



PARLAMENT TA' MALTA

IT-TLETTAX-IL LEGIŻLATURA

P.L. 5793

Dokument imqiegħed fuq il-Mejda tal-Kamra tad-Deputati fis-Seduta Numru 407 tat-2 ta' Dicembru 2020 mill-Ministru fl-Uffiċċju tal-Prim Ministru, f'isem il-Ministru għall-Ekonomija u l-Industrija.

Raymond Scicluna
Skrivan tal-Kamra

GOZO CHANNEL (HOLDING) COMPANY LTD - ACCOUNTS

***17355. L-ONOR CHRIS SAID** staqsa lill-Ministru għall-Ekonomija u l-Industrija: Jista' l-Ministru jpoġġi fuq il-Mejda tal-Kamra kopja tal-*accounts* ta' dawn l-aħħar sitt snin tal-kumpanija Gozo Channel (Holding) Company Ltd?

17/11/2020

ONOR. SILVIO SCHEMBRI: Ninforma lill-Onorevoli Interpellant li qiegħed impoġġi fuq il-mejda tal-kamra kopja tal-*financial Statements* tal-Gozo Channel (Holding) Company Ltd sa minn mindu twaqqfet fl-2016 sal-aħħar *financial Statement* approvati għas-sena 2018.

Seduta Numru 407

02/12/2020

GOZO CHANNEL (HOLDING) COMPANY LIMITED

**Annual Report and Consolidated Financial Statements
31 December 2018**

GOZO CHANNEL (HOLDING) COMPANY LIMITED
Annual Report and Consolidated Financial Statements - 31 December 2018

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Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of the group is the operation of a ferry service between Malta and Gozo.

The parent company is the owner of three vessels which are operated by Gozo Channel (Operations) Limited under a joint venture agreement.

Review of the business

During the year, the group continued to operate under a Public Service Concession (PSC) contract, entered into with the Ministry for Infrastructure, Transport and Communications, whereby the parent company undertook to make its vessels available exclusively to be employed in the transport services of passengers, goods, vehicles operated by its subsidiary.

The group registered a profit before tax of €839,259 (2017: losses before tax of €940,173). The group also had net positive equity of €17,031,280 (2017: €16,271,744). It is estimated that until the expiration of the current PSC, the group is in a position to sustain this financial position.

Principal risks and uncertainties

The fact that the current Public Service Concession expired on 30 September 2017 poses a major uncertainty on the group's future operations. The group intends to tender for the new Public Service Concession call.

Change in the financial reporting framework

The directors have prepared the group's and the company's financial statements for the year ended 31 December 2018 in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, Legal Notice 289 of 2015, and the requirements of the Maltese Companies Act (Cap. 386).

Events after the reporting period

Since early 2020, the world is experiencing an unprecedented crisis caused by the COVID-19 pandemic. The Maltese Government has implemented a number of measures aimed at reducing the spread and risk of this virus, including restricting travel between Malta and Gozo during the period from April 2020 to June 2020. The group's business was impacted negatively by this measure. During the period when this measure was effective the group embarked on a number of cost savings measures and entered into new financing arrangements to enable it to compensate for its reduced revenue. Since the easing of the restrictions, the group's turnover is gradually increasing.

Using the best judgment at the time of approving these financial statements, an impact assessment has been carried out by the group. Cashflows have been reviewed and measures have been put in place to sustain the business during this crisis. Although revenue will be less than originally planned, the group is expected to meet its liquidity requirements as necessary, and to continue to operate the ferry service between Malta and Gozo.

Directors' report - continued

Financial risk management

The company's activities potentially expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Further information on these risks is included in Note 2 to the financial statements.

Results and dividends

The income statements are set out on page 10. The directors have proposed that the balance of retained earnings amounting to €12,531,280 (2017: €11,771,744) for the group and €11,959,109 (2017: €11,053,443) for the parent company be carried forward to the next financial year.

Directors

The directors of the parent company who held office during the year were:

Mr. Godwin Farrugia
Mr. Ray Borg
Ms. Iris Camilleri Mifsud
Ms. Paula Marie Valletta
Mr. Marco Vella - appointed on 1 January 2018

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

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the 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 the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, Legal Notice 289 of 2015;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the 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 the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

The financial statements of Gozo Channel (Holding) Company Limited for the year ended 31 December 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and may be made available on the parent company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the parent company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

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

On behalf of the board



Mr. Godwin Farrugia
Chairman



Ms. Iris Camilleri Mifsud
Director

Registered office:
Clock Tower, Level 1
Tigne' Point
Sliema
Malta

23 June 2020



Independent auditor's report

To the Shareholders of Gozo Channel (Holding) Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Gozo Channel (Holding) Company Limited'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 31 December 2018, and of the group's and the parent company's financial performance and cash flows for the year then ended in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-sized Entities) Regulations, 2015 and the Schedule accompanying and forming an integral part of those Regulations (GAPSME); and
- the financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

Gozo Channel (Holding) Company Limited's financial statements, set out on pages 7 to 41, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2018;
- the Consolidated and Parent Company income statements 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 cash flow statements for the year then ended; and
- the notes to the consolidated 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 (Capt. 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.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

Emphasis of matter

We draw attention to note 1.1 to these financial statements that refers to the uncertainties associated with COVID-19. This matter is considered to be of fundamental importance to the users' understanding of the financial statements due to its nature and significance. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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 group and parent 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 that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with GAPSME 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.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

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 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 trade, customers, suppliers and the disruption to its 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 the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

Report on other legal and regulatory requirements

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.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Simon Flynn', is written over a faint, light blue circular stamp.

Simon Flynn
Partner

23 June 2020

Statements of financial position

		As at 31 December			
		Group		Company	
Notes	2018	2017	2018	2017	
	€	€	€	€	
ASSETS					
Non-current assets					
Property, plant and equipment	3	14,926,212	15,678,454	14,645,706	15,416,709
Investment in subsidiary	4	-	-	999,999	999,999
Held-to-maturity investments	5	200,843	434,244	200,843	434,244
Deferred tax assets	11	52,012	131,660	-	-
Total non-current assets		15,179,067	16,244,358	15,846,548	16,850,952
Current assets					
Inventories	6	1,780,501	1,667,888	-	-
Held-to-maturity investments	5	232,937	-	232,937	-
Trade and other receivables	7	4,784,261	3,986,832	2,528,905	1,088,344
Term placement with banks	8	500,645	500,427	-	-
Cash and cash equivalents	9	3,050,778	4,055,106	1,891,979	2,452,589
Total current assets		10,349,122	10,210,253	4,653,821	3,540,933
Total assets		25,528,189	26,454,611	20,500,369	20,391,885

Statements of financial position - continued

		As at 31 December			
		Group		Company	
Notes		2018	2017	2018	2017
		€	€	€	€
EQUITY AND LIABILITIES					
Equity					
	Share capital	4,500,000	4,500,000	4,500,000	4,500,000
	Retained earnings	12,531,280	11,771,744	11,959,109	11,053,443
	Total equity	17,031,280	16,271,744	16,459,109	15,553,443
LIABILITIES					
Non-current liabilities					
	Trade and other payables	2,175,000	3,075,000	2,175,000	3,075,000
	Total non-current liabilities	2,175,000	3,075,000	2,175,000	3,075,000
Current liabilities					
	Borrowings	-	1,237,070	-	72,597
	Trade and other payables	6,309,796	5,858,759	1,866,260	1,690,845
	Current tax liabilities	12,113	12,038	-	-
	Total current liabilities	6,321,909	7,107,867	1,866,260	1,763,442
	Total liabilities	8,496,909	10,182,867	4,041,260	4,838,442
	Total equity and liabilities	25,528,189	26,454,611	20,500,369	20,391,885

The notes on pages 14 to 41 are an integral part of these consolidated financial statements.

The financial statements on pages 8 to 41 were authorised for issue by the board on 23 June 2020 and were signed on its behalf by:



Mr. Godwin Farrugia
Director



Ms. Iris Camilleri Mifsud
Director

Income statements

		Year ended 31 December			
Notes		2018	2018	2018	2018
		€	€	€	€
Income from tickets sold and other income	14	17,170,915	15,950,863	-	-
Income from PSO agreement	14	681,665	662,302	-	-
Other income	14	2,537,824	-	-	-
Charter income	14	-	-	3,000,000	-
Revenue		20,390,404	16,613,165	3,000,000	-
Cost of sales	16	(17,871,347)	(17,165,826)	(1,766,442)	(2,654,668)
Gross profit/(loss)		2,519,057	(552,661)	1,233,558	(2,654,668)
Administrative expenses	16	(1,651,900)	(1,123,747)	(341,269)	(42,738)
Other income		-	750,000	-	750,000
Operating profit/(loss)		867,157	(926,408)	892,289	(1,947,406)
Finance income	18	26,853	28,871	26,190	27,032
Finance costs	19	(54,751)	(42,636)	(12,813)	(6,537)
Profit/(loss) before tax		839,259	(940,173)	905,666	(1,926,911)
Tax (charge)/income	20	(79,723)	131,660	-	390,450
Profit/(loss) for the year		759,536	(808,513)	905,666	(1,536,461)

The notes on pages 14 to 41 are an integral part of these consolidated financial statements.

Statements of changes in equity

	Share capital €	Retained earnings €	Total €
Group			
Balance at 1 January 2017	4,500,000	12,580,257	17,080,257
Loss for the year	-	(808,513)	(808,513)
Total recognised loss for 2017	-	(808,513)	(808,513)
Balance at 31 December 2017	4,500,000	11,771,744	16,271,744
Balance at 1 January 2018	4,500,000	11,771,744	16,271,744
Profit for the year	-	759,536	759,536
Total recognised income for 2018	-	759,536	759,536
Balance at 31 December 2018	4,500,000	12,531,280	17,031,280

Statements of changes in equity - continued

	Share capital €	Retained earnings €	Total €
Company			
Balance at 1 January 2017	4,500,000	12,589,904	17,089,904
Loss for the year	-	(1,536,461)	(1,536,461)
Total recognised loss for 2017	-	(1,536,461)	(1,536,461)
Balance at 31 December 2017	4,500,000	11,053,443	15,553,443
Balance at 1 January 2018	4,500,000	11,053,443	15,553,443
Profit for the year	-	905,666	905,666
Total recognised income for 2018	-	905,666	905,666
Balance at 31 December 2018	4,500,000	11,959,109	16,459,109

The notes on pages 13 to 41 are an integral part of these consolidated financial statements.

Statements of cash flows

		Year ended 31 December			
Notes	Group		Company		
	2018	2017	2018	2017	
	€	€	€	€	
Cash flows from operating activities					
Cash generated from/(used in) operations	22	452,168	(2,489,378)	(471,485)	(2,528,005)
Investment income		26,853	28,871	26,190	27,032
Interest paid		(54,751)	(42,636)	(12,813)	(6,537)
Income tax refunded		-	-	-	390,450
Net cash generated from/(used in) operating activities		424,270	(2,503,143)	(458,108)	(2,117,060)
Cash flows from investing activities					
Purchases related to property, plant and equipment		(161,415)	(261,174)	-	-
Movement in short-term deposits		(218)	(427)	-	500,000
Net cash (used in)/generated from investing activities		(161,633)	(261,601)	-	500,000
Cash flows from financing activities					
Repayment of loan by parent		(29,895)	(66,775)	(29,905)	(66,765)
Net cash used in financing activities		(29,895)	(66,775)	(29,905)	(66,765)
Net movement in cash and cash equivalents		232,742	(2,831,519)	(488,013)	(1,683,825)
Cash and cash equivalents at beginning of year		2,818,036	5,649,555	2,379,992	4,063,817
Cash and cash equivalents at end of year		3,050,778	2,818,036	1,891,979	2,379,992

The notes on pages 14 to 41 are an integral part of these consolidated financial statements.

Notes to the consolidated 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 Gozo Channel (Holding) Company Limited and its subsidiary, Gozo Channel (Operations) Limited.

The consolidated financial statements have been prepared in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, Legal Notice 289 of 2015 (GAPSME), and the requirements of the Maltese Companies Act (Cap. 386). The group and the parent company first adopted GAPSME during the year ended 31 December 2018, with a date of transition to GAPSME of 1 January 2018. The group's and the parent company's financial statements for the year ended 31 December 2018 are the first financial statements that comply with GAPSME. The prior year financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU were for the year ended 31 December 2017. Although IFRSs as adopted by the EU differ in certain respects from GAPSME, these differences did not have an impact on Gozo Channel (Holding) Company Limited. Accordingly, no amendments to accounting and valuation methods were made to the IFRSs financial statements to comply with GAPSME, and no reconciliations showing the effect on the group's and the company's equity and its profit of the transition from IFRSs as adopted by the EU to GAPSME are necessary.

Since early 2020, the world is experiencing an unprecedented crisis caused by the COVID-19 pandemic. The Maltese Government has implemented a number of measures aimed at reducing the spread and risk of this virus, including restricting travel between Malta and Gozo during the period from April 2020 to June 2020. The group's business was impacted negatively by this measure. During the period when this measure was effective the group embarked on a number of cost savings measures and entered into new financing arrangements to enable it to compensate for its reduced revenue. Since the easing of the restrictions, the group's turnover is gradually increasing.

After considering the assessment made with respect to the events after the end of the reporting period (note 25), the directors have concluded that the group is expected to meet its liquidity requirements as necessary, and to continue to operate the ferry service between Malta and Gozo. Based on the above, the directors consider it appropriate to prepare the financial statements on a going concern basis.

These financial statements have been prepared under the historical cost convention.

1. Summary of significant accounting policies - continued

1.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. 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 applies the acquisition method of accounting to account for business combinations. 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, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) in a business combination are measured initially at their fair values at the acquisition date.

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

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

In the parent company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, that is, at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of the investments. 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 results of subsidiaries are reflected in the parent 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.

A listing of the subsidiaries is set out in Note 4 of the consolidated financial statements.

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 group operates ('the functional currency'). These consolidated financial statements are presented in euro ("€"), which is the parent company's functional currency and the group's presentation currency.

1. Summary of significant accounting policies - continued

1.3 Foreign currency translation - continued

(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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or finance cost'. All other foreign exchange gains and losses are presented in the income statement within 'administrative expenses'.

1.4 Property, plant and equipment

All property, plant and equipment comprising motor vessels, shore equipment and other equipment is initially recorded at cost. All property, plant and equipment is subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

Motor vessels comprise allocated costs to the individual vessel and are shown at cost less accumulated depreciation, subsequent to their commissioning. Commissioning refers to the process of handing over the vessel to its operator, so that useful economic benefit can be derived. Additions to motor vessels and office computer equipment are initially recorded at cost less depreciation.

The market value of the motor vessels is based on valuations by external independent professional valuers. Valuations are carried out periodically unless directors consider it appropriate to have an earlier valuation such that the carrying amount of the asset does not differ materially from that which would be determined using fair values at the reporting date.

It is the group's policy to charge full year depreciation in the year when a vessel is commissioned and no charge in the year of its disposal. Depreciation on motor vessels is calculated using the reducing balance method to write off the cost of each asset to its residual value over its estimated useful life as follows:

	%
Motor vessels	
1 year of commissioning of motor vessel	10
2 year of commissioning of motor vessel	8
3 to 5 years of commissioning of motor vessel	7.5
Remaining useful years	5

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment - continued

Depreciation on all other assets is calculated using the straight-line method to allocate their cost, or revalued amounts to their residual values over their estimated useful life as follows:

	%
Motor vessels and shore equipment	10 - 50
Other equipment	20 - 33.3

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.5).

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

1.5 Impairment of investments in subsidiary and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. 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 that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.6 Financial assets

1.6.1 Classification

The group classifies its financial assets, other than investment in subsidiary in the parent company's case, in the following categories: held-to-maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. If the company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than twelve months from the end of the reporting period, which are classified as current assets.

1. Summary of significant accounting policies - continued

1.6 Financial assets - continued

1.6.1 Classification - continued

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (note 1.8 and 1.10).

1.6.2 Recognition and measurement

The group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value plus transaction costs.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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 risks and rewards of ownership or has not retained control of the asset.

1.6.3 Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The group first assesses whether objective evidence of impairment exists. The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- and

1. Summary of significant accounting policies - continued

1.6 Financial assets - continued

1.6.3 Impairment - continued

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment loss. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1.7 Inventories

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

1.8 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.6.3).

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

1.9 Term placements with banks

Short term deposits held with banks or credit institutions are stated at face value.

1. Summary of significant accounting policies - continued

1.10 Cash and cash equivalents

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

1.11 Share capital

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

1.12 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. Financial liabilities are recognised initially at fair value, including transaction costs. 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.

1.13 Trade and other payables

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

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

1.14 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred, and subsequently measured in accordance with the note 1.10. On derecognition, any difference between the carrying amount and the redemption or settlement amount is recognised in profit or loss.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.15 Offsetting financial instruments

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

1. Summary of significant accounting policies - continued

1.16 Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

1.17 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 directly in equity. In this case, the tax is also recognised directly in equity.

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.

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 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, derivative contracts and provisions on the difference between the carrying values for financial reporting purposes and their tax base. Such deferred tax is charged or credited directly to the respective reserve.

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

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

1.18 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. Restructuring provisions principally comprise termination benefits. 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.

1. Summary of significant accounting policies - continued

1.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

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

(a) Sales of goods

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 receivables is reasonable assured.

(b) Sales of services

Revenue from services is generally recognised upon performance of services in the period in the services are provided.

(c) Charter income

Revenue comprises charter income from the leasing of the motor vessels to Gozo Channel (Operations) Limited, the operator of such vessels. Charter income was recognised on an accrued basis as set out on a contract entered on 1 January 2018.

(d) Finance income

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

1.20 Leases

(a) The group is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(b) The group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with note 1.4. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term.

1.21 Borrowing costs

Borrowing costs are recognised in profit or loss as incurred.

1. Summary of significant accounting policies - continued

1.22 Dividend distribution

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

1.23 Maintenance of vessels

Routine vessel maintenance and repair costs are charged to profit or loss as incurred.

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 foreign exchange currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group's board of directors provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial periods. The directors do not consider the impact of price risk material to effect the results of the group.

(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 entity's functional currency. The group is not significantly exposed to foreign exchange risk arising from the group's purchases or sales. Management does not consider foreign exchange risk attributable to recognised assets and liabilities arising from sales and purchase transactions to be significant since balances are settled within very short periods in accordance with the negotiated credit terms. The group's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro.

Accordingly, the group is not significantly exposed to foreign exchange risk and 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 reporting period is not deemed necessary.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(ii) *Cash flow and fair value interest rate risk*

Term placements with banks (Note 8) subject to fixed interest rates potentially expose the group to fair value interest rate risk, but these instruments are carried at amortised cost. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. Based on this analysis, 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. The group's interest-bearing instruments are short-term in nature and accordingly the level of interest rate risk is contained. The group's operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

Credit risk arises from held-to-maturity investments, bank deposits as well as cash and cash equivalents and credit exposures to outstanding receivables. The credit quality of the customer is assessed, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

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

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Held-to-maturity investments (Note 5)	433,780	434,244	433,780	434,244
Trade and other receivables (Note 7)	4,556,532	3,663,637	2,528,905	1,088,344
Term placements with banks (Note 8)	500,645	500,427	-	-
Cash and cash equivalents (Note 9)	3,050,778	4,055,106	1,891,979	2,452,589
	8,541,735	8,653,414	4,854,664	3,975,177

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The group does not hold any collateral as security in this respect.

The group banks only with financial institutions with high quality standing or rating. The held-to-maturity financial assets represent Malta Government Stocks, and credit risk in this respect is considered to be limited.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The group's operations are carried out in Malta. The group's receivables include amounts due from related parties ultimately owned and controlled by the Government of Malta (Note 26). The group with the assistance of the Minister of Finance monitors these related party balances credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall liquidity management. The group assesses the credit quality of these related parties taking into account the financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

The group has no significant concentration of credit risk with respect to trade and other receivables in view of the large number of customers comprising its trade debtor base. The group assesses the credit quality of its customers taking into account financial position, past experience and other factors.

The group manages credit limits and exposures actively in practicable manner such that there are no material past due amounts receivable from customers as at the end of the reporting period. The group's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers.

The group's receivables include significant amounts due from related parties. The group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

As at year-end, impairment provisions of €5,219 (2017: €6,464) for the group were made in respect of receivables that were overdue and not expected to be recovered. Other overdue debts that were not impaired were in large settled since the period-end.

(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 (Notes 12 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 year there are adequate credit facilities in place with external sources with the support of the Government of Malta, if necessary.

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 bank borrowing facilities that it can access to meet liquidity needs and the Government of Malta support that it can access to meet liquidity needs as referred to previously. In this respect, management does not consider liquidity risk to the group as significant taking into account the liquidity management process referred to above.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The group's financial liabilities due within twelve months equal their carrying balances, as the impact of discounting is not significant.

3. Property, plant and equipment

	Motor vessels €	Shore equipment €	Other Vehicles €	Total €
Group				
At 1 January 2018				
Cost	63,428,644	3,163,655	1,931,396	68,523,695
Accumulated depreciation and impairment charge	(48,012,524)	(3,005,032)	(1,827,685)	(52,845,241)
Net book amount	<u>15,416,120</u>	<u>158,623</u>	<u>103,711</u>	<u>15,678,454</u>
Year ended 31 December 2018				
Opening net book amount	15,416,120	158,623	103,711	15,678,454
Additions	-	71,503	89,913	161,416
Disposals	(126,550)	(2,914,231)	(1,737,782)	(4,778,563)
Depreciation charge	(770,806)	(67,220)	(74,862)	(912,888)
Depreciation released on disposals	126,550	2,914,231	1,737,012	4,777,793
Closing net book amount	<u>14,645,314</u>	<u>162,906</u>	<u>117,992</u>	<u>14,926,212</u>
At 31 December 2018				
Cost	63,302,094	320,927	283,527	63,906,548
Accumulated depreciation and impairment	(48,656,780)	(158,021)	(165,535)	(48,980,336)
Net book amount	<u>14,645,314</u>	<u>162,906</u>	<u>117,992</u>	<u>14,926,212</u>

3. Property, plant and equipment - continued

	Motor vessels €	Other Vehicles €	Total €
Company			
At 1 January 2018			
Cost	63,302,094	6,708	63,308,802
Accumulated depreciation and impairment charge	(47,885,974)	(6,119)	(47,892,093)
Net book amount	15,416,120	589	15,416,709
Year ended 31 December 2018			
Opening net book amount	15,416,120	589	15,416,709
Depreciation charge	(770,806)	(197)	(771,003)
Closing net book amount	14,645,314	392	14,645,706
At 31 December 2018			
Cost	63,302,094	6,708	63,308,802
Accumulated depreciation and impairment	(48,656,780)	(6,316)	(48,663,096)
Net book amount	14,645,314	392	14,645,706

In determining the fair value of the motor vessels, the directors took cognisance of a valuation report, commissioned in 2015, in respect of its three vessels. The valuation report issued by a professional valuer considered the costs incurred in constructing the vessels, the vessels special technical specifications, their estimated useful lives, the present operational condition of the vessels and estimated the market value of the motor vessels on an open market value under normal sales terms.

The directors are of the opinion that the carrying amount of the motor vessels as at 31 December 2018 does not differ materially from that which would be determined using fair values.

4. Investment in subsidiary

	Company	
	2018	2017
	€	€
Year ended 31 December 2018		
Opening and closing net book amount	999,999	999,999
At 31 December		
Cost and net book amount	999,999	999,999

The principal subsidiary which is unlisted at 31 December 2018 is shown below

	Registered office	Class of shares held	Percentage of shares held	
			2018	2017
Gozo Channel (Operations) Limited	Channel House Mgarr Harbour Mgarr, Gozo	Ordinary shares	99.9%	99.9%

5. Held-to-maturity investments

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Opening net book amount	434,244	434,708	434,244	434,708
Amortisation charge	(464)	(464)	(464)	(464)
Closing net book amount	433,780	434,244	433,780	434,244
Cost	438,651	438,651	434,708	434,708
Accumulated amortisation	(4,871)	(4,407)	(928)	(464)
Net book amount	433,780	434,244	433,780	434,244

5. Held-to-maturity investments - continued

Maturity of held-to-maturity investments:

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Non-current				
6.6% Malta Government Stock 2019	-	232,937	-	232,937
5.2% Malta Government Stock 2020	100,468	100,786	100,468	100,786
5.0% Malta Government Stock 2021	100,375	100,521	100,375	100,521
	200,843	434,244	200,843	434,244
Current				
6.6% Malta Government Stock 2019	232,937	-	232,937	-
Total held-to-maturity financial assets	433,780	434,244	433,780	434,244

At 31 December 2018, the market value of the listed investments was €463,960 (2017: €489,301) for the group and €463,960 (2017: €489,301) for the parent company and the weighted average effective interest rate was 5.9% (2017: 5.9%) for the group and 5.9% (2017: 5.9%) for the parent company.

6. Inventories

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Spare parts and consumables	1,631,568	1,501,844	-	-
Fuel and oil	115,036	132,119	-	-
Food and beverage	33,897	33,925	-	-
	1,780,501	1,667,888	-	-

7. Trade and other receivables

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Trade and other receivables gross	150,236	128,926	-	-
Amounts owed by the Government of Malta	2,143,751	1,309,015	-	-
Amounts owed by subsidiary (Note 26)	-	-	2,528,660	583,273
Amounts owed by other related parties	1,363,934	1,286,870	-	-
Indirect taxes and social security	880,926	921,142	-	504,826
Other receivables	17,684	17,684	245	245
Prepayments and accrued income	227,730	323,195	-	-
	4,784,261	3,986,832	2,528,905	1,088,344
Current	4,784,261	3,986,832	2,528,905	1,088,344

Amounts owed by the Government of Malta, subsidiary, and other related parties are unsecured, interest free and are repayable on demand.

The group and parent company's exposure to credit and currency risk relating to trade and other receivables is disclosed in Note 2. The other classes within receivables do not contain impaired assets.

8. Term placement with banks

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Current				
Deposits with bank	500,645	500,427	-	-

Term placement with banks has a weighted average interest rate of 0.10% (2017: 0.10%).

9. Cash and cash equivalents

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

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Cash at bank and in hand	3,050,778	4,055,106	1,891,979	2,452,589
Bank overdraft	-	(1,237,070)	-	(72,597)
	3,050,778	2,818,036	1,891,979	2,379,992

10. Share capital

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Authorised				
5,000,000 Ordinary shares of €1 each	5,000,000	5,000,000	5,000,000	5,000,000
	5,000,000	5,000,000	5,000,000	5,000,000
Issued and fully paid up				
4,500,000 Ordinary shares of €1 each	4,500,000	4,500,000	4,500,000	4,500,000
	4,500,000	4,500,000	4,500,000	4,500,000

11. Deferred tax assets

Deferred income taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2017: 35%).

11. Deferred tax assets - continued

The movement on the deferred tax account is as follows:

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
At beginning of year	131,660	-	-	-
Deferred tax on unutilised losses surrendered from parent company	-	131,660	-	-
Utilisation of losses surrendered from parent company	(19,137)	-	-	-
Over provision in prior year	(60,511)	-	-	-
At 31 December	52,012	131,660	-	-

Tax losses have no expiry date.

12. Borrowings

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Current				
Bank overdraft	-	1,072,164	-	-
Overdrawn bank balance	-	164,906	-	72,597
	-	1,237,070	-	72,597

13. Trade and other payables

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Trade and other payables	951,054	1,481,299	2,360	21,383
Amounts owed to parent (Note 26)	245,388	275,293	245,388	275,293
Amounts owed to subsidiary	-	-	-	-
Amounts owed to related parties	5,390,125	5,602,727	3,450,000	3,975,000
Indirect taxes and social security	387,258	386,295	327,976	-
Accruals and deferred income	1,510,971	1,188,145	15,536	494,169
	8,484,796	8,933,759	4,041,260	4,765,845
Non-current	2,175,000	3,075,000	2,175,000	3,075,000
Current	6,309,796	5,858,759	1,866,260	1,690,845

13. Trade and other payables - continued

Amounts owed to parent and to related parties are unsecured, interest free and are repayable on demand.

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 2.

14. Revenue

Group

The group's turnover is derived locally from the operation of ferry services between Malta and Gozo.

On 30 September 2011, the group entered into a further six year Public Service Concession contract with the Ministry for Infrastructure, Transport and Communications, whereby the Government of Malta shall partially compensate the group for ferry ticket rebates given to Gozitan residents and elderly citizens, night service and Sa Maison service. The Public Service Concession contract expired on 30 September 2017, however, the group is still operating under the same terms and conditions until a new contract is awarded.

During the year, the group also earned income from claims for frequent traveller card and disabled passenger. Amounts recognised are presented under 'Other income' on the revenue section of the income statement.

Company

In term of an addendum to the Gozo Channel Joint Venture Agreement, revenue is derived from charter income of the vessels between the company and its subsidiary.

15. Other income

Other income amounting to €750,000 in 2017 relates to deductions granted in during the same year on quay rent dues following claims raised by the group in prior periods. There was no such income in 2018.

16. Profit

Profit is stated after charging the following:

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Employee benefit expense (Note 17)	7,157,712	6,891,653	4,658	4,658
Directors emoluments (Note 21)	96,547	72,058	33,084	9,086
Depreciation on property, plant and equipment (Note 3)				
- cost of sales	852,447	883,433	771,003	811,572
- administrative expenses	60,434	60,816	-	-
Subcontracting costs	1,954,479	1,501,867	-	-
Impairment of other receivables	284,194	-	284,196	-
Operating lease rental payable	855,162	855,409	-	-
Repairs and maintenance of vessels	1,413,680	1,192,033	-	-
Fuel costs and lubricating oils	3,522,872	2,826,947	-	-
Service costs and dry docking expenses	987,429	1,836,661	987,429	1,836,661

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2018 and 2017 relate to the following:

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Annual statutory audit	17,800	15,050	5,200	5,200
Other assurance services	9,500	8,000	4,000	4,000
Tax advisory and compliance services	1,000	600	500	300
	28,300	23,650	9,700	9,500

17. Employee benefit expense

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Wages and salaries (excluding directors' emoluments)	6,800,002	6,554,565	3,960	3,960
Social security costs	357,710	337,088	698	698
	7,157,712	6,891,653	4,658	4,658

Staff costs above for the group include €49,463 (2017: 70,421) relating to cafeteria administration, €784 (2017: €10,434) disclosed within staff training and €183,780 (2017: €125,233) disclosed within ships repairs and maintenance.

17. Employee benefit expense - continued

The average number of persons employed by the group and parent company during the year was:

	Group		Company	
	2018	2017	2018	2017
Direct	173	174	-	-
Administration	23	22	1	1
	196	196	1	1

18. Finance income

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Income from fixed interest government securities	25,574	26,168	25,574	26,168
Other interest receivable and similar income	1,279	2,703	616	864
	26,853	28,871	26,190	27,032

19. Finance costs

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Bank interest and charges	54,287	42,172	12,349	6,073
Amortisation on held-to-maturity financial assets	464	464	464	464
	54,751	42,636	12,813	6,537

20. Tax charge/(income)

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Current tax expense/(income):				
Group relief	-	-	-	(258,790)
On taxable profits subject to 15% tax	75	-	-	-
Under provision in prior year	60,511	-	-	-
Deferred tax income	19,137	(131,660)	-	(131,660)
	79,723	(131,660)	-	(390,450)

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

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Profit/(loss) before tax	839,259	(940,173)	905,666	(1,926,911)
Tax on profit/(loss) at 35%	293,741	(329,061)	316,983	(674,419)
Tax effect of:				
Expenses not allowable for tax purposes	4,265	991	710	221
Income taxed at source	(216)	(302)	(216)	(302)
Maintenance allowance on rental income attributable to immovable property	(10,591)	(12,259)	-	-
Temporary differences attributable to unrecognised deferred tax assets	(267,987)	188,323	(317,477)	272,168
Under provision of unrecognised deferred tax assets in prior year	-	20,648	-	11,882
Under provision in prior year	60,511	-	-	-
Tax charge/(credit) in the accounts	79,723	(131,660)	-	(390,450)

20. Tax charge/(income) - continued

As at 31 December 2018 and 2017, the group and parent company had the following unutilised tax credits and temporary differences, all of which were unrecognised in these financial statements:

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Unutilised tax credits arising from unabsorbed capital allowances	28,044,285	28,389,220	27,859,534	28,389,220
Deductible temporary differences arising on tangible fixed assets	(11,582,954)	(11,189,028)	(11,771,194)	(11,419,377)
Deductible temporary differences arising on provisions	5,220	6,463	-	-
Unabsorbed tax losses	8,194,095	8,219,669	8,139,929	8,165,503

These give rise to a deferred tax asset of €8,631,226 (2017: €8,899,213) for the group and €8,479,894 (2017: €8,797,371) for the parent company which has not been recognised in these financial statements due to the uncertainty of the realisation of the related tax benefits. Unabsorbed capital allowances are forfeited upon cessation of the trade.

21. Directors' emoluments

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Salaries and other emoluments	96,547	72,058	33,084	9,086

22. Cash generated from/(used in) operations

Reconciliation of operating profit/(loss) to cash generated from/(used in) operations:

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Operating profit/(loss)	867,157	(926,408)	892,289	(1,947,405)
Adjustment for:				
Depreciation of property, plant and equipment (Note 3)	912,887	944,249	771,003	811,572
Amortisation on held-to-maturity financial assets	464	464	464	464
Impairment of other receivables	284,194		284,194	
Loss on disposal on property, plant and equipment	770	1,485	-	-
Reduction on related party balance	-	(750,000)	-	(750,000)
Changes in working capital:				
Inventory	(112,613)	(6,842)	-	-
Trade and other receivables	(797,429)	(1,414,290)	(1,440,561)	(301,583)
Trade and other payables	(703,262)	(338,036)	(978,874)	(341,053)
Cash generated from/(used in) operation	452,168	(2,489,378)	(471,485)	(2,528,005)

23. Commitments

Operating lease commitments – group as lessee

The future aggregate minimum lease payments under non-cancellable operating leases in relation to port facilities are as follows:

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Not later than 1 year	25,936	31,983	-	-
Later than 1 year and not later than 5 years	1,493	20,005	-	-
	27,429	51,988	-	-

23. Commitments - continued

Operating lease commitments – group as lessor

The future aggregate minimum lease payments under non-cancellable operating leases in relation to the cafeteria are as follows:

	Group		Company	
	2018 €	2017 €	2018 €	2017 €
Not later than 1 year	31,700	34,127	-	-
Later than 1 year and not later than 5 years	-	45,300	-	-
	31,700	79,427	-	-

24. Contingent liabilities

At 31 December 2018, the group had contingent liabilities amounting to €500,000 (2017: €500,000) in respect of guarantees issued by the bank on its behalf in favour of related parties in the ordinary course of business.

25. Events after the reporting period

Since early 2020, the world is experiencing an unprecedented crisis caused by the COVID-19 pandemic. The Maltese Government has implemented a number of measures aimed at reducing the spread and risk of this virus, including restricting travel between Malta and Gozo during the period from April 2020 to June 2020. The group's business was impacted negatively by this measure. During the period when this measure was effective the group embarked on a number of cost savings measures and entered into new financing arrangements to enable it to compensate for its reduced revenue. Since the easing of the restrictions, the group's turnover is gradually increasing.

Using the best judgment at the time of approving these financial statements, an impact assessment has been carried out by the group. Cashflows have been reviewed and measures have been put in place to sustain the business during this crisis. Although revenue will be less than originally planned, the group is expected to meet its liquidity requirements as necessary, and to continue to operate the ferry service between Malta and Gozo. Based on the above, the directors consider it appropriate to prepare the financial statements on a going concern basis.

26. Related party transactions

The group and parent company are ultimately owned and controlled by the Government of Malta. Therefore, the group and parent company consider that, for the purpose of IAS 24 (revised), the Government and Government-related entities are related parties for the purpose of the disclosures required by IAS 24. The group and parent company enter into transactions in its ordinary course of business with the Government of Malta, its departments and regulatory agencies, public sector Corporations, local councils and other entities owned and/or controlled by Government. The Group and parent company enters into such transactions on an arm's length basis in the same manner as private businesses and individuals. The directors do not consider these transactions to be individually or collectively significant for disclosure purposes except as disclosed below:

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Income from goods and services				
- PSO claim from Government	681,665	662,302	-	-
- Other claims from Government	2,537,824	-	-	-
- Other income from Government and related authorities	2,869,924	2,766,701	-	-
- Interest received from Government	26,882	28,559	26,190	27,032
- Charter income from subsidiary	-	-	3,000,000	-
Expenditure for goods and services				
- Lease rentals charged by related	825,000	825,000	-	-
- Services rendered by related parties	296,918	364,290	-	-
- Contributions to related parties	38,374	36,816	-	-
- Interest charged by Government	53,527	32,380	12,349	6,073
- Expenses recharged from subsidiary	-	-	1,467,738	853,768

Significant balances with Government and Government-related entities for the group and the parent company as at the end of the reporting period are disclosed as follows:

	Group		Company	
	2018	2017	2018	2017
	€	€	€	€
Trade and other receivables				
Amounts owed by the Government of Malta	2,143,751	1,309,015	-	-
Amounts owed by subsidiary	-	-	2,528,660	583,273
Amounts owed by other related parties	1,363,935	1,286,870	-	-
Indirect taxes and social security	880,926	880,999	-	464,683
Trade and other payables				
Amounts owed to related parties	5,390,125	5,602,727	3,450,000	3,975,000
Amounts owed to parent	245,388	275,293	245,388	275,293
Indirect taxes and social security	327,976	-	327,976	-

26. Related party transactions - continued

Key management personnel compensation, consisting of directors' remuneration has been disclosed in Note 21.

Year-end balances with related parties, arising principally from transactions referred to previously, are disclosed in Note 7 and 13 to these financial statements.

27. Statutory information

Gozo Channel (Holding) Company Limited is a limited liability company and is incorporated in Malta.

The group's shares are wholly owned by Malta Government Investments Limited, acting as agent for the Government of Malta.

The registered office of Malta Government Investments Limited, from which its financial statements may be obtained, is 'Clock Tower', Level 1, Tigne Point, Sliema, Malta.

Malta Government Investments Limited and Gozo Channel (Holding) Company Limited are fully owned by the Government of Malta.

28. 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 compliance with the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, Legal Notice 289 of 2015, and the requirements of the Maltese Companies Act (Cap. 386).

**GOZO CHANNEL (HOLDING) COMPANY
LIMITED**

**Annual Report and Consolidated Financial
Statements**

31 December 2017

GOZO CHANNEL (HOLDING) COMPANY LIMITED
Annual Report and Consolidated Financial Statements - 31 December 2017

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Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.

Principal activities

The group's principal activity is the operation of a ferry service between Malta and Gozo.

The parent company is the owner of three vessels which are operated by Gozo Channel (Operations) Limited under a joint venture agreement.

Review of the business

During the year, the group continued to operate under a Public Service Concession (PSC) contract, entered into with the Ministry for Infrastructure, Transport and Communications, whereby the parent company undertook to make its vessels available exclusively to be employed in the transport services of passengers, goods, vehicles operated by its subsidiary.

The group registered losses before tax of €940,173 (2016: profit before tax of €13,962). The group also had net positive equity of €16,271,744 (2016: €17,080,257). It is estimated that until the expiration of the current PSC, the group is in a position to sustain this financial position.

Principal risks and uncertainties

The fact that the current Public Service Concession expired on 30 September 2017 poses a major uncertainty on the group's future operations. The group intends to tender for the new Public Service Concession call.

Merger and group restructuring in 2016

As disclosed in Accounting policy 1 "basis of preparation" on page 14, on 1 June 2016, the directors submitted draft terms of merger of the parent company with Gozo Channel Company Limited, whereby the assets and liabilities of Gozo Channel Company Limited, a related party, were amalgamated with those of Gozo Channel (Holding) Company Limited, upon effective date. The merger became effective on 5 October 2016.

The operations previously undertaken by Gozo Channel Company Limited were transferred to a newly formed subsidiary of Gozo Channel (Holding) Company Limited - Gozo Channel (Operations) Limited. All the assets, liabilities, commitments and contingent liabilities of Gozo Channel Company Limited were also transferred to Gozo Channel (Operations) Limited except for held-to-maturity financial assets and a portion of cash at bank, term placement with banks, trade payables and accruals.

Gozo Channel Company Limited and Gozo Channel (Holding) Company Limited have common shareholders. The substance of this transaction was that of a group restructuring and consequently, in accordance with generally accepted accounting principles, the transaction has been accounted for in the consolidated financial statements using the predecessor basis of accounting as if it had occurred at the beginning of the earliest period reported.

Directors' report - continued

Financial risk management

The group and parent company's activities potentially expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Further information on these risks is included in Note 2 to the financial statements.

Results and dividends

The statements of comprehensive income are set out on page 10. The directors propose that the balance of retained earnings amounting to €11,771,744 (2016: €12,580,257) for the group and €11,035,443 (2016: €12,589,904) for the parent company be carried forward to the next financial year.

Directors

The directors of the parent company who held office during the year were:

Mr. Godwin Farrugia
Mr. Ray Borg
Ms. Iris Camilleri Mifsud
Ms. Paula Marie Valletta - appointed on 1 September 2017

On 1 January 2018, Mr. Marco Vella was appointed as director.

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

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act, (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the 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;
- 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.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, (Cap. 386). They are also responsible for safeguarding the assets of the 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 Gozo Channel (Holding) Company Limited for the year ended 31 December 2017 are included in the Annual Report 2017, which is published in hard-copy printed form and may be made available on the group's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of the website. Access to information published on the 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.

Auditors

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

On behalf of the board



Mr. Godwin Farrugia
Chairman



Ms. Iris Camilleri Mifsud
Director

Registered office:
Clock Tower, Level 1
Tigne' Point
Sliema
Malta

23 April 2018



Independent auditor's report

To the Shareholders of Gozo Channel (Holding) Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Gozo Channel (Holding) Company Limited's group financial statements (the "financial statements") and parent company financial statements give a true and fair view of the group and parent company's financial position as at 31 December 2017, and of the group and 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).

What we have audited

Gozo Channel (Holding) Company Limited's financial statements, set out on pages 8 to 42, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2017;
- the Consolidated and Parent Company income statements and 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 consolidated 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 the IESBA Code.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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 group and parent 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 that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors 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.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

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, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- 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 directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

Report on other legal and regulatory requirements

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.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Simon Flynn', is written over a faint, illegible stamp.

Simon Flynn
Partner

23 April 2018

Statements of financial position

		As at 31 December			
Notes	Group		Company		
	2017	2016	2017	2016	
	€	€	€	€	
ASSETS					
Non-current assets					
Property, plant and equipment	4	15,678,454	16,363,014	15,416,709	16,228,281
Investment in subsidiary	5	-	-	999,999	999,999
Held-to-maturity financial assets	6	434,244	434,708	434,244	434,708
Deferred tax asset	7	131,660	-	-	-
Total non-current assets		16,244,358	16,797,722	16,850,952	17,662,988
Current assets					
Inventories	8	1,667,888	1,661,046	-	-
Trade and other receivables	9	3,986,832	2,572,542	1,088,344	786,762
Term placement with banks	10	500,427	500,000	-	500,000
Cash at bank and in hand	11	4,055,106	5,649,555	2,452,589	4,063,817
Total current assets		10,210,253	10,383,143	3,540,933	5,350,579
Total assets		26,454,611	27,180,865	20,391,885	23,013,567

Statements of financial position - continued

		As at 31 December			
Notes	Group		Company		
	2017	2016	2017	2016	
		€	€	€	€
EQUITY AND LIABILITIES					
Capital and reserves					
	12	4,500,000	4,500,000	4,500,000	4,500,000
		11,771,744	12,580,257	11,053,443	12,589,904
Total equity		16,271,744	17,080,257	15,553,443	17,089,904
Non-current liabilities					
	13	3,075,000	-	3,075,000	-
Total non-current liabilities		3,075,000	-	3,075,000	-
Current liabilities					
	14	1,237,070	-	72,597	-
	13	5,858,759	10,088,570	1,690,845	5,923,663
		12,038	12,038	-	-
Total current liabilities		7,107,867	10,100,608	1,763,442	5,923,663
Total liabilities		10,182,867	10,100,608	4,838,442	5,923,663
Total equity and liabilities		26,454,611	27,180,865	20,391,885	23,013,567

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

The financial statements on pages 8 to 42 were authorised for issue by the board on 23 April 2018 and were signed on its behalf by:


Mr. Godwin Farrugia
Chairman


Ms. Iris Camilleri Mifsud
Director

Income statements

		Year ended 31 December			
		Group		Company	
Notes	2017	2016	2017	2016	
	€	€	€	€	
Income from tickets sold and other income	15	15,950,863	15,200,590	-	-
Income from PSO agreement	15	662,302	646,714	-	-
Revenue		16,613,165	15,847,304	-	-
Cost of sales	16	(17,165,826)	(14,919,846)	(2,654,668)	(1,824,638)
Gross (loss)/profit		(552,661)	927,458	(2,654,668)	(1,824,638)
Administrative expenses	16	(1,123,747)	(928,542)	(42,738)	(37,638)
Other income	18	750,000	-	750,000	-
Operating loss		(926,408)	(1,084)	(1,947,406)	(1,862,276)
Finance income	19	28,871	36,080	27,032	314
Finance costs	20	(42,636)	(21,034)	(6,537)	(154)
(Loss)/profit for the year before tax		(940,173)	13,962	(1,926,911)	(1,862,116)
Tax income	21	131,660	-	390,450	-
(Loss)/profit for the year		(808,513)	13,962	(1,536,461)	(1,862,116)

Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
Note	2017	2016	2017	2016	
	€	€	€	€	
(Loss)/profit for the year		(808,513)	13,962	(1,536,461)	(1,862,116)
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Effect of retained earnings from merger	27	-	-	-	8,029,509
Other comprehensive income for the year		-	-	-	8,029,509
Total comprehensive income for the year		(808,513)	13,962	(1,536,461)	6,167,393

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

Statements of changes in equity

	Note	Share capital €	Retained earnings €	Total €
Group				
Balance at 1 January 2016		11,647	12,577,942	12,589,589
Comprehensive income				
Profit for the year		-	13,962	13,962
Total comprehensive income		-	13,962	13,962
Transactions with owners				
Capitalisation of loan from parent	12	4,476,706	-	4,476,706
Capitalisation of retained earnings	12	11,647	(11,647)	-
Total transactions with owners		4,488,353	(11,647)	4,476,706
Balance at 31 December 2016		4,500,000	12,580,257	17,080,257
Balance at 1 January 2017		4,500,000	12,580,257	17,080,257
Comprehensive income				
Loss for the year		-	(808,513)	(808,513)
Total comprehensive income		-	(808,513)	(808,513)
Balance at 31 December 2017		4,500,000	11,771,744	16,271,744

Statements of changes in equity - continued

	Notes	Share capital €	Retained earnings €	Total €
Company				
Balance at 1 January 2016		11,647	6,434,158	6,445,805
Comprehensive income				
Loss for the year		-	(1,862,116)	(1,862,116)
Other comprehensive income:				
Effect of retained earnings from merger	27	-	8,029,509	8,029,509
Total comprehensive income		-	6,167,393	6,167,393
Transactions with owners				
Capitalisation of loan from parent	12	4,476,706	-	4,476,706
Capitalisation of retained earnings	12	11,647	(11,647)	-
Total transactions with owners		4,488,353	(11,647)	4,476,706
Balance at 31 December 2016		4,500,000	12,589,904	17,089,904
Balance at 1 January 2017		4,500,000	12,589,904	17,089,904
Comprehensive income				
Loss for the year		-	(1,536,461)	(1,536,461)
Total comprehensive income		-	(1,536,461)	(1,536,461)
Balance at 31 December 2017		4,500,000	11,053,443	15,553,443

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

Statements of cash flows

		Year ended 31 December			
		Group		Company	
Notes	2017	2016	2017	2016	
	€	€	€	€	
Cash flows from operating activities					
Cash (used in)/generated from operations	23	(2,489,378)	2,085,838	(2,528,005)	(1,634,271)
Investment income		28,871	36,080	27,032	314
Interest paid		(42,636)	(21,034)	(6,537)	(154)
Income tax		-	-	390,450	-
Net cash (used in)/generated from operating activities		(2,503,143)	2,100,884	(2,117,060)	(1,634,111)
Cash flows from investing activities					
Purchases related to property, plant and equipment		(261,174)	(82,722)	-	(2,953)
Increase in investment in subsidiary		-	-	-	(9,999)
Cash acquired upon merger	27	-	-	-	3,630,987
Movement in short-term deposits		(427)	670,340	500,000	670,340
Net cash (used in)/generated from investing activities		(261,601)	587,618	500,000	4,288,375
Cash flows from financing activities					
Increase in loan from parent		-	1,000,000	-	1,000,000
Repayment of loan by parent		(66,775)	-	(66,765)	-
Net cash (used in)/generated from in financing activities		(66,775)	1,000,000	(66,765)	1,000,000
Net movement in cash and cash equivalents		(2,831,519)	3,688,502	(1,683,825)	3,654,264
Cash and cash equivalents at beginning of year		5,649,555	1,961,053	4,063,817	409,553
Cash and cash equivalents at end of year		11	2,818,036	5,649,555	2,379,992
			4,063,817		

The notes on pages 14 to 42 are an integral part of these consolidated financial statements.

Notes to the consolidated 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 Gozo Channel (Holding) Limited and its subsidiary, Gozo Channel (Operations) Limited.

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, (Cap. 386). They have been prepared under the historical cost convention.

On 5 October 2016, the parent company merged with Gozo Channel Company Limited, whereby the assets and liabilities of Gozo Channel Company Limited, a related party, were amalgamated with those of Gozo Channel (Holding) Company Limited. This transaction meets the IFRS definition of a business combination involving entities under common control (refer to note 1.4).

These two entities have common shareholders and hence the substance of this transaction is that of a group restructuring and accordingly the provisions in respect of business combinations set out in IFRS 3 are not applicable. In accordance with generally accepted accounting principles, the transaction has been accounted for in the consolidated financial statements for 2016 as a restructuring. The 2016 accounts have been compiled as if the company was the parent company of the group from the earliest reported period.

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

Standards, interpretations and amendments to published standards effective in 2017

In 2017, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the group's accounting periods beginning after 1 January 2018. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that, with the possible exception of IFRS 9, IFRS 15 and IFRS 16, there are no requirements that will have possible significant impact on the group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and is effective for accounting periods commencing on or after 1 January 2018. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The group's financial assets are limited to held of maturity investments and trade and other receivables which continue to be measured at amortised cost, consistently with IAS 39. The standard also introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. This generally results in accelerating provisions for impairment as compared to IAS 39.

Notwithstanding this change in recognising impairment, the group qualifies for the simplifications afforded in IFRS 9 in recognising impairment losses for its held of maturity investments and trade receivables, by estimating the expected credit loss using a provisions matrix. The directors have concluded that the resultant provision after the application of the provisions matrix would be immaterial for the group's receivables and held of maturity investments.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when customer obtains control of good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. After taking cognisance of the short-term nature of the group's contracts with customers, the directors do not anticipate a significant impact on the group's results and financial position on adoption of IFRS 15.

Under IFRS 16, 'Leases', a contract is, or contains, lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. As at the reporting date, the group has non-cancellable operating lease commitments as disclosed in Note 24. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. At this stage, the group is still in the process of assessing and evaluating the impact of IFRS 16.

1. Summary of significant accounting policies - continued

1.2 Consolidation

Subsidiaries are all entities (including special purpose 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. 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 applies 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 values of the assets transferred, the liabilities incurred and the equity interests issued by the group, plus costs directly attributable to the acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) 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 recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as 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 group's share of the identifiable net assets acquired. If this is less than the fair value of the net identifiable assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 1.6).

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

In the parent company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, that is, at cost less impairment. Cost includes directly attributable costs of the investments. 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 results of subsidiaries are reflected in the parent 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.

A listing of the subsidiaries is set out in Note 5 to the consolidated financial statements.

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 consolidated financial statements are presented in euro, which is the parent company's functional currency and the group's presentation currency.

1. Summary of significant accounting policies - continued

1.3 Foreign currency translation - continued

(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 the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or finance cost'. All other foreign exchange gains and losses are presented in the income statement within 'administrative expenses'.

1.4 Business combinations involving entities under common control

As disclosed in the basis of preparation note 1.1 above, the parent company merged with Gozo Channel Company Limited, whereby the assets and liabilities of Gozo Channel Company Limited, a related party, were amalgamated with those of Gozo Channel (Holding) Company Limited. Gozo Channel (Holding) Company Limited and Gozo Channel Company Limited were controlled by the same parties before and after the merger. 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.

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 merged entity using predecessor book values;
- 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.

1.5 Property, plant and equipment

All property, plant and equipment, comprising motor vessels, shore equipment and other equipment, is initially recorded at historical cost, and subsequently stated at historical cost less depreciation and impairment losses. Historical 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.

1. Summary of significant accounting policies - continued

1.5 Property, plant and equipment - continued

Motor vessels comprise allocated costs to the individual vessel and are shown at cost less accumulated depreciation, subsequent to their commissioning. Commissioning refers to the process of handing over the vessel to its operator, so that useful economic benefit can be derived. Additions to motor vessels and office computer equipment are initially recorded at cost less depreciation.

The market value of the motor vessels is based on valuations by external independent professional valuers. Valuations are carried out periodically unless directors consider it appropriate to have an earlier valuation such that the carrying amount of the asset does not differ materially from that which would be determined using fair values at the reporting date.

It is the group's policy to charge full year depreciation in the year when a vessel is commissioned and no charge in the year of its disposal. Depreciation on motor vessels is calculated using the reducing balance method to write off the cost of each asset to its residual value over its estimated useful life as follows:

	%
Motor vessels	
1 year of commissioning of motor vessel	10
2 year of commissioning of motor vessel	8
3 to 5 years of commissioning of motor vessel	7.5
Remaining useful years	5

Depreciation on all other assets is calculated using the straight line method to allocate their cost, or revalued amounts to their residual values over their estimated useful life as follows:

	%
Motor vessels and shore equipment	10 - 50
Other equipment	20 - 33.3

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

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

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

1.6 Impairment of investments in subsidiary and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. 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 that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1. Summary of significant accounting policies - continued

1.7 Merger by acquisition

Mergers by acquisition, which do not fall within the scope of IFRS 3, are accounted for using capital reorganisation accounting. Under capital reorganisation accounting, assets and liabilities are incorporated at the pre-combination carrying values, which are the carrying amounts of assets and liabilities of the acquired entity from its financial statements.

No new goodwill arises in capital reorganisation accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity, is included in equity. These financial statements should incorporate the acquired entity's results from the first day of the comparative period presented in the financial statements. Given that on the date of merger, the operations of the merged entity were transferred in full to a fully owned new incorporated subsidiary of the company, this approach was not adopted in order to present more meaningful financial information.

1.8 Financial assets

1.8.1 Classification

The group classifies its financial assets, other than investment in subsidiary in the parent company's case, in the following categories: held-to-maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than twelve months from the end of the reporting period, which are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.10 and 1.12).

1.8.2 Recognition and measurement

The group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the group. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

1. Summary of significant accounting policies - continued

1.8 Financial assets - continued

1.8.2 Recognition and measurement - continued

Financial assets are initially recognised at fair value plus transaction costs. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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 risks and rewards of ownership or has not retained control of the asset.

1.8.3 Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The group first assesses whether objective evidence of impairment exists.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1.9 Inventories

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

1. Summary of significant accounting policies - continued

1.10 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.6).

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

1.11 Term placement with banks

Short term deposits held with banks or credit institutions are stated at face value.

1.12 Cash and cash equivalents

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

1.13 Share capital

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

1.14 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 IAS 39. 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.

1.15 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. Summary of significant accounting policies - continued

1.16 Offsetting financial instruments

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

1.17 Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

1.18 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.

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 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, derivative contracts and provisions on the difference between the carrying values for financial reporting purposes and their tax base. Such deferred tax is charged or credited directly to the respective reserve.

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

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

1. Summary of significant accounting policies - continued

1.19 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. Restructuring provisions principally comprise termination benefits. 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.

1.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

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

(a) Sales of services

Revenue from services is generally recognised upon performance of services in the period the services are provided.

(b) Sales of goods

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 receivables is reasonably assured.

(c) Finance income

Finance income is recognised for all interest-bearing instruments as it accrues, on a time-proportion basis using the effective interest method, unless collectability is in doubt.

1.21 Operating leases

(a) The group is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

(b) The group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with Note 1.5. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term.

1. Summary of significant accounting policies - continued

1.22 Dividend distribution

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

1.23 Borrowing costs

Finance costs are charged to profit or loss without restriction. No borrowing costs have been capitalised.

1.24 Maintenance of vessels

Routine vessel maintenance and repair costs are charged to profit or loss as incurred.

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 foreign exchange currency risk, cash flow 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's board of directors provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial periods. The directors do not consider the impact of price risk material to effect the results of the group.

(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 entity's functional currency. The group is not significantly exposed to foreign exchange risk arising from the group's purchases or sales. Management does not consider foreign exchange risk attributable to recognised assets and liabilities arising from sales and purchase transactions to be significant since balances are settled within very short periods in accordance with the negotiated credit terms. The group's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro.

Accordingly, the group is not significantly exposed to foreign exchange risk and 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 reporting period is not deemed necessary.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(ii) Cash flow and fair value interest rate risk

Term placements with banks (Note 10) subject to fixed interest rates potentially expose the group to fair value interest rate risk, but these instruments are carried at amortised cost. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. Based on this analysis, 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. The group's interest-bearing instruments are short-term in nature and accordingly the level of interest rate risk is contained. The group's operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

Credit risk arises from held-to-maturity financial assets, bank deposits as well as cash and cash equivalents and credit exposures to customers, including outstanding receivables and committed transactions. The group's exposure to credit risk as at the end of the reporting periods are analysed as follows:

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Loans and receivables category:				
Held-to-maturity financial assets (Note 6)	434,244	434,708	434,244	434,708
Trade and other receivables (Note 9)	3,663,637	2,367,515	1,088,344	786,762
Term placements with banks (Note 10)	500,427	500,000	-	500,000
Cash and cash equivalents (Note 11)	4,055,106	5,649,555	2,452,589	4,063,817
	8,653,414	8,951,778	3,975,177	5,785,287

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The group does not hold any collateral as security in this respect.

The group banks only with financial institutions with high quality standing or rating. The held-to-maturity financial assets represent Malta Government Stocks, and credit risk in this respect is considered to be limited.

The group's operations are carried out in Malta. The group's receivables include amounts due from related parties ultimately owned and controlled by the Government of Malta (Note 26). The group with the assistance of the Minister of Finance monitors these related party balances credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall liquidity management. The group assesses the credit quality of these related parties taking into account the financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The group has no significant concentration of credit risk with respect to trade and other receivables in view of the large number of customers comprising its trade debtor base. The group assesses the credit quality of its customers taking into account financial position, past experience and other factors.

The group manages credit limits and exposures actively in a practicable manner such that there are no material past due amounts receivable from customers as at the end of the reporting period. The group's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers.

The group's receivables include significant amounts due from related parties. The group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

As at year-end, impairment provisions of €6,464 (2016: €6,464) for the group were made in respect of receivables that were overdue and not expected to be recovered. Other overdue debts that were not impaired were in large settled since the period-end.

(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 (Notes 13 and 14). 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 year there are adequate credit facilities in place with external sources and with the support of the Government of Malta, if necessary.

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 bank borrowing facilities that it can access to meet liquidity needs and the Government of Malta support that it can access to meet liquidity needs as referred to previously. In this respect, management does not consider liquidity risk to the group as significant taking into account the liquidity management process referred to above.

The group's financial liabilities due within twelve months equal their carrying balances, as the impact of discounting is not significant.

2. Financial risk management - continued

2.2 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 group may adjust the amount of dividends paid to shareholders or issue new shares.

The group's equity, as disclosed in the statement of financial position, constitutes its capital. The group maintains the level of capital by reference to its 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 as at the end of the reporting period is deemed adequate by the directors.

2.3 Fair values of financial instruments

At 31 December 2017 and 2016 the carrying amounts of cash at bank, term placement with banks, trade and other receivables, trade and other payables and accrued expenses 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 expected realisation. The fair value of balances with related parties which are current or repayable on demand is equivalent to their carrying amount.

3. Critical accounting estimates and judgements

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

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

4. Property, plant and equipment

Group	Motor vessels €	Shore equipment €	Other equipment €	Total €
At 1 January 2016				
Cost	63,426,674	3,092,543	1,786,922	68,306,139
Accumulated depreciation and impairment charge	(46,347,175)	(2,938,683)	(1,717,728)	(51,003,586)
Net book amount	17,079,499	153,860	69,194	17,302,553
Year ended 31 December 2016				
Opening net book amount	17,079,499	153,860	69,194	17,302,553
Additions	1,970	20,648	60,104	82,722
Disposals	-	(108,503)	(16,131)	(124,634)
Depreciation charge	(853,974)	(109,930)	(57,187)	(1,021,091)
Depreciation charge released on disposal	-	107,389	16,075	123,464
Closing net book amount	16,227,495	63,464	72,055	16,363,014
At 31 December 2016				
Cost	63,428,644	3,004,688	1,830,895	68,264,227
Accumulated depreciation and impairment charge	(47,201,149)	(2,941,224)	(1,758,840)	(51,901,213)
Net book amount	16,227,495	63,464	72,055	16,363,014
Year ended 31 December 2017				
Opening net book amount	16,227,495	63,464	72,055	16,363,014
Additions	-	159,259	101,915	261,174
Disposals	-	(292)	(1,414)	(1,706)
Depreciation charge	(811,375)	(63,838)	(69,036)	(944,249)
Depreciation charge released on disposal	-	30	191	221
Closing net book amount	15,416,120	158,623	103,711	15,678,454
At 31 December 2017				
Cost	63,428,644	3,163,655	1,931,396	68,523,695
Accumulated depreciation and impairment charge	(48,012,524)	(3,005,032)	(1,827,685)	(52,845,241)
Net book amount	15,416,120	158,623	103,711	15,678,454

4. Property, plant and equipment - continued

Company	Motor vessels €	Shore equipment €	Other equipment €	Total €
At 1 January 2016				
Cost	63,300,124	-	5,725	63,305,849
Accumulated depreciation and impairment charge	(46,220,625)	-	(5,725)	(46,226,350)
Net book amount	17,079,499	-	-	17,079,499
Year ended 31 December 2016				
Opening net book amount	17,079,499	-	-	17,079,499
Additions	1,970	-	983	2,953
Acquired upon merger	-	85,456	72,843	158,299
Transferred to subsidiary	-	(85,456)	(72,843)	(158,299)
Depreciation charge	(853,974)	-	(197)	(854,171)
Closing net book amount	16,227,495	-	786	16,228,281
At 31 December 2016				
Cost	63,302,094	-	6,708	63,308,802
Accumulated depreciation and impairment charge	(47,074,599)	-	(5,922)	(47,080,521)
Net book amount	16,227,495	-	786	16,228,281
Year ended 31 December 2017				
Opening net book amount	16,227,495	-	786	16,228,281
Depreciation charge	(811,375)	-	(197)	(811,572)
Closing net book amount	15,416,120	-	589	15,416,709
At 31 December 2017				
Cost	63,302,094	-	6,708	63,308,802
Accumulated depreciation and impairment charge	(47,885,974)	-	(6,119)	(47,892,093)
Net book amount	15,416,120	-	589	15,416,709

In determining the fair value of the motor vessels, the directors took cognisance of a valuation report, commissioned in 2015, in respect of its three vessels. The valuation report issued by a professional valuer considered the costs incurred in constructing the vessels, the vessels special technical specifications, their estimated useful lives, the present operational condition of the vessels and estimated the market value of the motor vessels on an open market value under normal sales terms.

4. Property, plant and equipment - continued

The directors are of the opinion that the carrying amount of the motor vessels as at 31 December 2017 does not differ materially from that which would be determined using fair values.

5. Investment in subsidiary

	Company	
	2017	2016
	€	€
Year ended 31 December		
Opening net book amount	999,999	-
Additions	-	9,999
Capitalisation of loan	-	990,000
Closing net book amount	999,999	999,999
At 31 December		
Cost and net book amount	999,999	999,999

The principal subsidiary which is unlisted at 31 December 2017 is shown below:

	Registered office	Class of shares held	Percentage of shares held	
			2017	2016
Gozo Channel (Operations) Limited	Channel House Mgarr Harbour Mgarr, Gozo	Ordinary shares	99.9%	99.9%

6. Held-to-maturity financial assets

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Opening net book amount	434,708	435,172	434,708	-
Acquired upon merger (Note 27)	-	-	-	434,785
Amortisation charge	(464)	(464)	(464)	(77)
Closing net book amount	434,244	434,708	434,244	434,708
	2017	2016	2017	2016
	€	€	€	€
Cost	438,187	438,187	434,785	434,785
Accumulated amortisation	(3,943)	(3,479)	(541)	(77)
Net book amount	434,244	434,708	434,244	434,708

6. Held-to-maturity financial assets - continued

Maturity of held-to-maturity financial assets:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Non-current				
6.6% Malta Government Stock 2019	232,937	232,937	232,937	232,937
5.2% Malta Government Stock 2020	100,786	101,104	100,786	101,104
5.0% Malta Government Stock 2021	100,521	100,667	100,521	100,667
	434,244	434,708	434,244	434,708

At 31 December 2017, the market value of the listed investments was €489,301 (2016: €514,372) for the group and €489,301 (2016: €514,371) for the parent company and the weighted average effective interest rate was 5.9% (2016: 5.9%) for the group and 5.9% (2016: 5.9%) for the parent company.

7. Deferred taxation

Deferred taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2016: Nil).

The movement on the deferred tax account is as follows:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Deferred tax on unutilised losses surrendered from parent company	131,660	-	-	-

Tax losses have no expiry date.

8. Inventories

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Spare parts and consumables	1,501,844	1,495,928	-	-
Fuel and oil	132,119	124,489	-	-
Food and beverage	33,925	40,629	-	-
	1,667,888	1,661,046	-	-

9. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Current				
Trade and other receivables gross	128,926	123,537	-	-
Amounts owed by the Government of Malta	1,309,015	646,713	-	-
Amounts owed by subsidiary (Note 26)	-	-	583,273	489,116
Amounts owed by other related parties	1,286,870	1,152,643	-	-
Indirect taxes and social security	921,142	426,938	504,826	297,401
Other receivables	17,684	17,684	245	245
Prepayments and accrued income	323,195	205,027	-	-
	3,986,832	2,572,542	1,088,344	786,762

Amounts owed by the Government of Malta, subsidiary, and other related parties are unsecured, interest free and are repayable on demand.

The group and parent company's exposure to credit and currency risk relating to trade and other receivables is disclosed in Note 2. The other classes within receivables do not contain impaired assets.

Trade receivables are stated net of provision for impairment charges as follows:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Current				
Trade and other receivables	6,464	6,464	-	-

10. Term placement with banks

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Current				
Deposits with bank	500,427	500,000	-	500,000

Term placement with banks has a weighted average interest rate of 0.10% (2016: 0.64%) for the group and 0.10% (2016: 0.64%) for the company.

11. Cash and cash equivalents

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

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Cash at bank and in hand	4,055,106	5,649,555	2,452,589	4,063,817
Bank overdraft	(1,237,070)	-	(72,597)	-
	2,818,036	5,649,555	2,379,992	4,063,817

12. Share capital

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Authorised				
5,000,000 Ordinary shares of €1 each	5,000,000	5,000,000	5,000,000	5,000,000
	5,000,000	5,000,000	5,000,000	5,000,000
Issued and fully paid up				
4,500,000 Ordinary shares of €1 each	4,500,000	4,500,000	4,500,000	4,500,000
	4,500,000	4,500,000	4,500,000	4,500,000

The share capital of the group is constituted from the amount of the nominal issued and fully paid up share capital of Gozo Channel (Holding) Company Limited. Upon the merger, the nominal issued and fully paid up share capital of Gozo Channel Company Limited was transferred to retained earnings as part of the effect of merger (Note 26).

As mentioned in accounting policy 1.1, this transaction has been accounted for as a restructuring and as if the group was in existence prior to the date of the merger. Consequently, this treatment and the related transfer was incorporated in the earliest reported financials.

On 5 October 2016, the directors resolved to increase the authorised and issued share capital of the parent company by 5,000 shares of €2.329373 each through the capitalisation of part of the merged reserves.

On 23 December 2016, the directors resolved to increase the authorised share capital to 5,000,000 shares. It was also resolved to change the denomination of the group's shares to €1 per share.

On 23 December 2016, the directors also resolved to increase the issued share capital by 4,476,706 shares of €1 each through the capitalisation of part of the loan from parent.

13. Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Non-current				
Amounts owed to related parties	3,075,000	-	3,075,000	-
Current				
Trade and other payables	1,481,299	1,389,148	21,383	1,677
Amounts owed to parent (Note 26)	275,293	342,058	275,293	342,058
Amounts owed to related parties	2,527,727	6,602,700	900,000	5,294,862
Indirect taxes and social security	386,295	257,491	-	-
Accruals and deferred income	1,188,145	1,497,173	494,169	285,066
	5,858,759	10,088,570	1,690,845	5,923,663
Total trade and other payables	8,933,759	10,088,570	4,765,845	5,923,663

Amounts owed to parent and to related parties are unsecured, interest free and are repayable on demand.

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 2.

14. Borrowings

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Current				
Bank overdraft	1,072,164	-	-	-
Overdrawn bank balance	164,906	-	72,597	-
Total borrowings	1,237,070	-	72,597	-

As at 31 December 2017, the group's banking facilities amounted to €722,100 (2016: €722,100) and guarantees of €500,000 (2016: €Nil) and were secured by a pledge on a term deposit account amounting to €500,000 (2016: 500,000) held with the same bank. As at 31 December 2017, the group's banking facilities are also secured by pledges on the Malta Government Stocks held by its parent company.

The interest rate exposure of borrowings was as follows:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Total borrowings:				
At fixed rates	1,237,070	-	72,597	-

The carrying amount of the group's borrowings are denominated in Euro.

14. Borrowings - continued

The weighted average effective interest rate at the end of the reporting period is follows:

	Group		Company	
	2017	2016	2017	2016
Bank overdraft	3.40%	-	-	-
Overdrawn bank balance	9.25%	-	9.25%	-

This note provides information about the contractual terms of the group and parent company's borrowings. For more information about the group and parent company's exposure to interest rate and liquidity risk refer to Note 2.

15. Revenue

The group's turnover is derived locally from the operation of ferry services between Malta and Gozo.

On 30 September 2011, the group entered into a further six year Public Service Concession contract with the Ministry for Infrastructure, Transport and Communications, whereby the Government of Malta shall partially compensate the group for ferry ticket rebates given to Gozitan residents and elderly citizens, night service and Sa Maison service. The Public Service Concession contract expired on 30 September 2017, however, the group is still operating under the same terms and conditions until a new contract is awarded.

16. Expenses by nature

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Employee benefit expense (Note 17)	6,891,653	6,717,130	4,658	4,658
Directors' emoluments	72,058	57,820	9,086	8,620
Depreciation on property, plant and equipment (Note 4):				
- cost of sales	883,433	969,679	811,572	854,171
- administrative expenses	60,816	51,412	-	-
Loss on disposal of property, plant and equipment	1,484	1,171	-	-
Subcontracting costs	1,501,867	483,897	-	-
Operating lease rentals payable	855,409	979,729	-	-
Repairs and maintenance of vessels	1,192,033	1,024,711	-	-
Fuel costs and lubricating oils	2,826,947	2,398,730	-	-
Cafeteria supplies and related expenses	39,979	202,689	-	-
Professional fees	5,900	21,125	5,900	21,125
Service costs and dry docking expenses	1,836,661	956,099	1,836,661	959,099
Other expenses	2,121,333	1,984,196	29,529	17,603
Total cost of sales and administrative expenses	18,289,573	15,848,388	2,697,406	1,862,276

16. Expenses by nature - continued

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2017 and 2016 relate to the following:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Annual statutory audit	15,050	22,300	5,200	6,700
Other assurance services	8,000	10,500	4,000	8,000
Tax advisory and compliance services	600	300	300	300
	23,650	33,100	9,500	15,000

17. Employee benefit expense

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Wages and salaries (excluding directors' emoluments)	6,554,565	6,397,046	3,960	3,960
Social security costs	337,088	320,084	698	698
	6,891,653	6,717,130	4,658	4,658

Staff costs above for the group include €70,421 (2016: €56,831) relating to cafeteria administration, €10,434 (2016: 34,234) disclosed within staff training and €125,233 (2016: €66,329) disclosed within ships repairs and maintenance.

The average number of persons employed by the group and parent company during the year was:

	Group		Company	
	2017	2016	2017	2016
Direct	174	154	-	-
Administration	22	18	1	1
	196	172	1	1

18. Other income

Other income amounting to €750,000 relates to deductions granted in 2017 on quay rent dues following claims raised by the group in prior periods.

19. Finance income

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Income from fixed interest government securities	26,168	35,107	26,168	-
Other interest receivable and similar income	2,703	973	864	314
	28,871	36,080	27,032	314

20. Finance costs

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Bank interest and charges	42,172	20,570	6,073	77
Amortisation on held-to-maturity financial assets	464	464	464	77
	42,636	21,034	6,537	154

21. Tax income

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Current tax income:				
Group relief	-	-	(258,790)	-
Deferred tax income	(131,660)	-	(131,660)	-
	(131,660)	-	(390,450)	-

21. Tax income - continued

The tax on the group and parent company's (loss)/profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
(Loss)/profit before tax	(940,173)	13,961	(1,926,911)	(1,862,116)
Tax on (loss)/profit at 35%	(329,061)	4,886	(674,419)	(651,741)
Tax effect of:				
Expenses not allowable for tax purposes	991	567	221	-
Income taxed at source	(302)	-	(302)	-
Maintenance allowance on rental income attributable to immovable property	(12,259)	(12,297)	-	-
Temporary differences attributable to unrecognised deferred tax assets	188,323	6,844	272,168	651,741
Under provision of unrecognised deferred tax assets in prior year	20,648	-	11,882	-
Tax credit in the accounts	(131,660)	-	(390,450)	-

As at 31 December 2017 and 2016, the group and parent company had the following unutilised tax credits and temporary differences, all of which were unrecognised in these financial statements:

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Unutilised tax credits arising from unabsorbed capital allowances	28,389,220	27,282,751	28,389,220	27,124,360
Deductible temporary differences arising on tangible fixed assets	(11,189,028)	(10,645,671)	(11,419,377)	(10,932,140)
Deductible temporary differences arising on provisions	6,463	6,463	-	-
Unabsorbed tax losses	8,194,623	8,219,669	8,165,503	8,165,503

These give rise to a deferred tax asset of €8,890,447 (2016: €8,702,124) for the group and €8,797,371 (2016: €8,525,203) for the parent company which has not been recognised in these financial statements due to the uncertainty of the realisation of the related tax benefits. Unabsorbed capital allowances are forfeited upon cessation of the trade.

22. Directors' emoluments

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Salaries and other emoluments	72,058	57,820	9,086	8,620

23. Cash (used in)/generated from operations

Reconciliation of operating loss to cash (used in)/generated from operations:

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Operating loss	(926,408)	(1,084)	(1,947,405)	(1,862,276)
Adjustment for:				
Depreciation of property, plant and equipment (Note 4)	944,249	1,021,091	811,572	854,171
Assets write off		-		-
Amortisation on held-to-maturity financial assets	464	464	464	77
Loss on disposal on property, plant and equipment	1,485	1,170		
Reduction on related party balance	750,000	-	750,000	-
Changes in working capital:				
Inventory	(6,842)	93,616	-	-
Trade and other receivables	(1,414,290)	196,406	(301,582)	(673,405)
Trade and other payables	(1,838,036)	774,175	(341,053)	47,162
Cash (used in)/generated from operations	(2,489,378)	2,085,838	(2,528,005)	(1,634,271)

24. Commitments

Operating lease commitments - where the group is a lessee

The future minimum lease payments payable under non-cancellable operating leases in relation to port facilities are as follows:

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Not later than 1 year	31,983	724,707	-	-
Later than 1 year and not later than 5 years	20,005	11,070	-	-
	51,988	735,777	-	-

24. Commitments - continued

Operating lease commitments - where the group is a lessor

The future minimum lease payments payable under non-cancellable operating leases in relation to the cafeteria are as follows:

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Not later than 1 year	34,127	81,527	-	-
Later than 1 year and not later than 5 years	45,300	30,352	-	-
	79,427	111,879	-	-

25. Contingent liabilities

At 31 December 2017, the group had contingent liabilities amounting to €500,000 (2016: €Nil) in respect of guarantees issued by the bank on its behalf in favour of related parties in the ordinary course of business.

26. Related party transactions

The group and parent company is ultimately owned and controlled by the Government of Malta. Therefore, the group and parent company considers that, for the purpose of IAS 24 (revised), the Government and Government-related entities are related parties for the purpose of the disclosures required by IAS 24. The group and parent company enters into transactions in its ordinary course of business with the Government of Malta, its departments and regulatory agencies, public sector Corporations, local councils and other entities owned and/or controlled by Government. The group and parent company enters into such transactions on an arm's length basis in the same manner as private businesses and individuals. The directors do not consider these transactions to be individually or collectively significant for disclosure purposes except as disclosed below:

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Income from goods and services				
- PSO claim from Government	662,302	646,714	-	-
- Other income from Government and related authorities	2,766,701	2,787,634	-	-
- Interest received from Government	28,559	34,189	27,032	-
Expenditure for goods and services				
- Lease rentals charged by related parties	825,000	513,222	-	-
- Services rendered by related parties	364,290	286,551	-	-
- Contributions to related parties	36,816	33,000	-	-
- Interest charged by Government	32,380	19,933	6,073	-
- Expenses recharged from subsidiary	-	-	853,768	438,803

26. Related party transactions - continued

Significant balances with Government and Government-related entities for the group and the parent company as at the end of the reporting period are disclosed as follows:

	Group		Company	
	2017	2016	2017	2016
	€	€	€	€
Trade and other receivables				
Amounts owed by the Government of Malta	1,309,015	646,713	-	-
Amounts owed by subsidiary	-	-	583,273	489,116
Amounts owed by other related parties	1,286,870	1,152,643	-	-
Indirect taxes and social security	880,999	426,938	464,683	297,401
<hr/>				
Trade and other payables				
Amounts owed to related parties	5,602,727	6,602,700	3,975,000	5,294,862
Amounts owed to parent	275,293	342,058	275,293	342,058
<hr/>				

Key management personnel compensation, consisting of directors' remuneration has been disclosed in Note 22.

Year-end balances with related parties, arising principally from transactions referred to previously, are disclosed in Notes 9 and 13 to these financial statements.

27. Merger by acquisition

On 5 October 2016, the parent company merged with Gozo Channel Company Limited. The following table summarises the amount of assets acquired and liabilities assumed that were recognised in the parent company's statement of financial position as at 4 October 2016, together with the effect on the parent company's retained earnings:

	€
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 4)	158,299
Held-to-maturity financial assets (Note 6)	434,785
Inventories	1,585,367
Trade and other receivables	10,419,701
Term placements with banks	1,170,340
Cash at bank and in hand	3,630,987
Trade and other payables	(9,357,932)
Current tax liabilities	(12,038)
	<hr/>
Total net assets acquired - effect on retained earnings	8,029,509
	<hr/>

28. Assets transferred to subsidiary

On 5 October 2016, the parent company transferred assets and liabilities to its subsidiary, Gozo Channel (Operations) Limited. The following table summarises the assets and liabilities transferred:

	€
Property, plant and equipment (Note 4)	158,299
Inventories	1,585,367
Trade and other receivables	1,984,050
Cash at bank and in hand	1,613,004
Trade and other payables	(3,815,014)
Current tax liabilities	(12,038)
Total net assets transferred	<u>1,513,668</u>

The consideration for these assets is a loan of an equivalent amount due from Gozo Channel (Operations) Limited. €990,000 of this loan amount was subsequently capitalised (Note 5) and the balance of €523,668 is part of the amount owed by subsidiary, which as at 31 December 2016 had decreased to €489,116 (Note 9).

29. Statutory information

Gozo Channel (Holding) Company Limited is a limited liability group and is incorporated in Malta.

The group's shares are wholly owned by Malta Government Investments Limited, acting as agent for the Government of Malta.

The registered office of Malta Government Investments Limited, from which its financial statements may be obtained, is 'Clock Tower', Level 1, Tigne Point, Sliema, Malta.

Malta Government Investments Limited and Gozo Channel (Holding) Company Limited are fully owned by the Government of Malta.

30. 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.

**GOZO CHANNEL (HOLDING) COMPANY
LIMITED (formerly Gozo Ferries Company Limited)**

**Annual Report and Consolidated Financial
Statements
31 December 2016**

GOZO CHANNEL (HOLDING) COMPANY LIMITED (formerly Gozo Ferries Company Limited)
Annual Report and Consolidated Financial Statements - 31 December 2016

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Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2016.

Principal activities

The group's principal activity is the operation of a ferry service between Malta and Gozo.

The parent company is the owner of three vessels which are operated by Gozo Channel (Operations) Limited under a joint venture agreement.

Change in name

On 7 October 2016, the shareholders, by means of a board resolution, changed the name of the parent company from Gozo Ferries Company Limited to Gozo Channel (Holding) Company Limited.

Review of the business

Up to the merger date, the parent company operated under a Public Service Concession (PSC) contract, entered into together with Gozo Channel Company Limited, with the Ministry for Infrastructure Transport and Communications. A joint venture agreement entered into in 2011 regulated the relationship between the parent company and Gozo Channel Company Limited. Following the merger, the parent company entered into a novation agreement with its newly formed subsidiary, Gozo Channel (Operations) Limited, whereby the latter constituted itself as a party, by way of novation, to the 2011 joint venture agreement.

Given that the provision of the ferry service by the joint venture is not guaranteed after the expiration of the current PSC, each of the companies (now constituting the Group), felt that financial, organisational and operational restructuring was the best course of action in order to ensure that the group is in the best economic situation possible to be able to compete with other potential bidders, and/or be in a position to look for alternative opportunities in the event that the group does not manage to retain the provision of the ferry service after the expiration of the current PSC. This is fundamental for both companies forming the group, given that the services are the only activity that they currently provide.

The group engaged operational consultants in order to ensure that the operations of the joint venture can be improved and that the restructuring will not have any significant impact on any third parties and/or the Government of Malta and will not distort competition or affect local or interstate trade. The restructuring was carried out in a manner that there were no new outflow of funds/cash payments to either of the companies thereby ensuring that they continue to operate independently and compete with third parties through their current resources.

The group registered a profit of €13,962 (2015: loss of €983,547). The group also had net positive equity of €17,080,257 (2015: €12,589,589). It is estimated that until the expiration of the current PSC, the group is in a position to sustain this financial position.

Principal risks and uncertainties

The fact that the current Public Service Concession expired on 30 September 2017 poses a major uncertainty on the group's future operations. The group intends to tender for the new Public Service Concession call.

Directors' report - continued

Merger and group restructuring

As disclosed in Accounting policy 1 "basis of preparation" on page 14, on 1 June 2016, the directors submitted draft terms of merger of the parent company with Gozo Channel Company Limited, whereby the assets and liabilities of Gozo Channel Company Limited, a related party, were amalgamated with those of Gozo Channel (Holding) Company Limited, upon effective date.

The merger became effective on 5 October 2016.

The operations previously undertaken by Gozo Channel Company Limited were transferred to a newly formed subsidiary of Gozo Channel (Holding) Company Limited - Gozo Channel (Operations) Limited.

All the assets, liabilities, commitments and contingent liabilities of Gozo Channel Company Limited were also transferred to Gozo Channel (Operations) Limited except for held-to-maturity financial assets and a portion of cash at bank, term placement with banks, trade payables and accruals.

Gozo Channel Company Limited and Gozo Channel (Holding) Company Limited have common shareholders. The substance of this transaction was that of a group restructuring and consequently, in accordance with generally accepted accounting principles, the transaction has been accounted for in the consolidated financial statements using the predecessor basis of accounting as if it had occurred at the beginning of the earliest period reported. Consequently, comparative figures for 2016 are disclosed for information purposes only and have been prepared as if the group was in existence prior to the date of the merger.

Financial risk management

The group and parent company's activities expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Further information on these risks are included in Note 2 to the financial statements.

Results and dividends

The statements of comprehensive income are set out on page 10. The directors propose that the balance of retained earnings amounting to €12,580,257 (2015: €12,577,942) for the group and €12,589,904 (2015: €6,434,158) for the parent company be carried forward to the next financial year.

Directors

The directors of the parent company who held office during the year were:

Mr. Godwin Farrugia
Mr. Ray Borg
Ms. Iris Camilleri Mifsud

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

Statement of directors' responsibilities for the financial statements

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

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

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;
- 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 the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, (Cap. 386). They are also responsible for safeguarding the assets of the 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 Gozo Channel (Holding) Company Limited for the year ended 31 December 2016 are included in the Annual Report 2016, which is published in hard-copy printed form and may be made available on the group's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of the website. Access to information published on the 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.

Auditors

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

On behalf of the board



Mr. Godwin Farrugia
Chairman



Ms. Iris Camilleri Mifsud
Director

Registered office:
Clock Tower, Level 1
Tigne' Point
Sliema
Malta

19 December 2017



Independent auditor's report

To the Shareholders of Gozo Channel (Holding) Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Gozo Channel (Holding) Company Limited's group and parent company financial statements give a true and fair view of the group and parent company's financial position as at 31 December 2016, and of the group and 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).

What we have audited

Gozo Channel (Holding) Company Limited's financial statements, set out on pages 8 to 41, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2016;
- the Consolidated and Parent Company income statements and 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 consolidated 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 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 the IESBA Code.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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 group and parent 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 that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Independent auditor's report - continued

To the Shareholders of Gozo Channel (Holding) Company Limited

Report on other legal and regulatory requirements

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.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

A handwritten signature in blue ink, appearing to read 'Simon Flynn', is positioned above the printed name and title.

Simon Flynn
Partner

19 December 2017

Statements of financial position

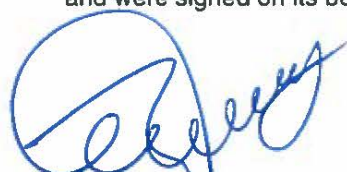
		As at 31 December			
		Group		Company	
Notes	2016	2015	2016	2015	
	€	€	€	€	
ASSETS					
Non-current assets					
Property, plant and equipment	4	16,363,014	17,302,553	16,228,281	17,079,499
Investment in subsidiary	5	-	-	999,999	-
Held-to-maturity financial assets	6	434,708	435,172	434,708	-
Total non-current assets		16,797,722	17,737,725	17,662,988	17,079,499
Current assets					
Inventories	7	1,661,046	1,754,662	-	-
Trade and other receivables	8	2,572,542	2,768,948	786,762	1,202,450
Term placement with banks	9	500,000	1,170,340	500,000	-
Cash at bank and in hand	10	5,649,555	1,961,053	4,063,817	409,553
Total current assets		10,383,143	7,655,003	5,350,579	1,612,003
Total assets		27,180,865	25,392,728	23,013,567	18,691,502

Statements of financial position - continued

		As at 31 December			
Notes	Group		Company		
	2016 €	2015 €	2016 €	2015 €	
EQUITY AND LIABILITIES					
Capital and reserves					
	11	4,500,000	11,647	4,500,000	11,647
		12,580,257	12,577,942	12,589,904	6,434,158
		17,080,257	12,589,589	17,089,904	6,445,805
Current liabilities					
	12	10,088,570	12,791,101	5,923,663	12,245,697
		12,038	12,038	-	-
		10,100,608	12,803,139	5,923,663	12,245,697
		10,100,608	12,803,139	5,923,663	12,245,697
		27,180,865	25,392,728	23,013,567	18,691,502

The notes on pages 14 to 41 are an integral part of these consolidated financial statements.

The financial statements on pages 8 to 41 were authorised for issue by the board on 19 December 2017 and were signed on its behalf by:


Mr. Godwin Farrugia
Chairman


Ms. Iris Camilleri Mifsud
Director

Income statements

		Year ended 31 December			
		Group		Company	
Notes	2016	2015	2016	2015	
	€	€	€	€	
Income from tickets sold and other income	14	15,200,590	13,966,630	-	-
Income from PSO agreement	14	646,714	724,941	-	-
Revenue		15,847,304	14,691,571		
Cost of sales	15	(14,919,846)	(14,816,283)	(1,824,638)	(2,037,106)
Gross profit/(loss)		927,458	(124,712)	(1,824,638)	(2,037,106)
Administrative expenses	15	(928,542)	(889,344)	(37,638)	(39,298)
Operating loss		(1,084)	(1,014,056)	(1,862,276)	(2,076,404)
Finance income	17	36,080	41,038	314	561
Finance costs	18	(21,034)	(10,529)	(154)	-
Profit/(loss) for the year		13,962	(983,547)	(1,862,116)	(2,075,843)

Statements of comprehensive income

		Year ended 31 December			
		Group		Company	
Note	2016	2015	2016	2015	
	€	€	€	€	
Profit/(loss) for the year		13,962	(983,547)	(1,862,116)	(2,075,843)
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Effect of retained earnings from merger	25	-	-	8,029,508	-
Other comprehensive income for the year		-	-	8,029,508	-
Total comprehensive income for the year		13,962	(983,547)	6,167,392	(2,075,843)

The notes on pages 14 to 41 are an integral part of these consolidated financial statements.

Statements of changes in equity

	Note	Share capital €	Retained earnings €	Total €
Group				
Balance at 1 January 2015		11,647	13,490,848	13,502,495
Comprehensive Income				
Loss for the year		-	(983,547)	(983,547)
Total comprehensive income		-	(983,547)	(983,547)
Transactions with owners				
Reversal of unclaimed dividends		-	70,641	70,641
Balance at 31 December 2015		11,647	12,577,942	12,589,589
Balance at 1 January 2016		11,647	12,577,942	12,589,589
Comprehensive Income				
Profit for the year		-	13,962	13,962
Total comprehensive income		-	13,962	13,962
Transactions with owners				
Capitalisation of loan from parent	11	4,476,706	-	4,476,706
Capitalisation of retained earnings	11	11,647	(11,647)	-
Total transactions with owners		4,488,353	(11,647)	4,476,706
Balance at 31 December 2016		4,500,000	12,580,257	17,080,257

Statements of changes in equity - continued

	Notes	Share capital €	Retained earnings €	Total €
Company				
Balance at 1 January 2015		11,647	8,510,001	8,521,648
Comprehensive income				
Loss for the year		-	(2,075,843)	(2,075,843)
Total comprehensive income		-	(2,075,843)	(2,075,843)
Balance at 31 December 2015		11,647	6,434,158	6,445,805
Balance at 1 January 2016		11,647	6,434,158	6,445,805
Comprehensive income				
Loss for the year		-	(1,862,116)	(1,862,116)
Other comprehensive income:				
Effect of retained earnings from merger	25	-	8,029,509	8,029,508
Total comprehensive income		-	6,167,392	6,167,392
Transactions with owners				
Capitalisation of loan from parent	11	4,476,706	-	4,476,706
Capitalisation of retained earnings	11	11,647	(11,647)	-
Total transactions with owners		4,488,353	(11,647)	4,476,706
Balance at 31 December 2016		4,500,000	12,589,904	17,089,904

The notes on pages 14 to 41 are an integral part of these consolidated financial statements.

Statements of cash flows

		Year ended 31 December			
		Group		Company	
Notes	2016	2015	2016	2015	
	€	€	€	€	
Cash flows from operating activities					
Cash generated from/(used in) operations	21	2,085,838	1,438,673	(1,634,271)	(240,694)
Investment income		36,080	41,038	314	561
Interest paid		(21,034)	(10,529)	(154)	-
Income tax paid		-	(19,564)	-	-
Net cash generated from/(used in) operating activities		2,100,884	1,449,618	(1,634,111)	(240,133)
Cash flows from investing activities					
Purchases related to property, plant and equipment		(82,722)	(80,176)	(2,953)	(8,091)
Increase in investment in subsidiary		-	-	(9,999)	-
Cash acquired upon merger	25	-	-	3,630,987	-
Movement in short-term deposits		670,340	(500,000)	670,340	-
Net cash generated from/(used in) investing activities		587,618	(580,176)	4,288,375	(8,091)
Cash flows from financing activities					
Increase in loan from parent		1,000,000	-	1,000,000	-
Repayment of borrowings		-	(291,172)	-	-
Net cash generated from/(used in) in financing activities		1,000,000	(291,172)	1,000,000	-
Net movement in cash and cash equivalents		3,688,502	578,270	3,654,264	(248,224)
Cash and cash equivalents at beginning of year		1,961,053	1,382,783	409,553	657,777
Cash and cash equivalents at end of year	10	5,649,555	1,961,053	4,063,817	409,553

The notes on pages 14 to 41 are an integral part of these consolidated financial statements.

Notes to the consolidated 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

On 5 October 2016, the parent company merged with Gozo Channel Company Limited, whereby the assets and liabilities of Gozo Channel Company Limited, a related party, were amalgamated with those of Gozo Channel (Holding) Company Limited. This transaction meets the IFRS definition of a business combination involving entities under common control (refer to note 1.4).

These two entities have common shareholders and hence the substance of this transaction is that of a group restructuring and accordingly the provisions in respect of business combinations set out in IFRS 3 are not applicable. In accordance with generally accepted accounting principles, the transaction has been accounted for in the consolidated financial statements as a restructuring, and these accounts have been compiled as if the company was the parent company of the group from the earliest reported period. Consequently, comparative figures for 2016 are disclosed for information purposes only and have been prepared as if the group was in existence prior to the date of the merger.

These consolidated financial statements include the financial statements of Gozo Channel (Holding) Limited and its subsidiary, Gozo Channel (Operations) Limited.

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, (Cap. 386). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgement in the process of applying the group's accounting policies (Note 3 - Critical accounting estimates and judgements). These accounting policies are consistent with the policies previously adopted by the entities being merged except for the reorganisation between the group entities under common control which is accounted for using the reorganisation method of accounting. Under this method, assets and liabilities are incorporated at the predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entities as recognised and measured in those entities pre-organisation financial statements. No goodwill arises in reorganisation accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entities, is included in equity. The financial statements, incorporate the merged entities full year results, including comparatives, as if the post-reorganisation structure was already in place at the commencement of the comparative period.

Standards, interpretations and amendments to published standards effective in 2016

In 2016, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 January 2016. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the group's accounting periods beginning after 1 January 2016. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the group's directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9, 'Financial instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to adoption by the EU, IFRS 9 is effective for financial periods beginning on, or after, 1 January 2018. The group is considering the implications of the standard and its impact on the group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission, and will also consider the impact of the remaining phases of IFRS 9 when completed.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on, or after, 1 January 2017 and earlier application is permitted. The group is presently assessing the impact of IFRS 15.

IFRS 16, 'Leases' deals lease accounting. Certain operating leases will be recognised in the statement of financial position as an asset (including the right to use the leased item) and a corresponding financial liability to pay rentals. As at the reporting date, the group has non-cancellable operating lease commitments as disclosed in Note 22. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. This standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group is still in the process of assessing and evaluating the impact of IFRS 16.

1.2 Consolidation

Subsidiaries are all entities (including special purpose 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. 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.

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

The group applies 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 values of the assets transferred, the liabilities incurred and the equity interests issued by the group, plus costs directly attributable to the acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) 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 recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as 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 group's share of the identifiable net assets acquired. If this is less than the fair value of the net identifiable assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 1.6).

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

In the parent company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, that is, at cost less impairment. Cost includes directly attributable costs of the investments. 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 results of subsidiaries are reflected in the parent 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.

A listing of the subsidiaries is set out in Note 5 to the consolidated financial statements.

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 consolidated financial statements are presented in euro, which is the parent company's functional currency and the group's presentation currency.

1. Summary of significant accounting policies - continued

1.3 Foreign currency translation - continued

(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 the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or finance cost'. All other foreign exchange gains and losses are presented in the income statement within 'administrative expenses'.

1.4 Business combinations involving entities under common control

As disclosed in the basis of preparation note 1.1 above, the parent company merged with Gozo Channel Company Limited, whereby the assets and liabilities of Gozo Channel Company Limited, a related party, were amalgamated with those of Gozo Channel (Holding) Company Limited. Gozo Channel (Holding) Company Limited and Gozo Channel Company Limited were controlled by the same parties before and after the merger. 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.

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 merged entity using predecessor book values;
- 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.

1.5 Property, plant and equipment

All property, plant and equipment, comprising motor vessels, shore equipment and other equipment, is initially recorded at historical cost, and subsequently stated at historical cost less depreciation and impairment losses. Historical 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.

1. Summary of significant accounting policies - continued

1.5 Property, plant and equipment - continued

Motor vessels comprise allocated costs to the individual vessel and are shown at cost less accumulated depreciation, subsequent to their commissioning. Commissioning refers to the process of handing over the vessel to its operator, so that useful economic benefit can be derived. Additions to motor vessels and office computer equipment are initially recorded at cost less depreciation.

The market value of the motor vessels is based on valuations by external independent professional valuers. Valuations are carried out periodically unless directors consider it appropriate to have an earlier valuation such that the carrying amount of the asset does not differ materially from that which would be determined using fair values at the reporting date.

It is the group's policy to charge full year depreciation in the year when a vessel is commissioned and no charge in the year of its disposal. Depreciation on motor vessels is calculated using the reducing balance method to write off the cost of each asset to its residual value over its estimated useful life as follows:

	%
Motor vessels	
1 year of commissioning of motor vessel	10
2 year of commissioning of motor vessel	8
3 to 5 years of commissioning of motor vessel	7.5
Remaining useful years	5

Depreciation on all other assets is calculated using the straight line method to allocate their cost, or revalued amounts to their residual values over their estimated useful life as follows:

	%
Motor vessels and shore equipment	10 - 50
Other equipment	20 - 33.3

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

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

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

1.6 Impairment of investments in subsidiary and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. 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 that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1. Summary of significant accounting policies - continued

1.7 Merger by acquisition

Mergers by acquisition, which do not fall within the scope of IFRS 3, are accounted for using capital reorganisation accounting. Under capital reorganisation accounting, assets and liabilities are incorporated at the pre-combination carrying values, which are the carrying amounts of assets and liabilities of the acquired entity from its financial statements.

No new goodwill arises in capital reorganisation accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity, is included in equity. These financial statements should incorporate the acquired entity's results from the first day of the comparative period presented in the financial statements. Given that on the date of merger, the operations of the merged entity were transferred in full to a fully owned new incorporated subsidiary of the company, this approach was not adopted in order to present more meaningful financial information.

1.8 Financial assets

1.8.1 Classification

The group classifies its financial assets, other than investment in subsidiary in the parent company's case, in the following categories: held-to-maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than twelve months from the end of the reporting period, which are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.10 and 1.12).

1.8.2 Recognition and measurement

The group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the group. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

1. Summary of significant accounting policies - continued

1.8 Financial assets - continued

1.8.2 Recognition and measurement - continued

Financial assets are initially recognised at fair value plus transaction costs. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

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 risks and rewards of ownership or has not retained control of the asset.

1.8.3 Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The group first assesses whether objective evidence of impairment exists.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1.9 Inventories

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

1. Summary of significant accounting policies - continued

1.10 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.6).

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

1.11 Term placement with banks

Short term deposits held with banks or credit institutions are stated at face value.

1.12 Cash and cash equivalents

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

1.13 Share capital

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

1.14 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 IAS 39. 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.

1.15 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. Summary of significant accounting policies - continued

1.16 Offsetting financial instruments

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

1.17 Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

1.18 Current and deferred tax

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

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 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, derivative contracts and provisions on the difference between the carrying values for financial reporting purposes and their tax base. Such deferred tax is charged or credited directly to the respective reserve.

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

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

1. Summary of significant accounting policies - continued

1.19 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. Restructuring provisions principally comprise termination benefits. 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.

1.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

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

(a) Sales of services

Revenue from services is generally recognised upon performance of services in the period the services are provided.

(b) Sales of goods

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 receivables is reasonably assured.

(c) Finance income

Finance income is recognised for all interest-bearing instruments as it accrues, on a time-proportion basis using the effective interest method, unless collectability is in doubt.

1.21 Operating leases

(a) The group is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

(b) The group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with Note 1.5. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term.

1. Summary of significant accounting policies - continued

1.22 Dividend distribution

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

1.23 Borrowing costs

Finance costs are charged to profit or loss without restriction. No borrowing costs have been capitalised.

1.24 Maintenance of vessels

Routine vessel maintenance and repair costs are charged to profit or loss as incurred.

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 foreign exchange currency risk, cash flow 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's board of directors provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial periods. The directors do not consider the impact of price risk material to effect the results of the group.

(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 entity's functional currency. The group is not significantly exposed to foreign exchange risk arising from the group's purchases or sales. Management does not consider foreign exchange risk attributable to recognised assets and liabilities arising from sales and purchase transactions to be significant since balances are settled within very short periods in accordance with the negotiated credit terms. The group's revenues, purchases and other expenditure, financial assets and liabilities, including financing, are mainly denominated in euro.

Accordingly, the group is not significantly exposed to foreign exchange risk and 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 reporting period is not deemed necessary.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(ii) Cash flow and fair value interest rate risk

Term placements with banks (Note 9) subject to fixed interest rates potentially expose the group to fair value interest rate risk, but these instruments are carried at amortised cost. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. Based on this analysis, 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. The group's interest-bearing instruments are short-term in nature and accordingly the level of interest rate risk is contained. The group's operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

Credit risk arises from held-to-maturity financial assets, bank deposits as well as cash and cash equivalents and credit exposures to customers, including outstanding receivables and committed transactions. The group's exposure to credit risk as at the end of the reporting periods are analysed as follows:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Loans and receivables category:				
Held-to-maturity financial assets (Note 6)	434,708	435,172	434,708	-
Trade and other receivables (Note 8)	2,572,542	2,768,948	786,762	1,202,450
Term placements with banks (Note 9)	500,000	1,170,340	500,000	-
Cash and cash equivalents (Note 10)	5,649,555	1,961,053	4,063,817	409,553
	9,156,805	6,335,513	5,785,287	1,612,003

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The group does not hold any collateral as security in this respect.

The group banks only with financial institutions with high quality standing or rating. The held-to-maturity financial assets represent Malta Government Stocks, and credit risk in this respect is considered to be limited.

The group's operations are carried out in Malta. The group's receivables include amounts due from related parties ultimately owned and controlled by the Government of Malta (Note 24). The group with the assistance of the Minister of Finance monitors these related party balances credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall liquidity management. The group assesses the credit quality of these related parties taking into account the financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The group has no significant concentration of credit risk with respect to trade and other receivables in view of the large number of customers comprising its trade debtor base. The group assesses the credit quality of its customers taking into account financial position, past experience and other factors.

The group manages credit limits and exposures actively in a practicable manner such that there are no material past due amounts receivable from customers as at the end of the reporting period. The group's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers.

The group's receivables include significant amounts due from related parties. The group assesses the credit quality of these related parties taking into account financial position, performance and other factors. The group takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

As at year-end, impairment provisions of €6,464 (2015: €6,464) for the group were made in respect of receivables that were overdue and not expected to be recovered. Other overdue debts that were not impaired were in large settled since the period-end.

(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 (Note 12). 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 year there are adequate credit facilities in place with external sources and with the support of the Government of Malta, if necessary.

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 bank borrowing facilities that it can access to meet liquidity needs and the Government of Malta support that it can access to meet liquidity needs as referred to previously. In this respect, management does not consider liquidity risk to the group as significant taking into account the liquidity management process referred to above.

The group's financial liabilities due within twelve months equal their carrying balances, as the impact of discounting is not significant.

2. Financial risk management - continued

2.2 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 group may adjust the amount of dividends paid to shareholders or issue new shares.

The group's equity, as disclosed in the statement of financial position, constitutes its capital. The group maintains the level of capital by reference to its 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 as at the end of the reporting period is deemed adequate by the directors.

2.3 Fair values of financial instruments

At 31 December 2016 and 2015 the carrying amounts of cash at bank, term placement with banks, trade and other receivables, trade and other payables and accrued expenses 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 expected realisation. The fair value of balances with related parties which are current or repayable on demand is equivalent to their carrying amount.

3. Critical accounting estimates and judgements

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

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

4. Property, plant and equipment

Group	Motor vessels €	Shore equipment €	Other equipment €	Total €
At 1 January 2015				
Cost	63,418,589	3,059,182	1,748,192	68,225,963
Accumulated depreciation and impairment charge	(45,453,660)	(2,818,849)	(1,651,265)	(49,923,774)
Net book amount	17,964,929	240,333	96,927	18,302,189
Year ended 31 December 2015				
Opening net book amount	17,964,929	240,333	96,927	18,302,189
Additions	8,085	33,361	38,730	80,176
Depreciation charge	(893,515)	(119,834)	(66,463)	(1,079,812)
Closing net book amount	17,079,499	153,860	69,194	17,302,553
At 31 December 2015				
Cost	63,426,674	3,092,543	1,786,922	68,306,139
Accumulated depreciation	(46,347,175)	(2,938,683)	(1,717,228)	(51,003,586)
Net book amount	17,079,499	153,860	69,194	17,302,553
Year ended 31 December 2016				
Opening net book amount	17,079,499	153,860	69,194	17,302,553
Additions	1,970	20,648	60,104	82,722
Disposals	-	(108,503)	(16,131)	(124,634)
Depreciation charge	(853,974)	(109,930)	(57,187)	(1,021,091)
Depreciation charge released on disposal	-	107,389	16,075	123,464
Closing net book amount	16,227,495	63,464	72,055	16,363,014
At 31 December 2016				
Cost	63,428,644	3,004,688	1,830,895	68,264,227
Accumulated depreciation	(47,201,149)	(2,941,224)	(1,758,840)	(51,901,213)
Net book amount	16,227,495	63,464	72,055	16,363,014

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4. **Property, plant and equipment - continued**

Company	Motor vessels €	Shore equipment €	Other equipment €	Total €
At 1 January 2015				
Cost	63,340,532	-	5,725	63,346,257
Accumulated depreciation and impairment charge	(45,327,110)	-	(5,725)	(45,332,835)
Net book amount	18,013,422	-	-	18,013,422
Year ended 31 December 2015				
Opening net book amount	18,013,422	-	-	18,013,422
Additions	8,091	-	-	8,091
Assets written off	(48,499)	-	-	(48,499)
Depreciation charge	(893,515)	-	-	(893,515)
Closing net book amount	17,079,499	-	-	17,079,499
At 31 December 2015				
Cost	63,300,124	-	5,725	63,305,849
Accumulated depreciation and impairment charge	(46,220,625)	-	(5,725)	(46,226,350)
Net book amount	17,079,499	-	-	17,079,499
Year ended 31 December 2016				
Opening net book amount	17,079,499	-	-	17,079,499
Additions	1,970	-	983	2,953
Acquired upon merger	-	85,456	72,843	158,299
Transferred to subsidiary	-	(85,456)	(72,843)	(158,299)
Depreciation charge	(853,974)	-	(197)	(854,171)
Closing net book amount	16,227,495	-	786	16,228,281
At 31 December 2016				
Cost	63,302,094	-	6,708	63,308,802
Accumulated depreciation and impairment charge	(47,074,599)	-	(5,922)	(47,080,521)
Net book amount	16,227,495	-	786	16,228,281

In determining the fair value of the motor vessels, the directors took cognisance of a valuation report, commissioned in 2015, in respect of its three vessels. The valuation report issued by a professional valuer considered the costs incurred in constructing the vessels, the vessels special technical specifications, their estimated useful lives, the present operational condition of the vessels and estimated the market value of the motor vessels on an open market value under normal sales terms.

4. Property, plant and equipment - continued

The directors are of the opinion that the carrying amount of the motor vessels as at 31 December 2016 does not differ materially from that which would be determined using fair values.

5. Investment in subsidiary

	2016 €	2015 €
Year ended 31 December		
Additions	9,999	-
Capitalisation of loan	990,000	-
Closing net book amount	999,999	-
At 31 December		
Cost and net book amount	999,999	-

The principal subsidiary which is unlisted at 31 December 2016 is shown below:

	Registered office	Class of shares held	Percentage of shares held 2016	2015
Gozo Channel (Operations) Limited	Channel House Mgarr Harbour Mgarr, Gozo	Ordinary shares	99.9%	-

6. Held-to-maturity financial assets

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Opening net book amount	435,172	435,636	-	-
Acquired upon merger (Note 25)	-	-	434,785	-
Amortisation charge	(464)	(464)	(77)	-
Closing net book amount	434,708	435,172	434,708	-
	2016 €	2015 €	2016 €	2015 €
Cost	438,187	438,187	434,785	-
Accumulated amortisation	(3,479)	(3,015)	(77)	-
Net book amount	434,708	435,172	434,708	-

6. Held-to-maturity financial assets - continued

Maturity of held-to-maturity financial assets:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Non-current				
6.6% Malta Government Stock 2019	232,937	232,937	232,937	-
5.2% Malta Government Stock 2020	101,104	101,422	101,104	-
5.0% Malta Government Stock 2021	100,667	100,813	100,667	-
	434,708	435,172	434,708	-

At 31 December 2016, the market value of the listed investments was €514,372 (2015: €531,279) for the group and €514,372 (2015: €Nil) for the company and the weighted average effective interest rate was 5.9% (2015: 5.9%) for the group and 5.9% (2015: Nil) for the parent company.

7. Inventories

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Spare parts and consumables	1,495,928	1,605,034	-	-
Fuel and oil	124,489	114,607	-	-
Food and beverage	40,629	35,021	-	-
	1,661,046	1,754,662	-	-

8. Trade and other receivables

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Current				
Trade and other receivables gross	123,537	144,173	-	-
Amounts owed by the Government of Malta	646,713	724,941	-	-
Amounts owed by subsidiary (Note 24)	-	-	489,116	-
Amounts owed by other related parties	1,152,643	424,066	-	-
Indirect taxes and social security	426,938	1,107,802	297,401	1,034,840
Other receivables	17,684	17,684	245	-
Prepayments and accrued income	205,027	350,282	-	167,610
	2,572,542	2,768,948	786,762	1,202,450

8. Trade and other receivables - continued

Amounts owed by the Government of Malta, subsidiary, and other related parties are unsecured, interest free and are repayable on demand.

The group and parent company's exposure to credit and currency risk relating to trade and other receivables is disclosed in Note 2. The other classes within receivables do not contain impaired assets.

Trade receivables are stated net of provision for impairment charges as follows:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Current				
Trade and other receivables	6,464	6,464	-	-

9. Term placement with banks

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Current				
Deposits with bank	500,000	1,170,340	500,000	-

Term placement with banks has a weighted average interest rate of 0.64% (2015: 1.51%) for the group and 0.64% (2015: Nil) for the company.

10. Cash and cash equivalents

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

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Cash at bank and in hand	5,649,555	1,961,053	4,063,817	409,553

11. Share capital

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Authorised				
100,000 Ordinary shares of €2.329373 each	-	232,937	-	232,937
5,000,000 Ordinary shares of €1 each	5,000,000	-	5,000,000	-
	5,000,000	232,937	5,000,000	232,937
Issued and fully paid up				
5,000 Ordinary shares of €2.329373 each	-	11,647	-	11,647
4,500,000 Ordinary shares of €1 each	4,500,000	-	4,500,000	-
	4,500,000	11,647	4,500,000	11,647

The share capital of the group is constituted from the amount of the nominal issued and fully paid up share capital of Gozo Channel (Holding) Company Limited. Upon the merger, the nominal issued and fully paid up share capital of Gozo Channel Company Limited was transferred to retained earnings as part of the effect of merger (Note 25).

As mentioned in accounting policy 1.1, this transaction has been accounted for as a restructuring and as if the group was in existence prior to the date of the merger. Consequently, this treatment and the related transfer was incorporated in the earliest reported financials.

On 5 October 2016, the directors resolved to increase the authorised and issued share capital of the parent company by 5,000 shares of €2.329373 each through the capitalisation of part of the merged reserves.

On 23 December 2016, the directors resolved to increase the authorised share capital to 5,000,000 shares. It was also resolved to change the denomination of the group's shares to €1 per share.

On 23 December 2016, the directors also resolved to increase the issued share capital by 4,476,706 shares of €1 each through the capitalisation of part of the loan from parent.

12. Trade and other payables

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Current				
Accounts payable	1,389,148	1,475,896	1,677	239,341
Amounts owed to Gozo Channel Company Limited (Note 24)	-	-	-	8,168,183
Amounts owed to parent (Note 24)	342,058	3,818,764	342,058	3,818,764
Amounts owed to related parties	6,602,700	6,659,262	5,294,862	-
Indirect taxes and social security	257,491	-	-	-
Accruals and deferred income	1,497,173	837,179	285,066	19,409
	10,088,570	12,791,101	5,923,663	12,245,697

Amounts owed to Gozo Channel Company Limited, to parent and to related parties are unsecured, interest free and are repayable on demand.

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 2.

13. Borrowings

As at 31 December 2016, the group's banking facilities amounted to €722,100 (2015: €722,100) and were secured by a pledge on a term deposit account amounting to €500,000 (2015: €70,340) and savings account amounting to €Nil (2015: €90,000) held with the same bank. In 2015, the group's banking facilities were also secured by pledges on the Malta Government Stocks held.

14. Revenue

The group's turnover is derived locally from the operation of ferry services between Malta and Gozo.

On 30 September 2011, the group entered into a further six year Public Service Concession contract with the Ministry for Infrastructure, Transport and Communications, whereby the Government of Malta shall partially compensate the group for ferry ticket rebates given to Gozitan residents and elderly citizens, night service and Sa Maison service. The Public Service Concession contract expired on 30 September 2017, however, the group is still operating under the same terms and conditions until a new contract is awarded.

15. Expenses by nature

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Employee benefit expense (Note 16)	6,717,130	6,454,720	4,658	4,659
Directors' emoluments	57,820	57,816	8,620	8,616
Depreciation of property, plant and equipment (Note 4):				
- cost of sales	969,679	1,020,045	854,171	893,515
- administrative expenses	51,412	59,767	-	-
Loss on disposal of property, plant and equipment	1,171	-	-	-
Exchange differences	-	320	-	-
Increase in provision of receivables	-	6,464	-	-
Impairment of receivables	-	147,360	-	-
Operating lease rentals payable	979,729	980,660	-	-
Repairs and maintenance of vessels	1,508,608	1,126,248	-	-
Fuel costs and lubricating oils	2,398,730	2,732,561	-	-
Cafeteria supplies and related expenses	202,689	131,937	-	-
Professional fees	21,125	3,850	21,125	3,850
Service costs	759,209	385,647	759,209	385,647
Dry docking expenses	196,890	744,092	196,890	744,092
Other expenses	1,984,196	1,854,139	17,603	36,025
Total cost of sales and administrative expenses	15,848,388	15,705,626	1,862,276	2,076,404

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2016 and 2015 relate to the following:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Annual statutory audit	22,300	13,350	6,700	3,500
Other assurance services	10,500	5,350	8,000	-
Tax advisory and compliance services	300	300	300	300
	33,100	19,000	15,000	3,800

16. Employee benefit expense

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Wages and salaries (excluding directors' emoluments)	6,397,046	6,131,350	3,960	3,961
Social security costs	320,084	323,370	698	698
	6,717,130	6,454,720	4,658	4,659

Staff costs above for the group include €56,831 (2015: €54,571) relating to cafeteria administration, €34,234 (2015: 40,978) disclosed within staff training and €66,329 (2015: €45,507) disclosed within ships repairs and maintenance.

The average number of persons employed by the group and parent company during the year was:

	Group		Company	
	2016	2015	2016	2015
Direct Administration	154	191	-	-
	18	16	1	1
	172	207	1	1

17. Finance income

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Income from fixed interest government securities	35,107	25,574	-	-
Other interest receivable and similar income	973	15,464	314	561
	36,080	41,038	314	561

18. Finance costs

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Bank interest and charges	20,570	10,065	77	-
Amortisation on held-to-maturity financial assets	464	464	77	-
	21,034	10,529	154	-

19. Tax expense

No provision for Malta income tax has been made in these financial statements, on those activities of the group and parent company which would be subject to income tax, since the group and parent company has no such chargeable income as a result of unabsorbed tax losses and capital allowances carried forward.

The tax on the group and parent company's profit/(loss) before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Profit/(loss) before tax	13,961	(983,547)	(1,862,116)	(2,075,843)
Tax on profit/(loss) at 35%	4,886	(344,241)	(651,741)	(726,545)
Tax effect of:				
Expenses not allowable for tax purposes	567	(26,940)	-	-
Maintenance allowance on rental income attributable to immovable property	(12,297)	(9,642)	-	-
Temporary differences attributable to unrecognised deferred tax assets	6,844	380,823	651,741	726,545
Tax charge in the accounts	-	-	-	-

As at 31 December 2016 and 2015, the group and parent company had the following unutilised tax credits and temporary differences, all of which were unrecognised in these financial statements:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Unutilised tax credits arising from unabsorbed capital allowances	27,282,751	25,850,010	27,124,360	25,850,010
Deductible temporary differences arising on tangible fixed assets	(10,645,671)	(10,507,111)	(10,932,140)	(10,507,111)
Deductible temporary differences arising on provisions	6,463	-	-	-
Unabsorbed tax losses	8,219,669	7,180,951	8,165,503	7,180,951

These give rise to a deferred tax asset of €8,702,124 (2015: €7,883,347) for the group and €8,525,203 (2015: €7,883,347) for the parent company which has not been recognised in these financial statements due to the uncertainty of the realisation of the related tax benefits. Unabsorbed capital allowances are forfeited upon cessation of the trade.

20. Directors' emoluments

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Salaries and other emoluments	57,820	57,816	8,620	8,616

21. Cash generated from/(used in) operations

Reconciliation of operating loss to cash generated from/(used in) operations:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Operating loss	(1,084)	(1,014,056)	(1,862,276)	(2,076,404)
Adjustment for:				
Depreciation of property, plant and equipment (Note 4)	1,021,091	1,079,812	854,171	893,515
Assets write off	-	-	-	48,499
Amortisation on held-to-maturity financial assets	464	464	77	-
Loss on disposal on property, plant and equipment	1,170	-	-	-
Impairment provision of receivables	-	6,464	-	-
Impairment of receivables	-	147,360	-	-
Changes in working capital:				
Inventory	93,616	(8,759)	-	10,345
Trade and other receivables	196,406	(9,630)	(673,405)	(340,812)
Trade and other payables	774,175	1,237,018	47,162	1,224,163
Cash generated from/(used in) operations	2,085,838	1,438,673	(1,634,271)	(240,694)

22. Commitments

Operating lease commitments - where the group is a lessee

The future minimum lease payments payable under non-cancellable operating leases in relation to port facilities are as follows:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Not later than 1 year	724,707	974,802	-	-
Later than 1 year and not later than 5 years	11,070	735,778	-	-
	735,777	1,710,580	-	-

22. Commitments - continued

Operating lease commitments - where the group is a lessor

The future minimum lease payments payable under non-cancellable operating leases in relation to the cafeteria are as follows:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Not later than 1 year	81,527	79,444	-	-
Later than 1 year and not later than 5 years	30,352	111,879	-	-
	111,879	191,323	-	-

23. Contingent liabilities

At 31 December 2016, the group had contingent liabilities amounting to €Nil (2015: €500,000) in respect of guarantees issued by the bank on its behalf in favour of related parties in the ordinary course of business.

24. Related party transactions

The group and parent company is ultimately owned and controlled by the Government of Malta. Therefore, the group and parent company considers that, for the purpose of IAS 24 (revised), the Government and Government-related entities are related parties for the purpose of the disclosures required by IAS 24. The group and parent company enters into transactions in its ordinary course of business with the Government of Malta, its departments and regulatory agencies, public sector Corporations, local councils and other entities owned and/or controlled by Government. The group and parent company enters into such transactions on an arm's length basis in the same manner as private businesses and individuals. The directors do not consider these transactions to be individually or collectively significant for disclosure purposes except as disclosed below:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Income from goods and services				
- PSO claim from Government	646,714	724,941	-	-
- Other income from Government and related authorities	2,787,634	2,353,060	-	-
- Interest received from Government	34,189	37,249	-	-
Expenditure for goods and services				
- Lease rentals charged by related parties	513,222	1,126,745	-	-
- Services rendered by related parties	286,551	1,571,728	-	-
- Contributions to related parties	33,000	33,000	-	-
- Interest charged by Government	19,933	15,313	-	-
- Recharges of expenses	-	-	438,803	434,575

24. Related party transactions - continued

Significant balances with Government and Government-related entities for the group and the parent company as at the end of the reporting period are disclosed as follows:

	Group		Company	
	2016 €	2015 €	2016 €	2015 €
Trade and other receivables				
Amounts owed by the Government of Malta	646,713	724,941	-	-
Amounts owed by subsidiary	-	-	489,116	-
Amounts owed by other related parties	1,152,643	424,066	-	-
Indirect taxes and social security	426,938	1,107,802	297,401	1,034,840
Trade and other payables				
Amounts owed to related parties	6,602,700	6,659,262	5,294,862	-
Amounts owed to Gozo Channel Company Limited	-	-	-	8,168,183
Amounts owed to parent	342,058	3,818,764	342,058	3,818,764

Year-end balances with related parties, arising principally from transactions referred to previously, are disclosed in Notes 8 and 12 to these financial statements.

25. Merger by acquisition

On 5 October 2016, the parent company merged with Gozo Channel Company Limited. The following table summarises the amount of assets acquired and liabilities assumed that were recognised in the parent company's statement of financial position as at 4 October 2016, together with the effect on the parent company's retained earnings:

	€
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 4)	158,299
Held-to-maturity financial assets (Note 6)	434,785
Inventories	1,585,367
Trade and other receivables	10,419,701
Term placements with banks	1,170,340
Cash at bank and in hand	3,630,987
Trade and other payables	(9,357,932)
Current tax liabilities	(12,038)
Total net assets acquired - effect on retained earnings	8,029,509

26. Assets transferred to subsidiary

On 5 October 2016, the parent company transferred assets and liabilities to its subsidiary, Gozo Channel (Operations) Limited. The following table summarises the assets and liabilities transferred:

	€
Property, plant and equipment (Note 4)	158,299
Inventories	1,585,367
Trade and other receivables	1,984,050
Cash at bank and in hand	1,613,004
Trade and other payables	(3,815,014)
Current tax liabilities	(12,038)
Total net assets transferred	<u>1,513,668</u>

The consideration for these assets is a loan of an equivalent amount due from Gozo Channel (Operations) Limited. €990,000 of this loan amount was subsequently capitalised (Note 5) and the balance of €523,668 is part of the amount owed by subsidiary, which as at 31 December 2016 had decreased to €489,116 (Note 8).

27. Statutory information

Gozo Channel (Holding) Company Limited (formerly Gozo Ferries Company Limited) is a limited liability group and is incorporated in Malta.

The group's shares are wholly owned by Malta Government Investments Limited, acting as agent for the Government of Malta.

The registered office of Malta Government Investments Limited, from which its financial statements may be obtained, is 'Clock Tower', Level 1, Tigne Point, Sliema, Malta.

Malta Government Investments Limited and Gozo Channel (Holding) Company Limited (formerly Gozo Ferries Company Limited) are fully owned by the Government of Malta.

28. 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.