HUDSON INTERNATIONAL COMPANY LIMITED

Annual Report and Financial Statements
31 December 2017

Company Registration Number: C48705

Directors' report

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

Principal activities

The principal activities of the company are the importation and retailing of branded fashion wear.

Review of the business

During the year under review the company continued to see growth in its retail business with a 12% increase in revenue over the previous year. The directors are pleased to note that this growth was achieved despite the fact that it operates in an increasingly competitive market. During 2017 the company also sold off its subsidiary to another group company.

The company's financial position remains satisfactory. The directors expect that the present level of activity will be sustained for the foreseeable future and that operating results will continue to improve.

Details of significant events since the balance sheet date are contained in note 23 to the Financial statements.

Results and dividends

The income statement is set out on page 11. The directors declared a dividend of €1,000,000 (2016: €nil) during the year, and propose that the balance of retained earnings amounting to €1,846,198 (2016: €2,038,939) be carried forward to the next financial year.

Key performance indicators

Financial key performance indicators

The company has continued with its expansionary strategy with an emphasis on growing revenue and building a structure that can drive sustainable growth with a longer-term vision of increasing shareholders' value. The key financial performance indicator used by the board during the year related to revenue growth.

	2017	2016
Revenue growth	12%	35%

Non-financial key performance indicators

Non-financial performance is monitored at Hudson Group level. During the year, the board has further strengthened its governance and controls through new procedures and implemented personal development plans across the Group to ensure that its employees are aligned to the Group's overall goals.

Future developments

As a significant operator in the retail industry, the company will continue to expand its retail operations with a focus on opening new stores, launching new brands and continuing to improve the in-store customer experience.

Directors' report - continued

Significant risks and uncertainties

The company's principal risks include financial risks as described below, obsolescence of inventories, loss of market share as a result of other participants entering the market and negative developments in the economic or political environment.

Financial risk management

The company's activities expose it to a variety of financial risks, including foreign exchange risk, price risk, credit risk and liquidity risk.

The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. Risk management is carried out within the company where applicable under policies approved by the Management of the company. The company does not use derivative financial instruments to hedge risk exposures.

Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a foreign currency. The company operates in the Maltese market and therefore has a limited exposure to foreign exchange risk. A portion of the company's purchases is denominated in GBP.

Credit risk

Credit risk arises from cash and cash equivalents, debt securities, deposits with banks and financial institutions, as well as 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:

	2017	2016
	€	€
Current & non-current receivables (note 5)	**3,284,904**	1,392,945
Cash and cash equivalents (note 6)	**1,960,943**	1,928,636
	5,445,847	3,321,581

Directors' report - continued

Financial risk management - continued

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Carrying amount €	Less than 1 year €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €
At 31 December 2017					
Borrowings	2,123,223	955,210	414,213	635,658	118,142
Trade and other payables	4,914,409	4,914,409	-	-	-
	7,037,632	**5,869,619**	**414,213**	**635,658**	**118,142**
At 31 December 2016					
Borrowings	1,645,025	480,543	322,432	628,375	213,675
Trade and other payables	3,695,012	3,695,012	-	-	-
	5,340,037	**4,175,555**	**322,432**	**628,375**	**213,675**

Directors

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

George Amato
Alfred Borg
Kevin Grech
Christopher Muscat

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

Directors' report - continued

Statement of directors' responsibilities for the financial statements

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

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

- ensuring that the financial statements have been drawn up in accordance with 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 company will continue in business as a going concern.

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

The financial statements of Hudson International 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 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 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

George Amato Director	Christopher Muscat Director

Registered office
Hudson House
Burmarrad Road
Burmarrad
St. Paul's Bay, SPB9060
Malta

28 June 2018

Independent auditor's report

To the Shareholders of Hudson International Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- Hudson International Company Limited's financial statements give a true and fair view of the company's financial position as at 31 December 2017, and of the 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), as modified by Article 174 of the Maltese Companies Act (Cap. 386); and
- the financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

Hudson International Company Limited's financial statements, set out on pages 9 to 29, comprise:

- the statement of financial position as at 31 December 2017;
- the income statement for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include 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 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.

pwc

Independent auditor's report - *continued*

To the Shareholders of Hudson International 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).

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

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

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

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

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

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

Responsibilities of the directors 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, as modified by Article 174 of the Maltese Companies Act (Cap. 386) and the requirements of the said Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditor's report - *continued*

To the Shareholders of Hudson International 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

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 Hudson International 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

Lucienne Pace Ross
Partner

28 June 2018

Statement of financial position

	Notes	As at 31 December 2017 €	2016 €
ASSETS			
Non-current assets			
Property, plant and equipment	2	**1,577,189**	1,910,763
Investments in subsidiaries	3	**-**	120,079
Deferred tax assets	8	**272,912**	231,582
Trade and other receivables	5	**676,728**	208,250
Total non-current assets		**2,526,829**	2,470,674
Current assets			
Inventories	4	**1,707,098**	1,569,660
Trade and other receivables	5	**3,149,892**	1,790,055
Cash and cash equivalents	6	**1,960,943**	1,928,636
Total current assets		**6,817,933**	5,288,351
Total assets		**9,344,762**	7,759,025

Statement of financial position - continued

	Notes	As at 31 December 2017 €	2016 €
EQUITY AND LIABILITIES			
Equity			
Share capital	7	**250,000**	48,400
Retained earnings		**1,846,198**	2,038,939
Total equity		**2,096,198**	2,087,339
LIABILITIES			
Non-current liabilities			
Borrowings	9	**1,052,823**	1,164,482
Total non-current liabilities		**1,052,823**	1,164,482
Current liabilities			
Trade and other payables	10	**4,914,409**	3,695,012
Borrowings	9	**883,293**	480,543
Current tax liabilities		**398,039**	331,649
Total current liabilities		**6,195,741**	4,507,204
Total liabilities		**7,248,564**	5,671,686
Total equity and liabilities		**9,344,762**	7,759,025

The notes on pages 14 to 29 are an integral part of these financial statements.

The financial statements on pages 9 to 29 were authorised for issue by the board on 28 June 2018 and were signed on its behalf by:

George Amato
Director

Christopher Muscat
Director

Income statement

	Notes	Year ended 31 December 2017 €	2016 €
Revenue	11	**19,943,618**	17,731,828
Cost of sales		**(10,537,637)**	(9,331,518)
Gross profit		**9,405,981**	8,400,310
Other income	12	**111,019**	172,042
Operating and administrative expenses		**(7,844,426)**	(7,136,004)
Operating profit		**1,672,574**	1,436,348
Finance income	15	**63,960**	33,283
Finance costs		**(170,966)**	(76,803)
Profit before tax		**1,565,568**	1,392,828
Tax expense	16	**(556,709)**	(544,136)
Profit for the year		**1,008,859**	848,692

The notes on pages 14 to 29 are an integral part of these financial statements.

Statement of changes in equity

	Share capital €	Retained earnings €	Total €
Balance at 1 January 2016	50,000	1,190,247	1,240,247
Comprehensive income			
Profit for the year	-	848,692	848,692
Transactions with owners			
Reduction of share capital	(1,600)	-	(1,600)
Balance at 31 December 2016	**48,400**	**2,038,939**	**2,087,339**
Balance at 1 January 2017	48,400	2,038,939	2,087,339
Comprehensive income			
Profit for the year	-	1,008,859	1,008,859
Transactions with owners			
Increase of share capital	201,600	(201,600)	-
Dividends declared	-	(1,000,000)	(1,000,000)
Balance at 31 December 2017	**250,000**	**1,846,198**	**2,096,198**

The notes on pages 14 to 29 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2017 €	2016 €
Cash flows from operating activities			
Cash generated from operations	18	**1,555,736**	2,389,380
Interest paid		**(170,966)**	(76,803)
Income tax paid		**(531,649)**	(940,978)
Net cash generated from operating activities		**853,121**	1,371,599
Cash flows from investing activities			
Purchases of property, plant and equipment		**(175,865)**	(764,371)
Interest received		**63,960**	3,283
Net cash used in investing activities		**(111,905)**	(731,088)
Cash flows from financing activities			
Proceeds/(repayments) of borrowings		**(79,895)**	191,344
Reduction in share capital		**-**	(1,600)
Movement in balances with related parties		**-**	(63,530)
Dividends paid		**(1,000,000)**	-
Net cash used in financing activities		**(1,079,895)**	126,214
Net movement in cash and cash equivalents		**(338,679)**	766,725
Cash and cash equivalents at beginning of year		**1,775,299**	1,008,574
Cash and cash equivalents at end of year	6	**1,436,620**	1,775,299

The notes on pages 14 to 29 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

The financial statements have been prepared in accordance with 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 company's parent company, Hudson Holdings Limited (note 22) prepared consolidated financial statements in a manner equivalent to that required by the Maltese Companies Act (Cap. 386) and these were delivered to the Registrar of Companies in Malta. These financial statements have been prepared under the historical cost convention.

1.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

1.3 Property, plant and equipment

All property, plant and equipment is initially recorded at cost. All property, plant and equipment is subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs are recognised in profit or loss as incurred, in accordance with accounting policy 1.18.

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

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

	%
Improvement to premises	10
Motor vehicles	20
Plant and machinery	25
Furniture, fixtures and other equipment	20 – 33.33

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.

1.4 Investments in subsidiaries

Investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. If applicable, cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of the investment. Provisions are recorded where, in the opinion of the director, 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 impairment is identified.

The results of the subsidiaries are reflected in these 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.

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

1.5 Impairment of investments in subsidiaries and non-financial assets

Investments in subsidiaries and non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets 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 company classifies its financial assets, other than investments in subsidiaries in the loans and receivables category. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments on initial recognition and re-evaluates this designation at every reporting date.

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 company 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 company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (note 1.8 and 1.9).

1.6.2 Recognition and measurement

The company 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 are subsequently carried at amortised cost 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 company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

1.6.3 Impairment

The company 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 company first assesses whether objective evidence of impairment exists. The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

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

1.6 Financial assets - continued

1.6.3 Impairment - continued

- 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
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the company 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. Impairment testing of trade receivables is described in note 1.8.

1.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost 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

1.8 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (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 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

1.10 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.

1.11 Financial liabilities

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

1.12 Trade and other payables

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

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

1. Summary of significant accounting policies - continued

1.13 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred, and subsequently measured in accordance with the policy described in note 1.11. 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.

1.14 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.

1.15 Current and deferred tax

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

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

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

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

1.16 Revenue recognition

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

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

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

1.16 Revenue recognition - continued

(a) Sales of goods

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

(b) Interest income

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

(c) Dividend income

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

1.17 Leases

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.

1.18 Borrowing costs

Borrowing costs are recognised in profit or loss as incurred.

1.19 Dividend distribution

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

2. Property, plant and equipment

	Improvements to premises €	Motor vehicles €	Furniture, fixtures and equipment €	Total €
At 1 January 2016				
Cost	890,935	3,800	2,027,855	2,922,620
Accumulated depreciation	(316,519)	(2,153)	(989,581)	(1,308,253)
Net book amount	**574,416**	**1,647**	**1,038,304**	**1,614,367**
Year ended 31 December 2016				
Opening net book amount	574,416	1,647	1,038,304	1,614,367
Additions	38,340	6,950	719,081	764,371
Depreciation charge	(77,650)	(1,455)	(388,870)	(467,975)
Closing net book amount	**535,106**	**7,142**	**1,368,515**	**1,910,763**
At 31 December 2016				
Cost	929,275	10,750	2,746,966	3,686,991
Accumulated depreciation and impairment	(394,169)	(3,608)	(1,378,451)	(1,776,228)
Net book amount	**535,106**	**7,142**	**1,368,515**	**1,910,763**
Year ended 31 December 2017				
Opening net book amount	535,106	7,142	1,368,515	1,910,763
Additions	8,317	-	167,548	175,865
Depreciation charge	(95,343)	(2,150)	(411,946)	(509,439)
Closing net book amount	**448,080**	**4,992**	**1,124,117**	**1,577,189**
At 31 December 2017				
Cost	937,592	10,750	2,914,514	3,862,856
Accumulated depreciation and impairment	(489,512)	(5,758)	(1,790,397)	(2,285,667)
Net book amount	**448,080**	**4,992**	**1,124,117**	**1,577,189**

3. Investments in subsidiaries

	€
As at 1 January 2017	**120,079**
Disposal of subsidiary	**(120,079)**
As at 31 December 2017	**-**

3. Investments in subsidiaries - continued

	2017	2016
	€	€
At 31 December		
Cost	-	120,079
Net book amount	-	120,079

During 2017, the below subsidiary was sold via a non-cash transaction to another group company:

	Registered office	**Class of shares held**	**Percentage of shares held %**
Hudson Utilities Management Operations Services Joint Venture JSC company	Gerganesh Street Tripoli , Libya	Ordinary Shares	65%

4. Inventories

	2017	2016
	€	€
Goods for resale	**1,707,098**	1,569,660

Write-downs to net realisable value have been charged to profit or loss and are included within 'Cost of sales' in the income statement.

5. Trade and other receivables

	2017	2016
	€	€
Trade receivables	**521,327**	455,534
Less provision for impairment	**(391,464)**	(381,939)
Trade receivables - net	**129,863**	73,595
Amounts owed by subsidiaries		1,181,454
Amounts owed by group undertakings	**3,009,137**	36,749
Other receivables	**145,904**	100,877
Prepayments and accrued income	**541,716**	605,360
	3,826,620	1,998,305
Non-current	**676,728**	208,250
Current	**3,149,892**	1,790,055
	3,826,620	1,998,305

5. Trade and other receivables - continued

The company has the following non-current trade and other receivables:

	€
Year ended 31 December 2017	
At 1 January	208,250
Reclassification from current assets	468,478
At 31 December	**676,728**

6. Cash and cash equivalents

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

	2017	2016
	€	€
Cash at bank and in hand	**1,960,943**	1,928,636
Cash and cash equivalents (excluding bank overdrafts)	**1,960,943**	1,928,636
Bank overdraft (note 9)	**(524,323)**	(153,337)
Cash and cash equivalents	**1,436,620**	1,775,299

7. Share capital

	2017	2016
	€	€
Authorised, issued and fully paid		
30,000 Ord 'A' shares of €1 each	-	30,000
15,800 Ord 'B' shares of €1 each	-	15,800
4,200 Ord 'C' shares of €1 each	-	2,600
250,000 Ord shares of €1 each	**250,000**	-
	250,000	48,400

The ordinary 'A' shares carry full voting rights to dividends and surplus assets upon eventual liquidation. The ordinary 'B' shares do not carry any rights other than return on liquidation of the part amount of those shares.

8. Deferred tax

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% (2016: 35%), with the exception of deferred taxation on the fair valuation of non-depreciable property which is computed on the basis applicable to disposals of immovable property i.e. tax effect of 8% of the transfer value.

The movement on the deferred tax account is as follows:

	2017	2016
	€	€
At beginning of year	**231,582**	-
Recognised directly in profit or loss	-	120,134
Credited to income statement (note 16)	**41,330**	111,448
At end of year	**272,912**	231,582

The balance at 31 December represents:

	2017	2016
	€	€
Temporary differences arising on depreciation of property, plant and equipment	**135,900**	97,903
Temporary differences arising on provisions for impairment of trade receivables	**137,012**	133,679
	272,912	231,582

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

9. Borrowings

	2017	2016
	€	€
Non-current		
Bank loans	**1,052,823**	1,164,482
Current		
Bank overdraft (note 6)	**524,323**	153,337
Bank loans	**358,970**	327,206
	883,293	480,543

An amount of €130,196 (2016: €213,675) on bank loans representing long-term borrowings, are payable after more than 5 years.

10. Trade and other payables

	2017 €	2016 €
Trade payables	**2,518,361**	1,802,092
Other payables	**83,674**	70,150
Indirect taxation	**1,819,495**	1,470,032
Accruals and deferred income	**492,879**	352,738
	4,914,409	3,695,012
Current	**4,914,409**	3,695,012

11. Revenue

All the company's revenue represents the amount receivable for goods sold during the year, net of any indirect taxes.

12. Other income

	2017 €	2016 €
Commissions	**111,019**	172,042

13. Profit for the year

Profit for the year is stated after charging the following:

	2017 €	2016 €
Depreciation on property, plant and equipment (note 2)	**509,439**	467,975
Employee benefit expense (note 14)	**2,154,659**	1,768,947

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:

	2017 €	2016 €
Annual statutory audit	**8,000**	8,000
Other services	**-**	2,150
Tax compliances services	**1,360**	1,360
	9,360	11,510

14. Employee benefit expense

	2017	2016
	€	€
Wages and salaries	**1,996,673**	1,633,069
Social security costs	**157,986**	135,878
	2,154,659	1,768,947

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

	2017	2016
Administration	**10**	6
Retail	**188**	146
	198	152

15. Finance income

	2017	2016
	€	€
Interest on amounts due from related parties	**63,938**	33,231
Interest on amounts due from trade receivables	**22**	52
	63,960	33,283

16. Tax expense

	2017	2016
	€	€
Current tax expense	**598,039**	563,593
Deferred tax credit (note 8)	**(41,330)**	(111,448)
Group relief	**-**	91,991
	556,709	544,136

16. Tax expense - continued

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

	2017 €	2016 €
Profit before tax	**1,565,568**	1,392,828
Tax on profit at 35%	**547,949**	487,489
Tax effect of:		
Expenses and provision not allowable for tax purposes	**8,764**	56,664
Income subject to tax at reduced rates	**(4)**	(17)
Tax expense	**556,709**	544,136

17. Directors' emoluments

	2017 €	2016 €
Salaries recharged by parent	**86,956**	-

18. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2017 €	2016 €
Operating profit	**1,672,574**	1,436,348
Adjustments for:		
Depreciation of property, plant and equipment (note 2)	**509,439**	467,975
Increase in bad debts provision and write off of bad debts	**3,649**	381,939
Changes in working capital:		
Inventories	**(137,438)**	(700,323)
Trade and other receivables	**(1,711,885)**	(503,059)
Trade and other payables	**1,219,397**	1,306,500
Cash generated from operations	**1,555,736**	2,389,380

19. Commitments

Operating lease commitments – company as lessee

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

	2017	2016
	€	€
No later than 1 year	**892,535**	1,066,334
Later than 1 year and no later than 5 years	**3,660,360**	4,065,670
Later than 5 years	**1,044,109**	1,808,964
	5,597,005	6,940,968

20. Contingencies

As at 31 December 2017, the company provided third parties with guarantees and letters of credit amounting to €2,590,483 (2016: €1,771,559). As at the end of the reporting period, the bank provided the company with a facility covering these amounts up to a limit of €5,347,439 (2016: €2,671,559). The unutilised facility at year end amounted to €nil (2016: €911,000). This facility is secured by a cash margin, cash pledges over certain bank accounts of the company and of related undertakings and by guarantees issued by the parent company and other related undertakings.

21. Related party transactions

All companies forming part of the Hudson Group are considered by the directors to be related parties since these companies all have a common ultimate controlling party.

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

	2017	2016
	€	€
Revenue		
Interest income - related parties	**63,938**	33,231
Expenses		
Finance costs	**-**	201
Management fees - parent	**740,272**	627,636

The above balances are unsecured, interest free and have no fixed date of repayment.

Year-end balances with related parties are disclosed in note 5 to these financial statements. During 2017 the subsidiary of the company was sold, as disclosed in note 3 to these financial statements.

22. Statutory information

Hudson International Company Limited is a limited liability company and is incorporated in Malta.

The immediate parent company of Hudson International Company Limited is Hudson Malta p.l.c., a company registered in Malta, with its registered address at Hudson House, Burmarrad Road, Burmarrad, St. Paul's Bay, SPB 9060, Malta.

The ultimate parent company of Hudson International Company Limited is Hudson Holdings Limited, a company registered in Malta with its registered address at Hudson House, Burmarrad Road, Burmarrad, St. Paul's Bay, SPB 9060, Malta.

The financial statements of Hudson International Company Limited are included in the consolidated financial statements prepared by Hudson Holdings Limited.

23. Events after the balance sheet date

In May 2018, Hudson Malta p.l.c. issued an aggregate of €12,000,000 in bonds, bearing an interest rate of 4.35%, on the Malta Stock Exchange. Hudson International Company Limited and Time International (Sport) Limited are acting as joint and several guarantors on this bond issue. All three companies are ultimately owned by Hudson Holdings Limited.