

The Convenience Shop (Holding) plc

C 87554

Marant Food Products, Mdina Road,
Zebbug, ZBG 9017, Malta



**Financial
Sustainability
Forecasts**

Summary of Significant Assumptions and Accounting Policies

A. Introduction

The forecast statement of financial position, the forecast statement of profit or loss, and the forecast statement of cash flows ("the Forecasts") of the Issuer for the period ending 31 December 2022 has been prepared to provide financial information for the purposes of the announcement of Financial Sustainability Forecasts. The assumptions set out below are the sole responsibility of the Directors of the Company.

The Forecasts are intended to show a possible outcome based on assumptions relating to anticipated future events which the Directors expect to take place, and on actions which the Directors expect to take. Events and circumstances frequently do not occur as expected, and therefore, actual results may differ materially from those included in the forecast and projected financial information. We draw your attention in particular, to the risk factors set out in the Admission Document, which describe the primary risks associated with the business to which the Forecast Financial Information relates.

The Forecasts are not intended to and do not provide all the information and disclosures necessary to give a true and fair view of the financial results, financial position, and cash flows of the Group, in accordance with International Financial Reporting Standards as adopted by the EU, however the Directors have exercised due care and diligence in adopting the assumptions set out below.

These Forecasts were formally approved on 26 April 2022 by the Directors, and the stated assumptions reflect the judgements made by the Directors at that date. The assumptions that the Directors believe are significant to the prospective financial information are described in Section C below.

B. Significant accounting policies

The Forecast Financial Information shows the projected financial performance and position of The Convenience Shop (Holding) plc (the "Company" or "TCSH p.l.c.") in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRS") except that, due to the nature of Forecast Financial Information:

- The Forecast Financial Information does not include all the disclosure requirements under EU-IFRS and other laws or securities regulations, including but not limited to the Maltese Companies Act (Cap. 386);
- Do not necessarily present line items (including totals and sub-totals) and the classification thereof in the forecast financial performance and financial position in accordance with EU-IFRS;
- Do not consider certain recognition or measurement criteria; and
- Do not show comparative amounts.

C. Basis of preparation and significant assumptions

The principal assumptions relating to the environment in which the Company operates, and the factors which are exclusively outside the influence of the Directors, and which underlie the forecast financial statements, are the following:

- The Company will continue to enjoy the confidence of its customers, and bankers throughout the year under consideration;
- There will be no material adverse movements originating from market and economic conditions affecting the groceries market in Malta, consumer spending levels, employment and job growth, amongst others;
- The rate of inflation will be in line with historic trends;
- The basis and rates of taxation, direct and indirect, will not change materially throughout the year covered by the Forecast Financial Information; and

The Company will enjoy good relations with its employees throughout the year under consideration. Other principal assumptions relating to the environment in which the Company operates, factors which the Directors can influence and which underlie the forecast financial information, are the following:

1. Revenue

In 2022 revenue is expected to grow by 15% or €5.3 million over the previous year as a result of an increase in own store revenue and new shop openings.

2. Cost of sales

Cost of sales is projected as the difference between revenue and gross profit. The assumptions underlying the gross profit calculation is explained in Note 4 below.

3. Royalty fees

No royalty fees are projected as the Group acquired the Intellectual Property Rights (The Convenience Shop' trademark) from a related company during previous years.

4. Gross profit

Gross profit is projected using actual gross margins reported by the current stores. The historical average gross margin has been applied for new store openings.

Margins are kept constant throughout the projected year.

5. Own store overheads

Own store overheads are projected as a percentage of store revenue on a per store basis. Overheads for existing stores are projected using historical trends whilst new store overheads are projected on historical trends and experience on similar shops already in operation.

6. Head office costs

Head office costs include mainly overheads such as sub-contracting, advertising, utilities and professional fees. These are based on historical costs and are projected to increase by 10.5% in 2022 to support the business operations.

7. Depreciation

Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life as follows:

- Plant and Machinery over 10 years
- Furniture and Fixtures over 10 years
- Office equipment over 5 years
- Motor Vehicles over 5 years

8. Finance charges

Finance charges include bond interest payable at an interest rate of 5%, finance costs on the lease agreements and interest payable on bank facilities.

9. Taxation

Tax is calculated at 35% of adjusted taxable profit before tax, also taking into account an estimate of the deferred tax movement for the year.

10. Plant and equipment

Plant and equipment include office equipment, furniture and fittings, plant and machinery and motor vehicles. These are depreciated using the straight-line method as explained in Note 7.

11. Intangibles

Intangibles include Goodwill, which relates to the goodwill recognised on the acquisition of the going concerns and the subsidiary companies during the restructuring transaction and is not impaired over the projection year. Intangibles include the acquisition of the Intellectual Property Rights (The Convenience Shop' trademark) as explained in Note 3 above.

12. Net working capital

Inventory, Trade Receivables and Trade Payables are projected on a company-by-company basis using a fixed percentage of revenue based on the historical average.

Other creditors are projected to remain stable over the projected year.

13. Shareholders' loans

The Group intends to repay €48k of shareholders' loans in 2022.

Any remaining related parties' loan balances are projected to remain fixed over the projected year.

14. Debt

The projected debt relates to:

- The €5 million bond issue, net of deferred bond issue costs; and
- €1 million worth of bank financing outstanding as at end 2022. The Group is planned to have a net decrease in bank lending of €154k in 2022 (repayments in line with agreed repayment schedules).

15. Accrued interest

Accrued interest refers to accrued bond interest due on the Bond and bank facilities as at 31 December. Interest on the Bond is assumed payable annually at the end of March, whilst on the bank loans is paid in line with the agreed repayment schedules.

16. Capital expenditure

Capital expenditure includes:

- Improvements to the existing shops - refurbishment projects for upgrade and upkeep of shops are projected in line with the Group's shops policy standards; and
- Investments in ICT to maintain technology enhancements required by the Group.

17. Dividends

In line with the Company's Policy, dividends are projected using a dividend pay-out ratio of 60% of the Group Profit after tax. The first part based on the interim results is paid as an Interim dividend in the same financial year whereas the remaining part is paid the following year following the publication of the full year audited results.

D. Conclusion

The Directors believe that the assumptions on which the Forecast Financial Information is based are reasonable. The Directors further believe that, in the absence of unforeseen circumstances outside their control, the working capital available to the Company will be sufficient for the carrying on of its business.

Approved by the Board of Directors on 27 April 2022.

Table 1: Consolidated Statement of Comprehensive Income for the respective years ending 31 December

	Audited 2021	<i>EUR 000s</i> Forecast 2022
Revenue	35,181	40,440
Cost of Sales	(30,604)	(35,001)
Gross Profit	4,577	5,439
Administrative expenses	(2,571)	(2,842)
Operating profit	2,006	2,597
Other Income	433	486
Finance Charges	(846)	(998)
Profit Before Tax	1,593	2,085
Tax Charge	(746)	(896)
Profit After Tax	847	1,189

Table 2: Consolidated Statement of Financial Position as at 31 December for the respective years

	<i>EUR 000s</i>	
	Audited 2021	Forecast 2022
ASSETS		
Plant & Equipment	3,823	3,775
Intangible assets	13,491	13,866
Right of Use Assets	9,450	9,028
Total Non Current Assets	26,764	26,668
Inventory	2,697	2,774
Trade Receivables	3,690	3,645
Cash & Cash Equivalents	1,368	889
Total Current Assets	7,755	7,308
Total Assets	34,519	33,976
EQUITY AND LIABILITIES		
Share Capital	70	70
Share Premium	2,188	2,188
Retained Earnings	869	1,375
Total Equity	3,127	3,633
Non-Current Liabilities		
Interest Bearing Loans	10,293	9,692
Lease Liability	9,696	9,509
Deferred tax liability	91	152
Total Non-Current Liabilities	20,080	19,353
Current Liabilities		
Current Tax	1,459	385
Interest Bearing Loans	153	404
Bank overdraft	2	0
Lease Liability	633	697
Trade & Other Payables	9,065	9,505
Total Current Liabilities	11,312	10,990
Total Equity & Liabilities	34,519	33,976

Table 3: Consolidated Statement of Cash Flows for the respective years ending 31 December

	Audited 2021	<i>EUR 000s</i> Forecast 2022
Cash flow from operating activities	5,305	5,236
Income taxes paid	(659)	(1,909)
Cash generated from operating activities	<u>4,646</u>	<u>3,327</u>
Net Cash used in Investing Activities	<u>(2,395)</u>	<u>(1,217)</u>
Net Cash Generated from Financing Activities	<u>(1,950)</u>	<u>(2,587)</u>
Movement in Cash and Cash Equivalents	301	(477)
Opening Cash & Cash Equivalent	1,065	1,366
Closing Cash and Cash Equivalents	1,366	889

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FINANCIAL SUSTAINABILITY FORECASTS



Registered Office

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Mdina Road,
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Malta

Company Registration Number: C 87554