjorn, Ursuline Sisters Homes, Fondazzjoni Sebh and The Malta Trust Foundation. These five charitable foundations received in total 2.25 million shares in the listed company PG plc with a current value of €4.05 million. As part of this shareholding, these five foundations will receive revenue from the dividends distributed by the company twice a year.

This follows a similar gesture made by Mr Gauci in 2019 in favour of Caritas and Dar tal-Providenza.

DIRECTORS' REPORT

The directors present their Annual Report and the Audited Consolidated Financial Statements for the year ended 30 April 2020.

Principal activities

The group is engaged in the retailing of food, household goods and other ancillary products through the Pavi Shopping Complex and Pama Shopping Village, and the selling of Zara® clothing and Zara Home® household goods as a franchisee of the Inditex Group. The group also leases a number of retail outlets within Pavi Shopping Complex and Pama Shopping Village to third parties.

Review of the business

COVID-19 Pandemic

On 7 March 2020, the Maltese Health authorities declared the COVID-19 outbreak as a pandemic. Many Governments around the world introduced unprecedented measures to contain and control this outbreak. In Malta, the measures included quarantine, self-isolation and travel restrictions, the closure of schools and universities and the closure of bars, restaurants and retail outlets. On 21 March, the airport and other non-essential outlets were also asked to close. Social distancing and stay-at-home regulations were also enacted to control the outbreak of this pandemic.

Whereas the outbreak of COVID-19 is, above all, a human tragedy, the unprecedented but essential measures resulted in serious disruption to businesses in Malta and around the world. This has led to a sharp contraction in economic activity. In the face of this serious economic downturn and the threat of massive unemployment, many governments have introduced co-ordinated stimulus measures, business support initiatives and employment protection programmes on a scale never witnessed before. Apart from these, the Maltese Government also introduced business loans and guarantee schemes to assist in the liquidity of local businesses and at the same time is encouraging banks to provide moratoria on interest and capital repayments on mortgages and business loans.

A large uncertainty of this pandemic is how long it will last and what long term effects it is likely to leave on local businesses especially in the areas of hospitality, tourism and travel, all of which are very important for the Maltese economy and especially households' consumption.

Our Pama and Pavi supermarket operations are an essential component of the food supply chain, and our first priority since the outbreak of the COVID-19 pandemic has been that of safeguarding continuity of service through ensuring the safety of our customers and staff. The Group has taken a number of measures to ensure that our employees have a safe working environment and re-assure our customers, fully implementing and going beyond the measures recommended by the Maltese public health authorities.

In line with the directives issued by the Maltese Government, all our Zara® and Zara Home® outlets were closed from 23 March 2020 to 3 May 2020. At the same time, in order to assist our tenants, the Board of Directors decided to waive all lease payments for the period March to May 2020.

For financial reporting purposes, events related to the COVID-19 pandemic are deemed to be an adjusting event, and accordingly the financial results of the group reported within these financial statements for the year ended 30 April 2020 have been impacted by these events.

Trading Performance

Turnover for the year ended 30 April 2020 amounted to €119,997,000 (€107,977,000 in 2019) representing a growth of 11%. The group performed particularly well in the first ten months of the financial year, bolstered by the successful operation of its Sliema Zara® outlet, a steady performance at Pama and sustained growth at Pavi, which has benefited from a substantial refurbishment programme that is now in its final stages. In the final two months of the financial year, however, the group's operations were materially impacted by the outbreak of COVID-19, as discussed above.

The increased turnover resulted, as expected, in a corresponding growth in direct and other costs. Margins increased slightly, from 15.2% in 2019 to 15.7% in this financial year. This improvement was in part attributable to new accounting rules.

The group's financial statements have this year been materially impacted by International Financial Reporting Standard (IFRS) 16, which deals with operating leases such as that enjoyed by the group on the Pama site. In terms of this new standard, a new liability is recognised in the group's balance sheet, representing the discounted value of all future rental payments due on this site; while that a new equivalent asset has also been recognised to reflect the right of use of the site.

IFRS 16 does not impact the ultimate economic results yielded from a lease, but it impacts how these results are reported over the years – typically increasing costs in the early years, with a corresponding benefit later in the lease period. The new standard has in fact negatively impacted the group's results by €380,000 in the financial year ended 30 April 2020. This impact is in part reflected in a reduction in cost of sales, and hence an increase in gross profit, of €625,000; while that the group's finance costs during the period have been increased by €1,007,000.

The resultant operating profit amounted to €15,118,000, an increase of 19.9% over the comparative of €12,605,000 recorded in 2019.

Excluding the IFRS 16 adjustment noted above, net finance costs amounted to €586,000, compared to €632,000 in the previous financial year.

The group's profit before taxation amounted to €13,437,000, compared to €11,983,000 in 2019. The group incurred an effective tax expense of 28.2% (25.4% in 2019), which reflects in part the entitlement of incurring a final tax of 15% on rental income received. The profit after taxation for the year under review amounted to €9,653,000, an increase of 8.0% over the 2019 comparative of €8,937,000.

Cash flow and financing

The group generated a net cash flow from operating activities of €15,516,000 (€10,026,000 in 2019), which was applied in the main towards the payment of dividends and towards the accelerated reduction of bank borrowings. As at 30 April 2020, PG p.l.c. had bank borrowings, net of cash in hand, of €14,859,000 (€22,009,000 in 2019), including fixed term loans on which it bears a servicing obligation, inclusive of interest and capital repayments, of €2,600,000 per annum. The group currently has no material capital expenditure commitments and, in the absence of unforeseen circumstances, expects to continue to accelerate capital repayments on its bank loans.

Financial position and associated financial and other risks and uncertainties

Group equity increased by 12.6% to €43,325,000 as at 30 April 2020 as a result of the retained profits for the year under review.

At 30 April 2020, net bank gearing stood at 25.5% when measured on a historical cost basis, and at 6.9% when judged by reference to the group's enterprise value at 30 April 2020, assessed on the basis of the market value of its equity as quoted on the Malta Stock Exchange.

The group operates in a highly competitive business environment and is subject to various risks such as increasing pressures on margins and increased competition to attract and retain customers.

The COVID-19 pandemic has inevitably brought to an abrupt end the cycle of economic growth that Malta has enjoyed in recent years. At the time of writing this report, the country is experiencing a surge in the number of infections, adversely impacting travel and tourism and resulting in a material degree of economic uncertainty. These circumstances are expected to continue to impact the group, particularly in its non-food retail and catering related activities.

The business of the group is accordingly conducted in a prudent manner seeking to avoid undue levels of risk that could impair its resilience when faced with unfavourable market conditions or that could inhibit its ability to capitalise on suitable opportunities that may be identified from time to time. In particular:

- The major part of purchases and other expenditure, and all revenues, are denominated in euro and the group does not maintain any material assets or liabilities denominated in foreign currency. Its exposure to currency risk is negligible.
- The group's term borrowings carry a fixed interest rate in their initial years, when capital outstanding is higher than later in the term of the loans, and any future increases in interest rates would have a minimal impact on its results.
- The group's annual term loan servicing commitments represented 16% of the net cash flow, before interests, generated from operating activities in the year ended 30 April 2020, and this is considered by the board of

directors as a relatively contained commitment that does not unduly inhibit business resilience.

- The group operates retail businesses where the granting of credit is limited and the credit risk carried is low in the overall context of the group.

- The group carries a net current liability position that results in large part from supplier credit being extended to it in excess of its own investment in working capital. The group maintains a healthy relationship with its suppliers and care is taken to respect agreed credit terms. Prudence is exercised in cash management to ensure that the group maintains at any point in time a material liquidity cushion in terms of available unutilised overdraft facilities.

Further information on the group's financial risk management is set out in note 2 to the financial statements.

Dividends and reserves

The income and equity movements statements are set out on pages 45 and 46 to 47 respectively.

An interim net dividend of €2,000,000 was distributed by the company in December 2019. A second net dividend of €2,800,000 was distributed in July 2020. The total net dividend distributed from the profits earned in the financial year ended 30 April 2020 therefore amounted to €4,800,000 (€4,500,000 in 2019).

Directors

The directors of the company during the financial year ended 30 April 2020 and as at the date of this report are:

Mr John Zarb
Chairman

Mr Paul Gauci
Executive Vice-Chairman

Mr Charles Borg
Executive Director & Chief Executive Officer

Mrs Claire Alexia Borg Gauci
Non-Executive Director

Dr Ramona Piscopo
Non-Executive Director (resigned on 31 January 2020)

Mr William Spiteri Bailey
Non-Executive Director

Mr Lawrence Zammit
Non-Executive Director

Mr Gianluca Borg
Executive Director (appointed on 31 January 2020) and Chief Purchasing Officer

In accordance with the company's Memorandum and Articles of Association, Mr John Zarb and Mr Gianluca Borg will retire by rotation at the next Annual General Meeting and, being eligible, have been nominated, and accordingly offered themselves, for re-election.

Statement of directors' responsibilities for the financial statements

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

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

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

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

The financial statements of PG p.l.c. for the year ended 30 April 2020 are included in the Annual Report 2020 which is published on the group's website (www.pggroup.com.mt) and available in hard copy printed form upon request. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to

Directors' report *continued*

Statement of directors' responsibilities for the financial statements *continued*

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

The directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the group and the parent company as at 30 April 2020, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- the Annual Report includes a fair review of the development and performance of the business and the position of the group and the parent company, together with a description of the principal risks and uncertainties that the group and the parent company face.

Going concern basis

After making due enquiries and taking account of all known factors that could impact the group's operations, including the COVID-19 pandemic, the directors, at the time of approving the financial statements, have determined that there is reasonable expectation that the group and the parent company have adequate resources to continue operating for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

Additional information pursuant to Listing Rule 5.64

Details of the company's share capital are disclosed in note 12 of the financial statements on page 76.

The issued share capital consists of one class of ordinary shares with equal voting rights attached. All shares are freely transferable.

Mr Paul Gauci owns 70.14% of the issued share capital of the company. No other shareholder holds 5% or more of the share capital of the company.

By means of public deeds executed on 16 January 2020, Mr Paul Gauci donated 2,250,000 ordinary shares, equivalent to 2.07% of the company's issued share capital, to five charitable institutions operated by a number of registered non-governmental organisations in Malta. The terms of the donation stipulate that the ownership of the shares should be retained by the institutions, whereas the dividend income therefrom would be freely applied by them to meet their ongoing needs. The institutions concerned have expressed their preference not to be involved in the decision making of a commercial concern, and the voting rights of the shares in question will accordingly continue to be exercised by Mr Gauci.

At present, in terms of the Articles of Association of the company, the board of directors shall consist of a maximum of seven (7) directors, one of whom shall be the Chief Executive Officer. Once appointed to office in accordance with the provisions of the Articles of Association of the Company, a director (not being the Chief Executive Officer, who shall be appointed to the board by virtue of his office following his engagement by the company) may serve in office for a minimum period of three (3) years and a maximum period of five (5) years, unless s/he resigns or is earlier removed or is due to retire by rotation in accordance with the Articles of Association of the company, provided that a director whose term of office expires shall be eligible for re-appointment.

The appointment of the directors (not being the Chief Executive Officer, as aforesaid) shall take place at the Annual General Meeting of the company. In every Annual General Meeting two directors (except for the Chief Executive Officer) shall retire from office but shall be eligible for re-appointment. Unless they otherwise agree among themselves in accordance with the company's Articles of Association, the directors to retire first shall be those who have been longest in office.

The Articles of Association of the company provide for a mechanism pursuant to which recommendations of prospective directors to the RemNom Committee may be made by any shareholder or shareholders holding in the aggregate not less than €250,000 in nominal value of shares having voting rights in the company. No person shall be or become entitled to act or take office as a director of the company unless approved by the RemNom Committee, which is empowered by the Articles of Association of the company to reject any recommendation made if in its considered opinion, the appointment of the person so recommended as a director could be detrimental to the company's interests or if such person is not considered as fit and proper to occupy that position. Where the number of candidates approved by the RemNom Committee is more than the number of vacancies on the board of directors, then an election would take place in accordance with the provisions of the Articles, pursuant to which those candidates obtaining the highest number of votes overall from amongst the candidates listed on the ballot paper distributed in advance of the general meeting shall be elected and appointed directors.

Any director may be removed at any time by the ordinary resolution of the shareholders of the company in accordance with the Companies Act, in accordance with any other applicable law, or in the specific cases set out in the Articles of Association of the company.

The administration and management of the company shall be conducted by the directors, who shall appoint one of their number to act as chairman. The Articles of Association of the company do not contemplate any specific instances of administration and management of the company which are reserved for the decision, or the prior approval of, the shareholders of the company and/or any committee of the company.

The directors are empowered to act on behalf of the company and, in this respect, have the authority to enter into contracts, sue and be sued in representation of the company. They may transact all business of whatever nature of the company not expressly reserved to the shareholders in general meeting or by any provision contained in any law for the time being in force.

The primary provisions regulating the board of directors' workings, as well as the appointment and replacement of directors, may be found in Articles 12-15 and 17-23 of the Articles of Association of the company.

In terms of Article 3.16 of its Articles of Association, the company may, subject to the provisions of the Companies Act acquire or hold any of its shares.

An extraordinary resolution approved by the shareholders in the general meeting is required to amend the Articles of Association, however, no deletion, amendment or addition to the Articles of Association shall have effect unless prior written approval has been sought and obtained from the Listing Authority therefor.

It is hereby declared that, as at 30 April 2020, with the exception listed below, the company is not party to any significant agreement pursuant to Listing Rule 5.64.10.

The franchise agreement with Inditex Group re Zara® and Zara Home® requires its prior consent to any change in control of the group. In the absence of such prior consent, Inditex would be entitled to exercise its rights under an option agreement whereby Inditex could terminate the franchise agreements and assume the ownership of the operation of the stores.

The board declares that the information required under Listing Rules 5.64.4, 5.64.5, 5.64.6 and 5.64.11 is not applicable to the company.

Auditors

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

By order of the board.

John B Zarb
Chairman

Paul Gauci
Executive Vice-Chairman

Registered address:

PG Group Head Offices,
PAMA Shopping Village,
Valletta Road,
Mosta,
Malta.

Telephone (+356) 2349 6100

Dr. Emma Grech
Company Secretary

27 August 2020

CORPORATE GOVERNANCE STATEMENT

A. Introduction

PG p.l.c. was incorporated on 25 November 2016 and acquired control of the subsidiaries and associates that constitute the group's business on 10 March 2017. The company's equity was admitted to the Official List of the Malta Stock Exchange on 4 May 2017.

Pursuant to the Listing Rules issued by the Listing Authority, the company should endeavour to adopt the Code of Principles of Good Corporate Governance contained in Appendix 5.1 to Chapter 5 of the Listing Rules (the "**Code**"). In terms of Listing Rule 5.94, the company hereby reports on the extent of its adoption of the principles of the Code covering the financial year ended 30 April 2020.

The company acknowledges that the Code does not prescribe mandatory rules, but recommends principles of good practice. However, the board strongly believes that such practices are generally in the best interests of the company and its shareholders, and that compliance with the principles of good corporate governance is not only expected by investors but also evidences the directors' and the company's commitment to a high standard of good governance.

Good corporate governance is the responsibility of the board of directors, and in this regard the board has carried out a review of the company's compliance with the Code for the financial period being reported upon.

B. General

The company's governance lies principally with its board of directors, which is responsible for the overall determination of the company's business strategies and policies. The company has adopted a corporate decision-making and supervisory structure that is tailored to suit its requirements and designed to ensure the existence of adequate controls and procedures within the company, whilst retaining an element of flexibility essential to allow the company to react promptly and efficiently to circumstances arising in respect of its business, taking into account its size and the economic conditions in which it operates. The directors are of the view that it has employed structures which are most suitable and complementary for the size and operations of the company. Accordingly and in general the directors believe that the company has adopted appropriate structures to achieve an adequate level of good corporate governance, together with an adequate system of control in line with the company's requirements.

This corporate governance statement (the "**Statement**") sets out the structures and processes in place within the company and explains how these effectively achieve the goals set out in the Code. For this purpose, this Statement will make reference to the pertinent principles of the Code and then set out the manners in which the directors believe that these have been adhered to. Where the company has not complied with any of the principles of the Code, this Statement will provide an explanation for non-compliance.

C. Compliance with the Code

Principle 1: The Board

The board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. In terms of the Memorandum of Association of PG p.l.c., the affairs of the company are managed and administered by a board composed of up to seven (7) directors.

The board is in regular contact with the Chief Executive Officer, who is a board member, in order to ensure that it is in receipt of timely and appropriate information in relation to the business of the group and management performance. This enables the board to contribute effectively to the decision-making process, whilst at the same time exercising prudent and effective controls.

The board delegates specific responsibilities to the Audit Committee and to the RemNom Committee. Further detail in relation to the committees and the responsibilities of the board is found in Principles 4, 5 and 8 of this Statement.

Principle 2: Chairman and Chief Executive

The statute of PG p.l.c. provides for the board to appoint a Chairman from amongst the directors. It also provides for the appointment of a Chief Executive Officer who serves, by virtue of his office, as a director of the company. Mr John Zarb and Mr Charles Borg were appointed Chairman and Chief Executive Officer respectively.

The Chairman is responsible to lead the board and set its agenda, ensure that the directors of the board receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the company, ensure effective communication with shareholders and encourage active engagement by all directors during board discussions.

The Chief Executive Officer leads the management team of the group. He reports regularly to the Board on the business and affairs of the group and the commercial, economic and other challenges facing it. He is also responsible to ensure that all submissions made to the board are timely, give a true and correct picture of the issue or issues under consideration, and are of a professional standard suited to the subject matter concerned.

The Chief Executive Officer is supported by Mr Paul Gauci, the founder and major shareholder of the company, who serves as Executive Vice-Chairman. Mr Gauci also takes a leading role in the business development of the group and in identifying and developing opportunities for expansion.

The Chief Executive Officer chairs a Management Committee composed of the group's senior executives. The committee meets on a weekly basis to review the conduct of operations, to review and discuss monthly management accounts and to review and approve annual plans and budgets prior to their presentation to the board. The heads of the respective business areas are invited to attend the Management Committee and to answer any questions of the members of the Management Committee.

The Deputy Chief Executive Officer, Mr Malcolm Camilleri, chairs a Purchasing Committee charged with assisting the Chief Purchasing Officer in the operation of the group's purchasing activities and in negotiations with suppliers. The Purchasing Committee also exercises oversight on the group's relationships with its principal suppliers.

Principle 3: Composition of the Board

The composition of the company's board of directors was designed to attain a diverse mix of professional and business skills and backgrounds appropriate to the needs of the group; an appropriate balance between executive and non-executive directors.

The board of directors is composed of:

Non-Executive Directors

Mr John Zarb FCCA FIA CPA - Chairman
Dr Ramona Piscopo LL.M., LL.D (resigned on 31 January 2020)
Mr William Spiteri Bailey FIA CPA
Mr Lawrence Zammit MA (Econ)
Mrs Claire-Alexia Borg Gauci

Executive directors

Mr Paul Gauci - Executive Vice-Chairman
Mr Charles Borg BA Banking & Finance, MA Financial Services, FCIB - Chief Executive Officer
Mr Gianluca Borg (appointed on 31 January 2020)

Independence of Non-Executive Directors

In line with supporting principle 3 (iii) of main Principle 3, at least one third of the board consists of non-executive directors. With the exception of Mrs Claire-Alexia Borg Gauci, who resigned from employment by the group in May 2020, all the non-executive directors are considered as independent within the meaning of the Code. None of the independent non-executive directors:

(a) are or have been employed in any capacity by the company;
(b) receive significant additional remuneration from the company;
(c) have close family ties with any of the executive members of the board;
(d) have been within the last three years an engagement partner or a member of the audit team of the present or past external auditor of the company; and
(e) have a significant business relationship with the company.

In terms of Code Provision 3.4, each non-executive director has committed to the board that he/she undertakes:

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

Appointment and Removal of Directors

Pursuant to generally accepted practices, as well as the company's Articles of Association, the appointment of directors to the board is reserved exclusively to the company's shareholders, except in so far as an appointment is made to fill a vacancy on the board, which may be filled by co-option made by the board on the recommendation of the RemNom Committee.

The Articles of Association regulate the appointment of directors. Any one or more shareholders who in aggregate hold not less than €250,000 in nominal value of shares having voting rights in the company are entitled to recommend fit and proper persons for appointment as directors of the company, such nominations being subject to the approval of the RemNom Committee, which is empowered by the Articles of Association of the company to reject any recommendation made if, in its considered opinion, the proposed appointment could be detrimental to the company's interests or if such person is not considered as fit and proper to occupy that position. In addition, nominations may be made by the board or the RemNom Committee itself for consideration by the shareholders at the Annual General Meeting of the company. The RemNom Committee is also empowered on its own initiative to take steps to ensure that the board remains constituted by a diverse mix of professional and business skills and backgrounds appropriate to the needs of the group.

Any director may be removed at any time by the ordinary resolution of the shareholders of the company in accordance with the Companies Act, in accordance with any other applicable law, or in the specific cases set out in the Articles of Association of the company.

Principles 4 and 5: The Responsibilities of the Board and Board Meetings

The board meets regularly, usually on a monthly basis in addition to other occasions as may be needed from time to time. Individual directors, apart from attendance at formal board meetings, participate in other ad hoc meetings during the year as may be required, and are also active in board committees as mentioned further below.

During the financial year ended 30 April 2020, fourteen (14) board meetings were held. Attendance at these meetings was as follows:

Board member	Meetings attended
Mr John Zarb	14
Mr Paul Gauci	12
Mr Charles Borg	14
Mrs Claire-Alexia Borg Gauci	13
Dr Ramona Piscopo (resigned on 31 January 2020)	9
Mr William Spiteri Bailey	14
Mr Lawrence Zammit	14
Mr Gianluca Borg (appointed on 31 January 2020)	3

The board is entrusted with the overall direction, administration and management of the group. The board, in fulfilling this mandate, assumes responsibility for the following:

- reviewing and approving the business plan and budgets that are submitted by management, and working with management in the implementation of the business plan;
- identifying the principal business risks for the group and overseeing the implementation and monitoring of appropriate risk management systems;
- ensuring that effective internal control and management information systems for the group are in place;
- assessing the performance of the group's executive officers, including monitoring the establishment of appropriate systems for succession planning, and for approving the compensation levels of such executive officers; and
- ensuring that the group has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

The board regularly reviews and approves various management reports as well as annual financial plans, including capital budgets. In addition, the strategy, processes and policies adopted for implementation are regularly reviewed by the board.

The Chairman ensures that all issues relevant to long-term strategic and short-term performance of the group are placed on the agenda of board meetings and, for the purpose of discussion thereon, are supported by all available information, whilst encouraging the presentation of views pertinent to the subject matter and giving all directors every opportunity to contribute to the discussion.

Principle 6: Information and Professional Development

The recruitment and selection of senior management is the responsibility of the Chief Executive Officer acting in consultation with the board. Likewise, the Chief Executive Officer consults with the board on matters relating to succession planning for senior management within the company. The board considers and discusses succession planning measures at all senior management levels taking into account the size and depth of the management team of the group.

The board, acting through the RemNom Committee, is also concerned with ensuring the ongoing professional training and development of the group's management team.

The directors have access to the advice and services of the Company Secretary, Dr Emma Grech, who is responsible for ensuring that board procedures are adhered to. Additionally, directors may seek independent professional advice on any matter should they deem such necessary in order to discharge their responsibilities as directors at the company's expense.

Principle 7: Evaluation of the Board's Performance

The RemNom Committee has carried out an evaluation of the performance of the board and of the contribution made by the individual board members, and of their continued suitability (including, but not limited to, the two directors retiring by rotation at the next Annual General Meeting), and is of the view that over the period under review, all members of the board, individually and collectively, contributed to proceedings in line with the required levels of diligence and skill. In addition, the board believes that its current composition endows the board with a cross-section of skills and experience and achieves the appropriate balance required for it to function effectively.

Principle 8: Committees

The directors have constituted the following board committees, the terms of reference of which are determined by the board from time to time with the purpose of fulfilling the below mentioned purposes:

Audit Committee

As at year end the Audit Committee is composed of Mr William Spiteri Bailey (Chairman), Mr John Zarb and Mr Lawrence Zammit (who replaced Dr Ramona Piscopo on 31 January 2020), all occupying an independent Non-Executive Director role within the company.

In light of their qualifications as well as their valuable experience, Mr William Spiteri Bailey and Mr John Zarb are the Audit Committee members who are considered to be competent in accounting and/or auditing in terms of the Listing Rules.

The committee is responsible for reviewing the financial reporting processes and policies, the system of internal control and management of financial risk, the audit process, any transactions with related parties and the company's process for monitoring compliance with laws and regulations. When the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the board on the action needed to address the issue or make improvements.

The Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the group. Its primary objective is to assist the board in dealing with issues of risk, control and governance and in reviewing the group's reporting processes, financial policies and internal control structure. The Audit Committee also oversees the conduct of the external audit and facilitates communication between the board, management and external auditors. The Audit Committee is a committee appointed by the board and is directly responsible and accountable to the board. Its main role and responsibilities are:

(a) to review procedures and assess the effectiveness of the internal control systems, including financial reporting;

(b) to assist the board in monitoring the integrity of the financial statements, the internal control structures, the financial reporting processes and financial policies of the company;

(c) to make recommendations to the board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor following appointment by the shareholders in general meeting;

(d) to monitor and review the external audit functions, including the external auditor`s independence, objectivity and effectiveness;

(e) to establish internal procedures and to monitor these on a regular basis;

(f) to establish and maintain access between the internal and external auditors of the company and to ensure that this is open and constructive;

(g) to review and challenge where necessary, the actions and judgements of management, in relation to the interim (if applicable) and annual financial statements before submission to the board, focusing particularly on:

   (i) critical accounting policies and practices and any changes in them;
   (ii) decisions requiring a major element of judgement;
   (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;

(iv) the clarity of disclosures and compliance with International Financial Reporting Standards;
(v) significant adjustments resulting from the audit;
(vi) compliance with stock exchange and other legal requirements; and
(vii) reviewing the company's Statement on Corporate Governance prior to endorsement by the board.

(h) to gain an understanding of whether significant internal control recommendations made by internal and external auditors have been implemented by management;

(i) to establish and exercise oversight upon the internal audit function of the Company, and to review its plans, activities, staffing and organisational structure;

(j) to monitor the statutory audit of the annual and consolidated accounts;

(k) to discuss Company policies with respect to risk assessment and risk management, review contingent liabilities and risks that may be material to the Company; and

(l) to consider other matters that are within the general scope of the committee that are referred to it by the Board of Directors.

The terms of reference of the Audit Committee, approved by the Board, are modelled on the recommendations of the Listing Rules.

The Audit Committee has met eight (8) times in the financial year ended 30 April 2020, and the attendance at these meetings was as follows:

Committee member	Meetings attended
Mr William Spiteri Bailey	8
Mr John Zarb	7
Dr Ramona Piscopo (resigned on 31 January 2020)	5
Mr Lawrence Zammit (appointed to the Audit Committee on 31 January 2020)	2

RemNom Committee

In view of its size, the company has taken the view that whilst it considers the role and function of each of the Remuneration Committee and the Nomination Committee as important, it would be more efficient for these committees to be merged into a single, 'RemNom Committee' that would serve a dual role.

The RemNom Committee is composed of Mr John Zarb (Chairman), Mr Paul Gauci and Mr Lawrence Zammit.

In its function as Remuneration Committee, the RemNom Committee is charged with the oversight of the remuneration policies implemented by the company with respect to its management and employees. Its objectives are those of deciding a remuneration policy aimed to attract, retain and motivate directors, whether executive or non-executive, as well as senior management with the right qualities and skills for the benefit of the company. It is responsible for making proposals to the board on the individual remuneration packages of directors and senior management and is entrusted with monitoring the level and structure of remuneration of the non-executive directors.

In its function as Nomination Committee, the RemNom Committee's task is to propose to the board candidates for the position of director, including persons considered to be independent in terms of the Listing Rules, whilst also taking into account any recommendation from shareholders. It is to periodically assess the structure, size, composition and performance of the board and make recommendations to the board regarding any changes, as well as consider issues related to succession planning. It is also entrusted with reviewing the board's policy for selection and appointment of senior management.

The RemNom Committee met three times during the financial year ended 30 April 2020 and these meetings were attended by all RemNom Committee members.

Remuneration of directors and senior management

Please refer to the Remuneration Report (see page 34) for information regarding the remuneration of the company's directors and senior executives.

Principles 9 and 10: Relations with Shareholders and with the Market, and Institutional Shareholders

The company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood.

The company will communicate effectively with shareholders by publishing its results on a six-monthly basis during the year, by way of half yearly and annual reports and financial statements, through interim Directors'

Statements, through periodical company announcements and through press releases in the local media to the market in general. The financial results will be made available on the group's website www.pggroup.com.mt.

Annual General Meeting

Within seven months of the end of the financial year, the Annual General Meeting of the shareholders will be convened to consider the annual financial statements, the directors' and auditors' reports for the year, to decide on any dividends recommended by the board, to elect directors, appoint auditors and to set their remuneration. A presentation will be given to the shareholders present showing how the group operated in the light of prevailing economic and market conditions, and an assessment on future prospects will be given. The Chairman arranges for all directors to attend the Annual General Meeting. More information on general meetings of the company may be found in section F below.

Principle 11: Conflicts of Interest

It is the practice of the board that when a potential conflict of interest arises in connection with any transaction or other matter, the potential conflict of interest is declared so that steps may be taken to ensure that such items are appropriately addressed. By virtue of the company's Articles of Association, the directors are obliged to keep the board advised, on an ongoing basis, of any interest that could potentially conflict with that of the company. The board member concerned shall not take part in the assessment by the board as to whether a conflict of interest exists. A director shall not vote in respect of any contract, arrangement, transaction or proposal in which he has material interest in accordance with the Articles of Association. The board believes that this is a procedure that achieves compliance with Principle 11. None of the directors save Mr Paul Gauci have any shares in the company.

Any material transactions with related parties, which pose intrinsic potential conflicts of interests, require the approval of the Audit Committee, which is charged with ensuring that such transactions are necessary for the conduct of the company's business and are transacted on an arms' length basis.

As explained in the prospectus issued by the company on 27 March 2017, the group was re-organised in its current form to include, as far as practicable, all the businesses that are controlled by Mr Paul Gauci, and managed by his management team. This serves to reduce the scope for any future potential conflicts of interests involving the majority shareholder.

Principle 12: Corporate social responbility

The company recognises the importance of its role in the corporate social responsibility arena and seeks to ensure that in its operations the environment is respected. The directors are also aware of the importance of having good relations with stakeholders and strive to work together with them in order to invest in human capital, health and safety issues and to adopt environmentally responsible practices.

D. Non-compliance with the Code

The directors set out below the Code provisions with which the company does not comply and an explanation as to the reasons for such non-compliance:

Principle 8: Committees (Code Provision 8.A.1.)

With respect to Code Provision 8.A.1. which sets out the composition requirements of remuneration committees, particularly that the Remuneration Committee must be composed of non-executive directors, the Board notes that the RemNom Committee is not composed in strict compliance with the Code, due to Mr Paul Gauci, an executive director, being a member of the RemNom Committee.

Principle 9: Relations with Shareholders and with the Market (Code Provision 9.3)

There are no formal procedures in place within the company for the resolution of conflicts between minority and controlling shareholders, nor do the company's Memorandum or Articles of Association as recommended in Code Provision 9.3 contemplate any mechanism for arbitration in these instances.

Principle 9: Relations with Shareholders and with the Market (Code Provision 9.4)

The company does not have a policy in place to allow minority shareholders to present an issue to the board. In practice, however, the open channel of communication between the company and minority shareholders via the office of the Company Secretary is such that any issue that may merit bringing to the attention of the board may be transmitted via the Company Secretary, who is in attendance at all meetings of the Board of Directors.

Other than the above, and in the opinion of the board, the company has instituted governance procedures which shall ensure full compliance with the Code.

E. Internal Control

The board is ultimately responsible for the company's system of internal control and risk management and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable, as opposed to absolute assurance against material misstatement or loss.

The company operates through the board of directors and the management team with clear reporting lines and delegation of powers. The board of directors has adopted and implemented appropriate policies and procedures to manage risks and internal control. The board plans, controls and monitors business operations in order to achieve the set objectives.

The directors, with the assistance of management, are responsible for the identification, evaluation and management of the key risks to which the company may be exposed. The company has clear and consistent procedures in place for monitoring the system of internal financial controls. The directors also receive periodic management information giving comprehensive analysis of financial and business performance including variances against the group's set targets. This process is applicable specifically in relation to the group's financial reporting framework.

Through the Audit Committee, the board reviews the effectiveness of the company's system of internal controls, including financial reporting, which is also monitored by an Internal Audit team. The Audit Committee also analyses the internal audits reports prepared by the group's internal auditors and ensures that the recommendations therewith are adopted and implemented to further strengthen the company's processes and procedures. The Audit Committee also determines whether significant internal control recommendations made by the external auditors have been implemented.

F. General Meetings

The manner in which the general meeting is conducted is outlined in Article 11 of the company's Articles of Association, subject to the provisions of the Companies Act.

As explained under Principles 9 and 10, within seven months of the end of the financial year, the Annual General Meeting of the shareholders will be convened to consider the annual financial statements, the directors' and auditors' reports for the year, to decide on any dividends recommended by the board, to elect directors if necessary, appoint auditors and to set their remuneration. A presentation will be given to the shareholders present showing how the company operated in the light of prevailing economic and market conditions, and an assessment on future prospects will be given. The Chairman arranges for all directors to attend the Annual General Meeting.

In addition, and in terms of Article 11.3 of the Articles of Association of the company, the board of directors may convene an extraordinary general meeting whenever they think fit. If at any time there are not sufficient directors capable of acting to form a quorum for a meeting of the directors (being four (4) directors), any director, or any two shareholders holding at least ten per cent (10%) of the shares conferring a right to attend and vote at general meetings of the company, may convene an extraordinary general meeting in the same manner.

Adequate notice of general meetings must be given to shareholders as outlined in Articles 11.4-11.6 of the company's Articles of Association.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Listing Rules have the right to attend, participate and vote in the general meeting. A shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the company.

Approved by the board of directors on 27 August 2020 and signed on its behalf by:

John B Zarb
Chairman

Paul Gauci
Executive Vice-Chairman

REMUNERATION STATEMENT

In terms of Rule 8A.4 of the Code of the Principles of Good Corporate Governance (the "**Code**") contained in the Listing Rules issued by the Malta Financial Services Authority (the "**Listing Rules**"), the company is to include a Remuneration Statement in its annual report which shall contain, inter alia, details of the Remuneration Policy of the company and the financial packages of Directors and the Company's senior executive team, which for the purposes of this Remuneration Statement shall be taken to refer to the Chief Executive Officer (the "**CEO**"), the deputy CEO and the Company's chief officers, namely the Chief Operations Officer, Chief Financial Officer and Chief Purchasing Officer.

The remuneration of the abovementioned individuals is established in the following manner:

(a) At the time of the initial public offering and of the listing of the company's shares, continuity was assured in the salaries payable to the executive directors and the company's senior executives after these were reviewed by the board of directors and adjudged appropriate and suitable in the context of the responsibilities and experience of the individuals concerned. These salaries were reflected in the business results and forecasts published by the group at the time.

   Executive salaries are reviewed annually by the company's Remuneration Committee and Nominations Committee (the "**RemNom Committee**"), as set up in terms of its Memorandum and Articles of Association, to ensure that they remain commensurate with the performance of the individuals concerned and in line with the market.

(b) The remuneration of the non-executive directors was set by reference to the time they are expected to dedicate, annually, to the affairs of the group, remunerated at a rate that acknowledges the professional status and experience of the individuals concerned. The process was designed to attain transparency on the time input that the directors are expected to dedicate annually to the Group, whilst at the same time creating a basis upon which to determine future revisions should directors be required to dedicate more time to the group's affairs.

(c) A discretionary variable annual performance bonus scheme is in place. Annual bonuses are generally determined, at first instance, by the CEO together with the Executive Vice-Chairman, and then approved by the RemNom Committee; provided, however, that bonuses pertaining to the CEO and the deputy CEO are determined and approved directly by the RemNom Committee. Bonuses are paid in cash by the group during the financial year, and do not constitute a material part of the aggregate remuneration of directors.

Remuneration Policy

Save as specified above, the remuneration payable to the directors and the company's senior executive team is fixed, and does not include any variable element based on performance indicators or the right to purchase shares in the company by virtue of share options, or any other deferred compensation or pension benefits.

Two of its executive directors and all non-director senior executives are permitted the use of a company vehicle. No other non-cash remuneration is paid to directors and the company's senior executive team.

Taking into consideration the management and operational set-up of the group, the board of directors considers a fixed form of remuneration plus a discretionary annual bonus to constitute a suitable basis of remuneration. In addition, the RemNom Committee is satisfied that the base remuneration for the year under review is aligned with the core principles of the company's current remuneration policy, ensuring that market conditions and remuneration rates offered by similar organisations for comparable roles have been taken into consideration.

Emoluments – directors and senior executive team

The aggregate emoluments of all directors in any one financial year and any increases thereto are approved by the shareholders in general meeting in accordance with Article 22.1 of the company's Articles of Association.

The following is an outline of the directors' and senior executive team's cash remuneration for the year under review:

Remuneration statement *continued*

Emoluments – directors and senior executive team *continued*

Emoluments of directors [aggregate]

	Fixed remuneration	Variable remuneration	Share options
Directors	€405,413	€38,462	None

The remuneration payable to the Non-Executive Chairman covers both his role as director and chairman of the company. For the purposes of clarity, although several directors partake of the different standing committees of the Company, such directors did not receive extra remuneration for occupying such roles during the year under review. In establishing its Remuneration Policy, the board will consider how the fixed based salary payable to directors should be supplemented in the case that they form part of such committees, in recognition of the functions and responsibilities of the directors concerned when taking up these additional roles.

No increments in the emoluments of directors were affected since their initial appointment to the company's board.

Emoluments of the senior executive team, including the executive directors whose earnings are also disclosed above [aggregate]

	Fixed remuneration	Variable remuneration	Share options
Senior executives	€565,022	€161,540	None

Director and senior executive contracts

None of the directors or senior executives is party to a service contract that contains provisions for termination payments and other payments linked to early termination.

Remuneration Policy in accordance with Chapter 12 of the Listing Rules

The group's Remuneration Policy for directors will be proposed for formal approval by shareholders pursuant to the requirements of Listing Rule 12.26A at the 2020 Annual General Meeting. This Remuneration Policy shall be reviewed regularly, and any material amendments thereto shall be submitted to a vote by the Annual General Meeting of the company before adoption, and in any case at least every four (4) years. Such policy shall be drawn up in particular having due regard to the responsibility vested in the functions and roles of the directors (which, for the purposes of the said Remuneration Policy, shall include the CEO and the deputy CEO), market conditions, and the remuneration being offered by similar organisations. The Company also intends, as from the financial year ending 30 April 2021, to present an annual Remuneration Report in the form as required under Appendix 12.1 of Chapter 12 of the Listing Rules, which Remuneration Report shall be presented to the shareholders for an advisory vote at the next Annual General Meeting held after the financial year ending 30 April 2021.

Independent auditor's report

To the Shareholders of PG p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- PG p.l.c.'s Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group's and the Parent Company's financial position as at 30 April 2020, and of the Group's and the Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and

- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

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

What we have audited

PG p.l.c.'s financial statements, set out on pages 43 to 91, comprise:
- the Consolidated and Parent Company statements of financial position as at 30 April 2020;
- the Consolidated and Parent Company statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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

The non-audit services that we have provided to the group and its subsidiaries, in the period from 1 May 2019 to 30 April 2020 are disclosed in note 16 to the financial statements.

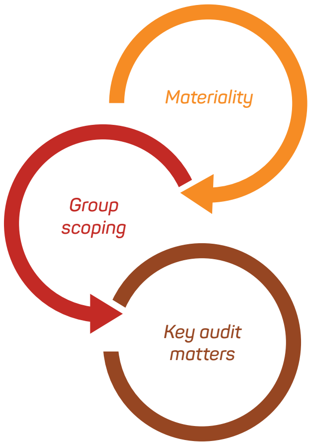
pwc

Independent auditor's report *CONTINUED*

To the Shareholders of PG p.l.c.

Our audit approach

Overview



- Overall group materiality: €672,000, which represents 5% of profit before tax.

- The group is composed of 11 reporting units all located in Malta.
- The group engagement team carried out the audit of the financial statements of the parent company as well as the audit of the financial statements of all the subsidiaries of the company.

- Existence, valuation and cut-off of inventory.

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

Materiality

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

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

Overall group materiality	€672,000
How we determined it	5% of profit before tax.
Rationale for the materiality benchmark applied	We applied this benchmark because, in our view, profit before tax is the metric against which the performance of the group is most commonly measured. We chose 5% which is within the range of acceptable quantitative materiality thresholds.

pwc

Independent auditor's report *CONTINUED*

To the Shareholders of PG p.l.c.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €67,200 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Existence, valuation and cut-off of inventory Refer to note 9	
Inventory for the group as at 30 April 2020 amounted to €7.4 million and represented 47% of total current assets of PG p.l.c.. This inventory mainly consists of stocks held in the supermarkets and stores and in the fashion retail outlets. Inventory is valued at the lower of cost and net realisable value. The valuation of inventory at cost is based on the weighted average cost per unit of inventory (the AVCO-principle). Due to the nature of the Group's operations, the number of transactions recorded through the inventory cycle during the year is very significant and dependant on the reliability of the Group's operating systems. We focused on this area because of the materiality of these balances and the related impact on working capital as well as on the cost of items sold.	We tested the existence of inventory mainly by attending a selection of inventory cycle counts in the supermarkets, attending the year-end count of related stores as well as observing the year-end stock counts in the fashion retail outlets. We performed test counts on a sample basis and compared the quantities counted by us with the results of the counts by the entities. We also checked that variances arising from our test counts were followed up by management and reflected in the accounting records. Our tests of detail on the valuation of inventory included the verification of inventory records against the respective supporting documentation on a sample basis. Furthermore, we also assessed slow moving items. Our audit procedures to assess inventory cut-off consisted of performing substantive procedures to ensure that the transfer of rights and obligations over inventory had been correctly reflected in the books of the Group. Based on the procedures performed, we conclude that inventories as at year end are reasonably stated in the financial statements.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

How we tailored our group audit scope

The group is composed of 11 reporting units all located in Malta. We tailored the scope of our audit in order to perform sufficient work on all components to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Independent auditor's report *CONTINUED*

To the Shareholders of PG p.l.c.

The group audit team performed all of this work by applying the overall group materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the group financial statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises the Chairman's statement, the Operating review, the Directors' report and the Remuneration statement (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the directors' report.

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

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

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

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

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent auditor's report *CONTINUED*

To the Shareholders of PG p.l.c.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Group's and the Company's trade, customers and suppliers, and the disruption to their business and the overall economy.

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

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

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

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

Independent auditor's report *CONTINUED*

To the Shareholders of PG p.l.c.

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

Report on other legal and regulatory requirements

Report on the statement of compliance with the Principles of Good Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of 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 throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 27 to 33 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

Other matters on which we are required to report by exception

We also have responsibilities:

- under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:
    - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
    - The financial statements are not in agreement with the accounting records and returns.
    - We have not received all the information and explanations we require for our audit.
- under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

Independent auditor's report *CONTINUED*

To the Shareholders of PG p.l.c.

Appointment

We were first appointed as auditors of the Company on 25 November 2016. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years.

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

Stefan Bonello
Partner

27 August 2020

Statements of financial position

		As at 30 April			
		Group		Company	
		2020	2019	**2020**	2019
	Notes	**€'000**	€'000	**€'000**	€'000
ASSETS					
Non-current assets					
Property, plant and equipment	4	**63,501**	64,436	**-**	-
Right-of-use assets	5	**16,501**	-	**-**	-
Investment property	6	**3,794**	3,728	**-**	-
Investment in subsidiaries	7	**-**	-	**34,506**	34,506
Investment in associates	8	**3,307**	3,401	**3,502**	3,502
Trade and other receivables	10	**-**	-	**708**	708
		87,103	71,565	**38,716**	38,716
Current assets					
Inventories	9	**7,399**	7,369	**-**	-
Trade and other receivables	10	**5,000**	4,999	**-**	-
Current tax assets		**613**	490	**-**	-
Cash in bank and in hand	11	**2,720**	1,546	**141**	-
Total current assets		**15,732**	14,404	**141**	-
Total assets		**102,835**	85,969	**38,857**	38,716

Statements of financial position CONTINUED

		As at 30 April			
		Group		Company	
		2020	2019	**2020**	2019
	Notes	**€'000**	€'000	**€'000**	€'000
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	12	**27,000**	27,000	**27,000**	27,000
Retained earnings		**16,325**	11,472	**5,798**	-
Total equity		**43,325**	38,472	**32,798**	27,000
Non-current liabilities					
Trade and other payables	15	**35**	570	**6,020**	11,679
Borrowings	13	**8,099**	15,350	**-**	-
Lease liabilities	5	**16,563**	-	**-**	-
Deferred taxation	14	**3,750**	3,504	**-**	-
		28,447	19,424	**6,020**	11,679
Current liabilities					
Trade and other payables	15	**20,279**	18,342	**39**	37
Borrowings	13	**9,480**	8,639	**-**	-
Lease liabilities	5	**319**	-	**-**	-
Current tax liabilities		**985**	1,092	**-**	-
Total current liabilities		**31,063**	28,073	**39**	37
Total liabilities		**59,510**	47,497	**6,059**	11,716
Total equity and liabilities		**102,835**	85,969	**38,857**	38,716

The notes on pages 49 to 91 are an integral part of these financial statements.

The financial statements on pages 43 to 91 were authorised for issue by the board of directors of the company on 27 August 2020 and were signed on their behalf by:

John B Zarb
Chairman

Paul Gauci
Executive Vice-Chairman

Statements of comprehensive income

		Year ended 30 April			
		Group		Company	
		2020	2019	2020	2019
	Notes	€'000	€'000	€'000	€'000
Revenue	16, 21	119,997	107,977	13,419	6,538
Cost of sales	17	(101,201)	(91,589)	-	-
Gross profit		18,796	16,388	13,419	6,538
Selling and marketing costs	17	(865)	(1,042)	-	-
Administrative expenses	17	(3,539)	(3,627)	(102)	(78)
Other income	20	726	886	-	-
Operating profit		15,118	12,605	13,317	6,460
Net finance costs	22	(1,587)	(632)	-	(1)
Share of results of associates	8	(94)	10	-	-
Profit before tax		13,437	11,983	13,317	6,459
Tax expense	23	(3,784)	(3,046)	(2,719)	(2,288)
Profit for the year		9,653	8,937	10,598	4,171
Earnings per share for the year attributable to shareholders					
Basic earnings per share	25	€0.09	€0.08		

The notes on pages 49 to 91 are an integral part of these financial statements.

Statements of changes in equity

Group	Notes	Share capital €'000	Retained earnings €'000	Total €'000
Balance at 1 May 2018		27,000	6,785	33,785
Comprehensive income				
Profit for the year		-	8,937	8,937
Transactions with owners				
Dividends for the year	24	-	(4,250)	(4,250)
		-	4,687	4,687
Balance at 30 April 2019		**27,000**	**11,472**	**38,472**
Balance at 1 May 2019		27,000	11,472	38,472
Comprehensive income				
Profit for the year		-	9,653	9,653
Transactions with owners				
Dividends for the year	24	-	(4,800)	(4,800)
		27,000	4,853	4,853
Balance at 30 April 2020		**27,000**	**16,325**	**43,325**

Statements of changes in equity CONTINUED

Company	Notes	Share capital €'000	Retained earnings €'000	Total €'000
Balance at 1 May 2018		27,000	79	27,079
Comprehensive income				
Profit for the year		-	4,171	4,171
Transactions with owners				
Dividends for the year	24	-	(4,250)	(4,250)
Balance at 30 April 2019		**27,000**	**-**	**27,000**
Balance at 1 May 2019		27,000	-	27,000
Comprehensive income				
Profit for the year		-	10,598	10,598
Transactions with owners				
Dividends for the year	24	-	(4,800)	(4,800)
Balance at 30 April 2020		**27,000**	**5,798**	**32,798**

The notes on pages 49 to 91 are an integral part of these financial statements.

Statements of cash flows

		Year ended 30 April			
		Group		Company	
		2020	2019	**2020**	2019
	Notes	**€'000**	€'000	**€'000**	€'000
Cash flows from operating activities					
Cash generated from operations	26	**20,871**	14,887	**7,660**	6,549
Net interest paid		**(1,587)**	(632)	**-**	(1)
Tax paid		**(3,768)**	(4,229)	**(2,719)**	(2,288)
Net cash generated from operating activities		**15,516**	10,026	**4,941**	4,260
Cash flows from investing activities					
Purchases of property, plant and equipment		**(2,187)**	(10,518)	**-**	-
Purchases of investment property		**(1,066)**	(9)	**-**	-
Net cash used in investing activities		**(3,253)**	(10,527)	**-**	-
Cash flows from financing activities					
Repayments of bank borrowings		**(7,418)**	(8,413)	**-**	-
Proceeds from borrowings		**560**	8,440	**-**	-
Payments of principal portion of lease liabilities		**(263)**	-	**-**	-
Payment of finance leases		**(50)**	(48)	**-**	-
Dividends paid		**(4,800)**	(4,250)	**(4,800)**	(4,250)
Net cash used in financing activities		**(11,971)**	(4,271)	**(4,800)**	(4,250)
Net movement in cash and cash equivalents		**292**	(4,772)	**141**	10
Cash and cash equivalents at beginning of year		**(4,707)**	65	**-**	(10)
Cash and cash equivalents at end of year	11	**(4,415)**	(4,707)	**141**	-

The notes on pages 49 to 91 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

These consolidated financial statements include the financial statements of PG p.l.c. and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category within property, plant and equipment and investment property, and except as disclosed in the accounting policies below. Unless otherwise stated, all financial information presented has been rounded to the nearest thousand.

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

The COVID-19 pandemic has negatively impacted the Franchise operations of the group and its rental income from retail and catering outlets, but has not had a material impact on the food supermarket activities that constitute the core of the group's operations, and which are an essential component of the food supply chain. The group continued to operate profitably even during the COVID-19 lockdown period when economic activity in a number of sectors was severely curtailed. On the basis of the group's experience to date, and on the basis of its detailed projections for the coming 12 months and beyond, factoring in the disruption created by the COVID-19 pandemic, the board considers that there are no factors which may cast doubt about the ability of the Group to continue operating as a going concern and accordingly continues to adopt the going concern basis in preparing the Group's financial statements.

Standards, interpretations and amendments to published standards effective for the period commencing on 1 May 2019

During the period commencing 1 May 2019, the group applied the following standards and amendments that are mandatory for the group's accounting period beginning on 1 January 2019, comprising:

- IFRS 16 Leases
- Annual Improvements 2015-2017 cycle
- Transfers to Investment Property – Amendments to IAS 40
- Long term interests in Associates and Joint Ventures – Amendments to IAS 28
- Interpretation 23 Uncertainty over Income Tax Treatment

The group had to change its accounting policies following the adoption of IFRS 16. The impact of this change in accounting policy is disclosed in Note 1.28. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for accounting periods beginning after 1 May 2019. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the directors are

Notes to the financial statements CONTINUED

1. Summary of significant accounting policies *continued*

1.1 Basis of preparation *continued*

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

of the opinion that there are no requirements that will have a possible significant impact on the group's current or future reporting periods and on foreseeable future transactions.

1.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations except as disclosed in note 1.4. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between entities forming part of group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

A listing of the subsidiaries is set out in note 31 to the financial statements.

(b) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of profit or loss and other comprehensive income of the investee after the date on which significant influence is acquired. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the

1. Summary of significant accounting policies *continued*

1.2 Consolidation *continued*

(b) Associates continued

asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

1.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the company's and the group's presentation currency.

(b) Transactions and balances

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

1.4 Business combinations involving entities under common control

PG p.l.c acquired a 100% shareholding in a number of entities and 49% shareholding in two associates on 10 March 2017, in exchange for the issue of shares to the previous ultimate shareholders of these entities. In accordance with generally accepted accounting principles, the pooling of interest basis of accounting has been adopted and this transaction has been recorded as if it had occurred at the beginning of the earliest period reported.

Business combinations involving entities under common control are transactions in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. The key feature of a transaction among entities under common control is that there is no change in the ultimate control of the combining entities as a result of the transaction. Control could be exercised by a group of individuals that are all part of the same close family group when they have the collective power to govern the financial and operating policies of the entity.

The group has chosen to apply the pooling of interests method to account for transactions involving entities under common control. The group accounts for business combinations involving entities under common control by recording:

a) the transaction as if it had taken place at the beginning of the earliest period presented;
b) the assets and liabilities of the acquired entity using predecessor book values from the consolidated financial statements of the controlling party, and
c) the difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity as an adjustment to equity.

When the controlling party does not prepare financial statements, the book values from the financial statements of the acquired entity are used.

Notes to the financial statements CONTINUED

1. Summary of significant accounting policies *continued*

1.5 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings, are shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown in valuation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the valuation reserves directly in equity; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the valuation reserves to retained earnings.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	%
Buildings	1 - 2
Improvements to premises	3 - 10
Furniture and fittings	10 - 25
Plant, machinery and equipment	6.67 - 25
Motor vehicles	20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. In particular, the group assesses on a periodic basis the economic useful lives of integral and movable assets directly related to the retailing and fashion sector.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss. When revalued assets are sold, the amounts included in the valuation reserves relating to the assets are transferred to retained earnings.

1. Summary of significant accounting policies *continued*

1.6 Investment property

Investment property is held for long-term rental yields or for capital appreciation or both, and is not presently occupied by entities forming part of the group. Investment property comprises freehold land and buildings.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. After initial recognition, investment property is carried at fair value, representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed periodically by the group's directors, after taking into consideration valuations prepared by external professional valuers.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of investment property reflects, among other factors, the value of similar properties in the local market. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the group decides to dispose of an investment property without development, the group continues to treat the property as an investment property. Similarly, if the group begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

Notes to the financial statements CONTINUED

1. Summary of significant accounting policies *continued*

1.7 Impairment of non-financial assets

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

1.8 Investments in subsidiaries and associates

In the company's separate financial statements, investments in subsidiaries and associates are accounted for by the cost method of accounting, that is, at cost less impairment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The company gathers objective evidence that an investment is impaired using the same process disclosed in note 1.9.1.3. The results of associates are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

Loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, an extension of the company's investment in that subsidiary. Loans to subsidiaries for which settlement is planned are classified as loans and receivables in accordance with the requirements of IFRS 9.

1.9 Financial assets

The group classifies its financial assets within the 'amortised cost' category.

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

The group reclassifies debt investments when and only when its business model for managing those assets changes.

1.9.1.1 Recognition and derecognition

The group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

1.9.1.2 Measurement

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

1. Summary of significant accounting policies *continued*

1.9 Financial assets *continued*
1.9.1.2 Measurement continued

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The group's debt instruments comprise trade receivables arising from contracts with customers. The accounting policy pertaining to measured of trade receivable (excluding impairment) is disclosed in note 1.10.

1.9.1.3 Impairment

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

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 2.1 for further details.

1.10 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit loss allowance (Note 1.7).

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1.11 Inventories

Goods held for resale

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost of inventories comprises the invoiced value of goods, and, in general, cost also includes freight charges. Net realisable value is the estimate of the selling price in the ordinary course of business less selling expenses.

1.12 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements CONTINUED

1. Summary of significant accounting policies *continued*

1.12 Current and deferred tax *continued*

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

Under this method the group is required to make provision for deferred income taxes on the revaluation of certain property assets and provisions on the difference between the carrying values for financial reporting purposes and their tax base.

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

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

1.13 Cash and cash equivalents

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

1.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

1.15 Financial liabilities

The group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The group's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'other liabilities') under IFRS 9. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1. Summary of significant accounting policies *continued*

1.16 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

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

1.17 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.18 Offsetting financial instruments

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

1.19 Deferred government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions. Government grants related to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

1.20 Provisions

Provisions for legal claims are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance costs.

Notes to the financial statements CONTINUED

1. Summary of significant accounting policies *continued*

1.21 Revenue recognition

(a) Sales of goods - retail

Sales of goods are recognised when the group sells a product to the customer. Retail sales are usually in cash or by credit card. Certain retail sales are on credit. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in 'cost of sales'.

It is the group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

(b) Sales of goods – customer loyalty programme

The group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. A contract liability for the award points is recognised at the time of the sale. Revenue is recognised when the points are redeemed.

The points provide a material right to customers that they would not receive without entering into a contract. Therefore, the promise to provide points to the customer is a separate performance obligation. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience. A contract liability is recognised until the points are redeemed.

(c) Sales of goods - wholesale

Sales of goods are recognised when the group has delivered products to the customer, the customer has accepted the products and collectability of the related trade and other receivables is reasonably assured. Delivery does not occur until the risks of obsolescence and loss have been transferred to the customer.

(d) Sales of services

Revenue from services is generally recognised in the period the services are provided, based on the services performed to date as a percentage of the total services to be performed. Accordingly, revenue is recognised by reference to the stage of completion of the transaction under the percentage of completion method.

(e) Property related income

Rentals receivable, short-term lets receivable and premia charged to tenants of immovable property are recognised in the period when the property is occupied. Premia are taken to profit or loss over the period of the leases to which they relate.

(f) Dividend income

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

1. Summary of significant accounting policies *continued*

1.22 Finance income and costs

Finance income and costs are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. Finance income is recognised as it accrues, unless collectability is in doubt.

1.23 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying non-current assets are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed.

Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the group's interest bearing borrowings.

1.24 Leases

As explained in Note 1.1 above, the group has changed its accounting policy for leases where the Group is the lessee. The group accounting policy applicable as from 1 May 2019 and the impact of the change is explained in Note 5.

Until 30 April 2019, leases of property, plant and equipment where the group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

1.25 Dividend distribution

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

Notes to the financial statements CONTINUED

1. Summary of significant accounting policies *continued*

1.26 Earnings per share

1.26.1 Basic earnings per share

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

1.26.2 Diluted earnings per share

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

1.27 Segment reporting

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

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

1.28 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the group's financial statements.

As indicated in Note 1.1 above, the group has adopted IFRS 16 Leases retrospectively from 1 May 2019, but has not restated comparatives for the reporting period ended 30 April 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 May 2019. The new accounting policies are disclosed in Note 5.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 May 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 May 2019 was 6.5%.

For leases previously classified as finance leases the group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. No adjustments were recognised to the lease liabilities and the related right-of-use assets immediately after the date of initial application.

1. Summary of significant accounting policies *continued*

1.28 Changes in accounting policies *continued*

(i) Practical expedients applied

The group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ii) Measurement of lease liabilities

	Group 1 May 2019 €'000
Operating lease commitments disclosed as at 30 April 2019	71,892
Discounted using the lessee's incremental borrowing rate at the date of initial application	(38,246)
Add: finance lease liabilities recognised as at 30 April 2019	433
Add: adjustments as a result of a different treatment of extension and termination options	(16,884)
Lease liability recognised as at 1 May 2019	**17,195**
Of which are:	
Current lease liabilities	**313**
Non-current lease liabilities	**16,882**
	17,195

(iii) Measurement of right-of-use assets

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 April 2019.

(iv) Adjustments recognised in the balance sheet on 1 May 2019

The change in accounting policy affected the following items in the balance sheet on 1 May 2019:

- property, plant and equipment – decrease by €434,000
- right-of-use assets – increase by €17,195,000
- borrowings – decrease by €434,000
- lease liabilities – increase by €17,195,000

There was no impact on retained earnings on initial application of IFRS 16.

(v) Lessor accounting

The group did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see Note 1.24) as a result of the adoption of IFRS 16.

Notes to the financial statements CONTINUED

2. Financial risk management

2.1 Financial risk factors

The group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk, and fair value interest rate risk), credit risk and liquidity risk. The group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial periods.

The directors provide policies for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective group's functional currency. The group is not exposed to significant foreign exchange risk arising from the group's financing transactions as assets and liabilities are principally denominated in euro and the group is not exposed to foreign exchange risk arising on trading transactions as these are principally conducted in euro.

The group's cash and cash equivalents, borrowings, loans and receivables, finance lease and payables are denominated in euro.

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

(ii) Cash flow and fair value interest rate risk

The group's income and operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from borrowings.

Borrowings issued at variable rates, comprising short-term bank borrowings (refer to note 13), expose the group to cash flow interest rate risk. Certain group's borrowings are subject to an interest rate that varies according to revisions made to the Bank's base rate.

Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Interest rates on these financial instruments are linked with the Central Intervention Rate issued by the European Central Bank. Management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial. Up to the end of the reporting period, the group did not have any hedging arrangements with respect to the exposure of floating interest rate risk.

The group has considerable bank borrowings issued at fixed rates (note 13). These bank loans do not expose the group to cash flow interest rate risk.

2. Financial risk management *continued*

2.1 Financial risk factors *continued*

(b) Credit risk

Credit risk arises on cash and cash equivalents, deposits with banks, loans and receivables, advances to related parties as well as credit exposures to customers, including outstanding receivables and committed transactions. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Financial assets measured at amortised cost:				
Trade and other receivables (note 10)	**4,599**	4,740	**708**	708
Cash and cash equivalent (note 11)	**2,720**	1,546	**141**	-
	7,319	6,286	**849**	708

The group banks and invests only with local financial institutions or entities with high quality standing or rating. The group's operations are principally carried out in Malta. The group has no concentration of credit risk that could materially impact the sustainability of its operations.

The group sales are mainly generated from retail customers and are made in cash or via major credit cards. Despite credit sales are limited, the group has policies in place to ensure that sales of products and provision of services on credit (mainly related to rental activities) are effected to customers with an appropriate credit history.

The group assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of products and services are effected to customers with an appropriate credit history. The group monitors the performance of its receivables on a regular basis to identify expected collection losses, which are inherent in the group's receivables, taking into account historical experience in collection of accounts receivable.

Impairment of financial assets

The group's trade receivables and contract assets, as well as cash and cash equivalents, are subject to IFRS 9's expected credit loss model. The Company's financial assets subject to IFRS 9's expected credit loss model principally comprise amounts advanced to subsidiaries, classified within 'Trade and other receivables'.

(i) Trade receivables and contract assets

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

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled performance obligations and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Notes to the financial statements CONTINUED

2. Financial risk management *continued*

2.1 Financial risk factors *continued*
(b) Credit risk continued
Impairment of financial assets continued

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 1 May 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group adjusts the historical loss rates based on expected changes in these factors.

Other than as noted below, as at 1 May 2019, no further identified expected credit loss allowance in addition to the amount that had already been provided for as at 1 May 2019, on trade receivables and contract assets, was deemed necessary. The movement in loss allowances as at 30 April 2020 is also deemed immaterial by management. On this basis, the information pertaining to loss rates and loss allowances in the group's provisions matrix, which would have otherwise been required by IFRS 7, is not presented as at 30 April 2020 and 1 May 2019.

As of 30 April 2020, trade receivables of €2,418,000 (2019: €2,836,000) were fully performing.

Loss allowances of €9,000 (2019: €12,000) were present at year end in respect of trade and other receivables that were overdue and that were not expected to be recovered. Other overdue trade receivables that were not impaired amounted to €2,011,000 (2019: €1,940,000). The group holds no security against these receivables. The unsecured overdue amounts consisted of €1,601,000 (2019: €1,442,000) that were less than three months overdue and €410,000 (2019: €498,000) that were greater than three months.

(ii) Other receivables

The group revised its methodology in relation to such amounts in line with the requirements of IFRS 9's forward-looking expected loss model. The company monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of its overall liquidity management. The loss allowances for these financial assets are based on assumptions about risk of default and expected loss rates. The Company's management uses judgement in making these assumptions, based on the counterparty's past history, existing market conditions, as well as forward-looking estimates at the end of each reporting period.

As at year-end, based on the directors' assessments of these factors, the equity position of the respective counterparty, and, where the probability of default is high, the recovery strategies contemplated by management together with the support of shareholders in place, the resulting impairment charge required was deemed to be immaterial.

(iii) Cash at bank

The group's cash is placed with reputable financial institutions, such that management does not expect any institution to fail to meet repayments of amounts held in the name of the companies within the group. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was insignificant.

(c) Liquidity risk

The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally trade and other payables and borrowings (refer to notes 15 and 13). 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 group's obligations.

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period and ensures that when additional financing facilities are expected to be required over the coming period there are adequate credit facilities in place with external sources and within the treasury function of the group.

2. Financial risk management *continued*

2.1 Financial risk factors *continued*

(c) Liquidity risk continued

The group's liquidity risk is monitored in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments, coupled with the group's committed borrowing facilities and group's treasury support that it can access to meet liquidity needs as referred to previously.

The group carries a net current liability position that results in large part from supplier credit being extended to it in excess of its own investment in working capital. The group maintains a healthy relationship with its suppliers and care is taken to respect agreed credit terms. Prudence is exercised in cash management to ensure that the group maintains at any point in time a material liquidity cushion in terms of available unutilised overdraft facilities.

The following table analyses the group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount €'000	Contractual cash flows €'000	Within one year €'000	Between 1 and 5 years €'000
30 April 2020				
Bank borrowings	17,579	18,741	9,745	8,996
Trade and other payables	20,314	20,314	20,279	35
Lease liabilities	16,882	32,178	1,331	30,847
	54,775	**71,233**	**31,355**	**39,878**
30 April 2019				
Bank borrowings	23,555	25,011	8,672	16,339
Trade and other payables	18,912	18,912	18,342	570
Finance leases	434	486	61	425
	42,901	44,409	27,075	17,334

2.2 Fair values of financial instruments

The carrying amounts of cash at bank, receivables (net of impairment provisions, if any), payables, borrowings and lease liabilities reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their exposed realisation. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

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

Notes to the financial statements CONTINUED

2. Financial risk management *continued*

2.3 Capital risk management

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

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

	Group	
	2020	2019
	€'000	€'000
Total borrowings and lease liabilities (notes 5 and 13)	**34,461**	23,989
Less: Cash at bank and in hand (note 11)	**(2,720)**	(1,546)
Net borrowings and lease liabilities	**31,741**	22,443
Total equity	**43,325**	38,472
Total capital	**75,066**	60,915
Gearing	**42.3%**	36.8%

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

3. Critical accounting estimates and judgements

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

In the opinion of the directors, with the exception of the fair valuation of property, plant and equipment and investment property (note 4 and note 6), the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

4. Property, plant and equipment

Group	Land and buildings €'000	Assets in the course of construction €'000	Machinery, motor vehicles and equipment €'000	Furniture, fixtures and fittings €'000	Total €'000
At 30 April 2018					
Cost or valuation	50,194	1,735	5,106	3,443	60,478
Accumulated depreciation	(1,442)	-	(1,667)	(1,430)	(4,539)
Net book amount	48,752	1,735	3,439	2,013	55,939
Year ended 30 April 2019					
Opening net book amount	48,752	1,735	3,439	2,013	55,939
Transfers	1,319	(1,735)	66	350	-
Additions	3,650	12	4,291	2,231	10,184
Disposals	(23)	-	(380)	(718)	(1,121)
Depreciation charge	(352)	-	(817)	(456)	(1,625)
Depreciation released on disposal	6	-	378	675	1,059
Closing net book amount	53,352	12	6,977	4,095	64,436
At 30 April 2019					
Cost or valuation	55,140	12	9,083	5,306	69,541
Accumulated depreciation	(1,788)	-	(2,106)	(1,211)	(5,105)
Net book amount	53,352	12	6,977	4,095	64,436
Year ended 30 April 2020					
Opening net book amount	53,352	12	6,977	4,095	64,436
Additions	132	-	897	521	1,550
Disposals	-	-	-	(79)	(79)
Transfers of right-of-use assets	-	-	(433)	-	(433)
Depreciation charge	(433)	-	(837)	(731)	(2,001)
Depreciation released on disposal	-	-	-	28	28
Closing net book amount	**53,051**	**12**	**6,604**	**3,834**	**63,501**
At 30 April 2020					
Cost or valuation	55,272	12	9,396	5,748	70,428
Accumulated depreciation	(2,221)	-	(2,792)	(1,914)	(6,927)
Net book amount	53,051	12	6,604	3,834	63,501

Notes to the financial statements CONTINUED

4. Property, plant and equipment *continued*

Fair valuation of property

The group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

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

The group's land and buildings within property, plant and equipment (note 4) and investment property (note 5) comprises :

- the Zara Complex situated in Sliema, which mainly includes retail outlets selling Zara branded fashion garments and home furnishings. This property is operated by Alhambra Trading Limited and Centre Point Properties Limited (members of the group) and is classified as property, plant and equipment.

- the PAVI Shopping Complex situated in Qormi, which operates a supermarket including the management of shared activities within the retailing operations and the concessions of commercial areas that compliment the complex.

- Undeveloped property situated in Qormi acquired in 2018 which is being held for investment purposes and is classified as investment property.

All the recurring property fair value measurements at 30 April 2020 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 30 April 2020.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above and as disclosed in note 6. The only movements in land and buildings classified as property, plant and equipment and investment property reflect additions, transfers and depreciation charge for the year ended 30 April 2020.

In 2013, the directors assessed the valuation in respect of the Zara Complex and the adjacent airspace in Sliema on valuation reports prepared by a professionally qualified valuer. During 2013, the directors adjusted the carrying amount of this property determined using the noted fair value. Valuations were made on the basis of open market value after considering the returns being attained by the property and its intrinsic value. During 2018, this property was subject to an extensive refurbishment program. This included the development of the adjacent airspace into retail property. Furthermore, the directors of PAVI Shopping Complex Limited assessed the valuation of the PAVI Shopping Complex on valuation reports prepared by a professionally qualified valuer issued in 2016. Valuations were made on the basis of open market value after considering the returns being attained by the property and its intrinsic value. The directors adjusted the carrying amount of this property using the noted fair value.

On 30 April 2020, the directors have reassessed the property's valuation in view of the COVID-19 pandemic and the resulting restrictions to a certain extent, on part of the Group's operations.This impact was initially felt mainly by the retail industry as the supermarkets operations on the other hand have not been impacted and have continued to

4. Property, plant and equipment *continued*
Fair valuation of property continued

register activity levels over those of prior year. This assessment resulted in valuations that are not materially different from that as at 30 April 2020 and accordingly, no adjustment has been made to the carrying amount as at 30 April 2020.

Valuation processes

The valuations of the properties are performed regularly taking into consideration valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the entities operating the complexes which is derived from the group's financial systems and is subject to the group's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by the board of directors and top officials within the group's finance function. This includes a review of fair value movements over the period.

Valuation techniques

Given the specific nature of these assets, the valuations of the Level 3 property have been performed by reference to valuation models. These valuation models include:

- in case of the Zara Complex (which in 2018 included the development of the adjacent airspace) and the PAVI Shopping Complex the directors applied the capitalised rental approach;
- in the case of the property in Qormi, the fair value equates its transactions costs given that the property was acquired in 2018.

The board of directors approved the respective fair values after taking into consideration the intrinsic value of the property and specific tenure conditions.

In using the capitalised rentals approach, the significant unobservable inputs include a rental rate per square metre, the capitalisation rate, and, if applicable, development or refurbishment costs which must be incurred before the property can earn the potential rental cash flows. Information about fair value measurements of property using significant unobservable inputs (Level 3) include an average rental rate per square metre ranging from €200 to €330 (depending on the utilisation) discounted at an average rate of 7% for the Zara Complex and average rental rate per square metre of €185 with an average growth rate of 2% discounted at an average rate of 9% for the PAVI Shopping Complex. Such valuations have also been adjusted by potential rent reductions for financial year 2021, which reductions are gradually phased out until reaching a stable year level in financial year 2024.

For the capitalised rental approach, the higher the rate per square metre, the higher the resultant fair valuation. Conversely, the lower the capitalisation rate, the higher the resultant fair valuation.

Bank borrowings are secured by the group's property, plant and equipment (note 13).

Notes to the financial statements CONTINUED

4. Property, plant and equipment *continued*

Valuation techniques continued

The charge for depreciation of property, plant and equipment is included in profit or loss as follows:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Direct operating expenses	**1,826**	1,423	**-**	-
Selling and distribution expenses	**13**	14	**-**	-
Administrative expenses	**162**	188	**-**	-
Total depreciation charge (note 17)	**2,001**	1,625	**-**	-

In prior years, the group entered into agreements for the supply and leasing of operational equipment installed within the PAMA Shopping Village. Due to certain contractual obligations in favour of the lessor which emanate from the lease contract, the directors consider this contract as a financing arrangement. Accordingly, the group had recognised the equipment being installed as an asset with the corresponding amounts due as a finance lease liability (note 26). These assets have been transferred to Right-of use asset as from 1 May 2019 following the adoption of IFRS 16.

5. Leases

This note provides information for leases where the group is a lessee. For leases where the group is a lessor, see note 1.24.

(i) Amounts recognised on balance sheet

The balance sheet shows the following amounts relating to leases:

	Group	
	30 April 2020	1 May 2019*
	€'000	€'000
Right-of-use assets		
Land & buildings	**16,116**	16,761
Equipment	**385**	434
Closing cost and net book amount	**16,501**	17,195
Lease liabilities		
Current	**319**	50
Non-current	**16,563**	384
	16,882	434

*In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 May 2019, please refer to Note 1.28.

There were no additions to the right-of-use assets during the year ended 30 April 2020.

5. Leases *continued*

(ii) Amounts recognised in the statement of profit or loss

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

	Group	
	30 April 2020 €'000	1 May 2019 €'000
Depreciation charge of right-of-use assets		
Land & buildings	**645**	-
Equipment	**49**	-
	694	-
Interest expense (included in finance costs)	**1,007**	-
Expense relating to variable lease payments not included in lease liability (included in cost of sales)	**852**	-

The total cash outflow for leases during the year ended 30 April 2020 was €2,122,000.

(iii) The group's leasing activities and how these are accounted for

The group leases the land and buildings on which the PAMA Shopping Mall, the PAMA Supermarkets and the parking area are located. The rental contracts are made with an associate of the group for fixed periods of 30 years. The group also leases certain operational equipment installed within the PAMA Shopping Village, however management does not consider these arrangements material relative to the group's other leasing arrangements.

Until the financial years ended 30 April 2019, leases of property, plant and equipment were classified as either finance leases or operating leases, see Note 1.24 for details. From 1 May 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

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

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

Notes to the financial statements CONTINUED

5. Leases *continued*

(iii) The group's leasing activities and how these are accounted for continued

To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by similar operators, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use land and buildings held by the group.

(iv) Variable lease payments

The group's leases of land and buildings with its associate are subject to additional payments that are based on 1.6% of the revenue generated from the PAMA Supermarket. Such terms are used as a manner of minimising the fixed costs base, and are recognised in profit or loss in the period in which the condition that triggers those payments (i.e. the sale) occurs.

A 5% increase in sales in Pama Supermarket with such variable lease arrangements would increase total lease payments by €43,000.

6. Investment property

	Group	
	2020	2019
	€'000	€'000
Year ended 30 April		
Opening cost and net book amount	**3,728**	3,719
Additions	**66**	9
Closing cost and net book amount	**3,794**	3,728
As at 30 April		
Cost and fair value	**3,794**	3,728

7. Investment in subsidiaries

	Company	
	2020	2019
	€'000	€'000
Year ended 30 April		
At beginning and end of year	**34,506**	34,506
At 30 April		
Cost and net book value	**34,506**	34,506

The principal subsidiaries all of which are unlisted at year end, together with the nature of their business are disclosed in note 31.

On 10 March 2017, the company acquired the entire shareholding in a number of entities for a consideration of €34,456,000 for subsidiaries and €3,502,000 for associates (note 8) from PG Holdings Limited, a holding company owned by Paul Gauci. Under the requirements of the predecessor basis of accounting (refer to note 1.4), the difference between the net asset value of these undertakings as at this date and the consideration paid, should be disclosed as an adjustment to equity.

8. Investments in associates

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Year ended 30 April				
At beginning of year	**3,401**	3,391	**3,502**	3,502
Share of results of associates	**(94)**	10	**-**	-
At end of year	**3,307**	3,401	**3,502**	3,502
At 30 April				
Cost	**3,326**	3,326	**3,502**	3,502
Share of results and reserves	**(19)**	75	**-**	-
Net book value	**3,307**	3,401	**3,502**	3,502

The principal associates all of which are unlisted at year end, together with the nature of their business are disclosed in note 31. These associates have share capital consisting solely of ordinary shares, which are held directly by the group; the country of incorporation or registration is also their principal place of business. The financial year end of these entities is 30 April. Associates are measured using the equity method in accordance with the group's accounting policy and there are no contingent liabilities relating to the group's interest in the associates.

Notes to the financial statements CONTINUED

8. Investments in associates *continued*

Summarised financial information of associates

Set out below are the summarised financial information for the above noted entities.

Summarised balance sheet

	Group	
	2020	2019
	€'000	€'000
Total current assets	**1,423**	703
Total current liabilities	**(1,156)**	(488)
	267	215
Non-current assets	**23,289**	7,356
Non-current liabilities	**(16,807)**	(630)
	6,482	6,726
Net assets as at year end	**6,749**	6,941

Summarised statement of comprehensive income

	Group	
	2020	2019
	€'000	€'000
Revenue	**2,122**	1,752
(Loss)/profit before tax	**(72)**	158
(Loss)/profit after tax	**(192)**	21
Associated results attributable to the group	**(94)**	10

The information above reflects the amounts presented in the financial statements of the associates for the period adjusted for the adoption of IFRSs when these entities were considered as associates of the group (note 31).

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates:

	Group	
	2020	2019
	€'000	€'000
Opening net assets	**6,941**	6,920
(Loss)/profit for the year	**(192)**	21
Closing net assets	**6,749**	6,941
Carrying value at year end	**3,307**	3,401

9. Inventories

	Group	
	2020	2019
	€'000	€'000
Goods held for resale	**7,399**	7,369

The amount of inventory write-downs recognised in the income statement categories is as follows:

	Group	
	2020	2019
	€'000	€'000
Cost of sales	**223**	282

10. Trade and other receivables

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Non-current				
Amounts owed by subsidiaries	**-**	-	**708**	708
Current				
Trade receivables - net	**2,418**	2,836	**-**	-
Indirect taxation	**12**	-	**-**	-
Advance payments to suppliers	**361**	362	**-**	-
Amounts owed by associates and related parties	**78**	25	**-**	-
Advance payments on non-current assets	**76**	80	**-**	-
Other debtors	**505**	102	**-**	-
Prepayments and accrued income	**1,550**	1,594	**-**	-
	5,000	4,999	**-**	-
Total trade and other receivables	**5,000**	4,999	**708**	708

Amounts owed by associates and related parties are unsecured, interest free and repayable on demand. The group's exposure to credit and currency risks relating to receivables are disclosed in note 2. The other classes within trade and other receivables do not contain impaired assets.

Notes to the financial statements CONTINUED

11. Cash and cash equivalents

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**2,720**	1,546	**141**	-
Bank overdraft (note 13)	**(7,135)**	(6,253)	**-**	-
Total cash and cash equivalents	**(4,415)**	(4,707)	**141**	-

12. Share capital

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Issued and fully paid up	**27,000**	27,000	**27,000**	27,000

The company's authorised share capital of €40,000,000 is constituted by 160,000,000 ordinary shares having a nominal value of €0.25 per share and the company's issued share capital of €27,000,000 is constituted by 108,000,000 ordinary shares having a nominal value of €0.25 per share. The issued share capital consists of one class of ordinary shares with equal voting rights attached.

13. Borrowings

	Group	
	2020	2019
	€'000	€'000
Non-current		
Bank loans	**8,099**	14,966
Finance leases	**-**	384
	8,099	15,350
Current		
Bank overdrafts	**7,135**	6,253
Bank loans	**2,345**	2,336
Finance leases	**-**	50
	9,480	8,639
Total borrowings	**17,579**	23,989

13. Borrowings *continued*

The group's banking facilities as at 30 April 2020 amounted to €17,742,678 (2019: €24,602,241).

The group's bank borrowings are secured by:

(a) a general hypothec over the group's assets and a special hypothec over its property;
(b) general and special hypothecs over the assets of related parties;
(c) pledge over insurance policies; and
(d) guarantees issued by the group and related parties.

The interest rate exposure of the borrowings of the group was as follows:

	Group	
	2020	2019
	€'000	€'000
At floating rates	**7,135**	6,687
At fixed rates	**10,444**	17,302
	17,579	23,989

Weighted average effective interest rate as at the end of the reporting year were:

	Group	
	2020	2019
Bank loan	**2.75%**	2.75%
Bank overdraft	**2.50%**	2.50%
Finance leases	**-**	2.75%

This note provides information about the contractual terms of the group's borrowings. For more information about the group's exposure to liquidity and interest rate risks, see note 2.

Notes to the financial statements CONTINUED

14. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2019: 35%), except for temporary differences on immovable property that are calculated under the liability method using a principal tax rate of 10% (2019: 10%) on the carrying amounts of property. The movement on the deferred tax account is as follows:

	Group	
	2020	2019
	€'000	€'000
At beginning of year	**3,504**	3,475
Deferred tax on temporary differences arising on depreciation of property, plant and equipment	**247**	32
Provisions	**(1)**	(3)
At end of year	**3,750**	3,504

Deferred tax is principally composed of deferred tax assets and liabilities which are to be recovered and settled after more than twelve months.

The balance as at year-end represents temporary differences on or attributable to:

	Group	
	2020	2019
	€'000	€'000
Revaluation of non-current assets	**3,412**	3,412
Depreciation on property, plant and equipment	**343**	96
Provisions	**(5)**	(4)
	3,750	3,504

15. Trade and other payables

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Non-current				
Capital payables	**35**	570	**-**	-
Amounts owed to subsidiaries	**-**	-	**6,020**	11,679
	35	570	**6,020**	11,679
Current				
Trade payables	**13,072**	10,173	**-**	-
Amounts due to related parties and associates	**969**	310	**28**	30
Capital payables	**1,187**	1,932	**-**	-
Other payables	**283**	310	**-**	-
Indirect taxation	**1,222**	1,272	**-**	-
Accruals and deferred income	**3,546**	4,345	**11**	7
	20,279	18,342	**39**	37
Total trade and other payables	**20,314**	18,912	**6,059**	11,716

Amounts owed by related parties and associates are unsecured, interest free and repayable on demand. The group's exposure to liquidity and currency risks relating to trade and other payables are disclosed in note 2.

Accruals include contract liabilities related to group's customer loyalty programme amounted to €1,467,000 (2019: €1,240,000).

In the company's books, amounts owed by subsidiaries are unsecured, interest free and are not expected to be repaid within the next twelve months.

16. Segment information

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

The board of directors considers the group's business mainly from a commercial perspective as geographically operations are carried out, predominantly, on the local market. The group's revenue principally arises from the management of supermarket operations including management of shared activities and rental activities and the invoiced value of branded garments, home furnishings and related merchandise. The group's commercial operations are segregated primarily into supermarkets and associated retail operations and franchise operations which are considered to the operating segments of the group.

The group does not have any particular major customer, as it largely derives revenue from a significant number of consumers availing of its products and services. Accordingly, the group has not identified any relevant disclosures in respect of reliance on major customers.

Notes to the financial statements CONTINUED

16. Segment information *continued*

The board of directors assesses the performance of the operating segments based on operating results adjusted for centralised costs. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the board of directors is measured in a manner consistent with that in the income statements.

The amounts provided to the board of directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Segment assets consist primarily of land and buildings, right-of-use assets, investment property, machinery and equipment, inventories, trade and other receivables and cash and cash equivalents. Taxation is not considered to be segment assets but rather is managed by the treasury function.

The amounts provided to the board of directors with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. Segment liabilities comprise trade and other payables and exclude tax and borrowings. The group's interest-bearing liabilities, lease liabilities and taxation are not considered to be segment liabilities but rather are managed by the treasury function.

Group	Supermarkets and associated retail operations €'000	Franchise operations €'000	**Group €'000**
2020			
Revenue	113,175	21,217	**134,392**
Less: inter-segmental sales	(12,800)	(1,595)	**(14,395)**
	100,375	19,622	**119,997**
Segment results	12,142	2,976	**15,118**
Net finance costs			**(1,587)**
Share of associates results			**(94)**
Profit before tax			**13,437**
Tax expense			**(3,784)**
Profit for the year			**9,653**
Segment assets	61,588	37,940	**99,528**
Investment in associates			**3,307**
Total assets			**102,835**
Segment liabilities	18,658	1,656	**20,314**
Unallocated liabilities			**39,196**
Total liabilities			**59,510**
Additions to non-current assets	1,238	378	**1,616**
Depreciation and amortisation	(1,760)	(935)	**(2,695)**

16. Segment information *continued*

Group	Supermarkets and associated retail operations €'000	Franchise operations €'000	**Group €'000**
2019			
Revenue	100,996	16,167	**117,163**
Less: inter-segmental sales	(8,124)	(1,062)	**(9,186)**
	92,872	15,105	**107,977**
Segment results	11,065	1,540	**12,605**
Net finance costs			**(632)**
Share of associates results			**10**
Profit before tax			**11,983**
Tax expense			**(3,046)**
Profit for the year			**8,937**
Segment assets	44,013	38,555	**82,568**
Investment in associates			**3,401**
Total assets			**85,969**
Segment liabilities	16,032	2,880	**18,912**
Unallocated liabilities			**28,585**
Total liabilities			**47,497**
Additions to non-current assets	1,416	8,777	**10,193**
Depreciation	(1,024)	(601)	**(1,625)**

Notes to the financial statements CONTINUED

17. Expenses by nature

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Employee benefit expense (note 18)	**8,425**	8,022	**-**	-
Depreciation of property, plant and equipment (note 4)	**2,001**	1,625	**-**	-
Amortisation of right-of-use assets	**694**	-	**-**	-
Purchases of goods and consumables	**87,159**	78,376	**-**	-
Variable leases and parking fees	**901**	1,805	**-**	-
Movement in inventories	**(124)**	(185)	**-**	-
Utility costs	**896**	907	**-**	-
Other expenses	**5,653**	5,708	**102**	78
Total cost of sales, selling and marketing costs and administration expenses	**105,605**	96,258	**102**	78

Audit fees

Fees charged by the auditor for services rendered during the financial periods ended 30 April 2020 and 2019 relate to the following:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Annual statutory audit	**151**	136	**8**	5
Tax advisory and compliance services	**7**	8	**1**	1
Other non-assurance services	**-**	18	**-**	-
	158	162	**9**	6

18. Employee benefit expense

	Group	
	2020	2019
	€'000	€'000
Wages and salaries	**7,796**	7,558
Social security	**400**	357
	8,196	7,915
Recharged from third parties	**279**	217
Recharged to third and related parties	**(50)**	(110)
	8,425	8,022

Average number of persons employed during the year:

	Group	
	2020	2019
Operational	**316**	311
Administration	**62**	61
Selling and distribution	**5**	5
	383	377

19. Directors' remuneration

	Group	
	2020	2019
	€'000	€'000
Emoluments paid	**444**	554

A number of directors availed themselves of an allowance for the use of company cars during the year. The estimated value of this benefit has been included within the directors' salaries, which also includes other allowances.

Notes to the financial statements CONTINUED

20. Other income

	Group	
	2020	2019
	€'000	€'000
Recharges of expenses to retail operators	**726**	886

21. Dividend income

The company's revenue is derived from dividend income from its subsidiaries in accordance with the group's dividend policy.

During the year, the company received gross dividends from its subsidiaries totalling €13,419,000 (2019: €6,538,000).

22. Finance income and finance costs

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Finance income				
Bank interest receivable	**5**	-	**-**	-
	5	-	**-**	-

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Finance costs				
Bank interest	**497**	567	**-**	-
Finance costs on lease interest	**1,007**	-	**-**	-
Finance lease interest	**11**	13	**-**	-
Other financial charges	**77**	52	**-**	1
Finance lease liabilities	**1,592**	632	**-**	1

23. Tax expense

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Current tax expense:				
on taxable profit subject to tax at 35%	**2,544**	2,023	**2,719**	2,288
on taxable profit subject to tax at 15%	**952**	990	**-**	-
under-provision of current tax in prior year	**42**	3	**-**	-
Deferred tax charge	**246**	30	**-**	-
	3,784	3,046	**2,719**	2,288

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

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Profit before tax	**13,437**	11,983	**13,317**	6,459
Tax on profit at 35%	**4,703**	4,194	**4,661**	2,261
Tax effect of:				
share of results of associates	**34**	(4)	**-**	-
maintenance allowance on rental income	**(229)**	(192)	**-**	-
expenses and provisions not allowable for tax purposes	**520**	381	**36**	27
unrecognised deferred tax related to prior years	**(15)**	3	**-**	-
under-provision of current tax in prior year	**42**	3	**-**	-
income subject to reduced rates of tax	**(1,270)**	(1,322)	**(1,978)**	-
movement in unrecognised deferred tax	**(1)**	(17)	**-**	-
Tax expense	**3,784**	3,046	**2,719**	2,288

Notes to the financial statements CONTINUED

24. Dividends paid

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Gross dividend	**7,385**	6,538	**7,385**	6,538
Tax at 35%	**(2,585)**	(2,288)	**(2,585)**	(2,288)
Total net dividend	**4,800**	4,250	**4,800**	4,250
Euro per share (net)	**0.04**	0.04	**0.04**	0.04

A first net interim dividend of €2,000,000 in respect of the year ended 30 April 2020 was announced on 25 November 2019 and paid to the ordinary shareholders on 5 December 2019. A second net interim dividend of €2,800,000 in respect of the year ended 30 April 2020 was announced on 9 July 2020, and paid to the ordinary shareholders on 20 July 2020.

The second net interim dividend was not reflected in the comparative financial statements as it is accounted for in shareholders' equity in the current year financial statements.

25. Earnings per share

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

	Group	
	2020	2019
Profit attributable to shareholders (€'000)	**9,653**	8,937
Weighted average number of ordinary shares in issue (thousands)	**108,000**	108,000
Basic and diluted earnings per share for the year attributable to shareholders	**€0.09**	€0.08

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

26. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group		Company	
	2020	2019	**2020**	2019
	€'000	€'000	**€'000**	€'000
Operating profit	**15,118**	12,605	**13,317**	6,460
Adjustment for:				
Depreciation on property, plant and equipment (note 4)	**2,695**	1,625	**-**	-
Loss on disposal of property, plant and equipment	**50**	62	**-**	-
Changes in working capital:				
Inventory	**(30)**	(427)	**-**	-
Trade and other receivables	**(6)**	(91)	**-**	4,740
Trade and other payables	**3,044**	1,113	**(5,657)**	(4,651)
Cash generated from operations	**20,871**	14,887	**7,660**	6,549

Net debt reconciliation

All the movements in the group's net debt related only to cash flow movements and disclosed as part of the financing activities in the statement of cash flows on page 48 with the exception for movements in lease liabilities which include finance costs of these liabilities amounting to €1,007,000.

27. Commitments

(a) Finance lease commitments - where the group is a lessee

In prior years the group entered into finance lease agreements for the supply and leasing of equipment to be installed within the operational premises of the PAMA Shopping Village. In financial year 2020 the leases are being accounted for as lease liabilities upon adoption of IFRS 16.

The future minimum lease payments under the finance lease liabilities are as follows:

	Group	
	2020	2019
	€'000	€'000
Not later than 1 year	**-**	61
Later than 1 year and not later than 5 years	**-**	245
Later than 5 years	**-**	180
	-	486
Future finance charges on finance leases	**-**	(52)
Present value of finance lease liabilities	**-**	434

The lease commitments are effectively secured as the rights of the leased asset revert to the lessor in the event of default. The lease commitments disclosed above include the lease payment obligations on the assumption that the group will lease the equipment for the full lease term of eleven years.

Notes to the financial statements CONTINUED

27. Commitments *continued*

(b) Capital commitments

As at 30 April, the group had commitments for capital expenditure relating to its property not provided for in these financial statements as follows:

	Group	
	2020	2019
	€'000	€'000
Authorised but not contracted for	**442**	-
Contracted but not provided for	**135**	253
	577	253

(c) Operating lease commitments - where the group is a lessor

The future minimum lease payments receivable under non-cancellable property operating leases are as follows:

	Group	
	2020	2019
	€'000	€'000
Within one year	**1,227**	1,733
Between 1 and 2 years	**159**	166
Between 2 and 3 years	**95**	95
Between 3 and 4 years	**95**	95
Between 4 and 5 years	**95**	95
Later than 5 years	**39**	134
	1,710	2,318

(d) Operating lease commitments - where the group is the lessee

The group entered into an operating lease agreement in relation to the rental of PAMA Shopping Village property with its associate, PAMA Shopping Village Limited.

The total lease and other related payments payable under the property operating lease and car park arrangement agreements in place as at year end are as follows:

	Group	
	2020	2019
	€'000	€'000
Not later than 1 year	**-**	2,008
Later than 1 year and not later than 5 years	**-**	8,717
Later than 5 years	**-**	61,167
	-	71,892

From 1 May 2019, the group has recognised right-of-use assets and lease liabilities for these leases.

28. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating policy decisions.

As at year end, Mr Paul Gauci owned 70% of the shareholding in PG p.l.c. and hence controls the group. The remaining 30% of the shares are widely held.

The entities constituting the PG Group are ultimately fully owned by PG p.l.c. Other entities on which Mr Paul Gauci can exercise significant influence are also considered to be related parties. Hence, related parties also include subsidiaries and associates of PG Holdings Limited.

In the opinion of the directors, disclosure of related party transactions, which are generally carried out on commercial terms and conditions, is only necessary when the transactions effected have a material impact on the operating results and financial position of the group. The aggregate invoiced amounts in respect of a number of transaction types carried out with related parties are not considered material and accordingly they do not have a significant effect on these financial statements except for the following:

In 2019, rents and parking fees payable to associate amounted to €1,752,000. During the year ended 30 April 2020, the group recognised the leasing arrangements with its associate as right-of-use assets and lease liabilities. The group made payments of €2,122,000 to its associate in relation with such leases, and recognised €1,007,000 as interest expenses and €852,000 as variable lease payments.

Year-end balances with associated related parties are disclosed in notes 9 and 14 to these financial statements.

Key management personnel compensation, consisting of directors' and senior management remuneration, is disclosed as follows:

	Group	
	2020	2019
	€'000	€'000
Directors	**422**	554
Senior Management	**453**	455
	875	1,009

29. Contingent liabilities

At 30 April 2020, the group had contingent liabilities amounting to €3,295,000 (2019: €4,745,000) with regards to guarantees mainly in favour of third parties issued by the bank on behalf of the Group in the ordinary course of business.

30. Statutory information

PG p.l.c. is a public limited company and is incorporated in Malta.

Notes to the financial statements CONTINUED

31. Subsidiaries and associates

The subsidiaries and associates at 30 April 2020 are shown below:

	Registered office	Principal activities	Percentage of shares held 2020	2019
Subsidiaries				
Alhambra Investment Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Investment holding	**100**	100
Alhambra Trading Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Operation of branded fashion retail outlet	**100**	100
Centre Point Properties Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Operation of branded fashion retail outlet	**100**	100
PAVI Shopping Complex Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Property leasing	**100**	100
PAVI Supermarkets Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Operation of supermarket and management of retail area	**100**	100
PAMA Supermarket Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Operation of supermarket	**100**	100
PAMA Rentals Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Property leasing	**100**	100
PG Finance Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Property leasing and group treasury function	**100**	100
Pruna Trading Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Importation and wholesale of retail products	**100**	100
PG Developments Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Investment property	**100**	100
Associates				
PAMA Shopping Village Limited	PG Group Head Offices PAMA Shopping Village Valletta Road, Mosta	Property leasing	**49**	49
PAMA Carparks Limited	Ta' Clara Farmhouse Ramla Road, Maghtab, Naxxar	Carpark management	**49**	49

32. Comparative information

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