

**THE CONVENIENCE SHOP (HOLDING) PLC**

**Annual Report  
and  
Consolidated Financial Statements**

**31 December 2019**

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**CONTENTS**

	<b>Pages</b>
General information	2
Directors' report	3 - 10
Corporate governance – Statement of compliance	11 – 20
Independent auditors' report	21 – 26
Statement of comprehensive income	27
Statement of financial position	28
Statement of changes in equity	29
Statement of cash flows	30
Notes to the financial statements	31 – 59

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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**GENERAL INFORMATION**

**Registration**

The Convenience Shop (Holding) plc ("the Company") is registered in Malta as a limited liability company under the Companies Act (Cap. 386) with registration number C 87554.

**Directors**

Ivan Calleja  
Kevin Deguara  
Benjamin Muscat (appointed on 16 December 2018)  
Joseph Pace  
Manuel Piscopo  
Charles Scerri (appointed on 16 December 2018)

**Company Secretary**

Richard Deschrijver (appointed on 1 June 2019)  
Kevin Deguara (appointed on 4 March 2019 and resigned on 1 June 2019)  
Joseph Pace (appointed 26 July 2018 and resigned on 4 March 2019)

**Registered Office**

Marant Food Products  
Mdina Road  
Zebbug ZBG 9017  
Malta

**Bankers**

Bank of Valletta p.l.c.  
219-220  
Triq ix-Xatt  
Gzira GZR 1022  
Malta

**Auditors**

RSM Malta  
Mdina Road  
Zebbug ZBG 9015  
Malta

## **DIRECTORS' REPORT**

**for the period ended 31 December 2019**

The Directors present their report and the audited consolidated financial statements for the period ended 31 December 2019.

The Directors who served during the period and up till the date of this report are as follows:

Ivan Calleja  
Kevin Deguara  
Benjamin Muscat (appointed on 16 December 2018)  
Joseph Pace  
Manuel Piscopo  
Charles Scerri (appointed on 16 December 2018)

### ***Overview***

The Convenience Shop (Holding) plc ("the Company" or "the Parent Company") was incorporated on 26 July 2018 as the Parent Company and the finance arm of The Convenience Group (the "Group"). The Group of which the Company is the parent consists of the entities acquired or incorporated during the current period as detailed below.

During this period, the Company announced the offer of €5,000,000 5% unsecured bonds callable 2026-2029, issued in terms of the Company Admission Document dated the 8 March 2019 ('the Bonds'). Bond subscriptions closed on the 22 March 2019 with the bond being fully subscribed and admitted to the Prospects MTF on the 28 March 2019. The funds were utilised for the acquisition of going concern businesses, to repay balances due to shareholders and to finance new shop openings.

On the date of incorporation, the parent Company acquired The Convenience Shop Limited (C 87556) which started carrying on business as soon as the transfer of business agreements were executed. Furthermore, during this period, the Company either acquired or made investments in the following companies:

On the date of incorporation, the parent Company acquired The Convenience Shop Limited (C 87556) which started carrying on business as soon as the transfer of business agreements were executed.

Furthermore, during this period, the Company acquired the following companies:

- Daily Retail Challenges Limited (C79662)
- Aynic & Co. Limited (C74750)
- Seafront Express Limited (C73435)
- Gbake Manufacturing Limited (C60422)
- GNJ Company Limited (C88969)
- Gbake Retail Limited (C60421)

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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In addition, the following companies were also incorporated during the period as part of the Group:

- The Convenience Shop Limited (C87556)
- The Convenience Shop Management Limited (C87711)
- The Convenience Shop for Puttinu Cares (C90748)

***Principal activities***

The principal activities of the Group relate to the operation of a chain of mini market stores under The Convenience Shop brand in Malta with a current shop count of 31 owned shops and 34 franchised shops as at 31 December 2019.

***Review of the business trading performance***

The Group has recorded a strong financial performance across the board for the period ended 31 December 2019, registering a profit before tax of €1.7 million. A turnover of €39.6 million and a gross profit of €6 million were registered during the period under review.

When taking into consideration the fact that throughout the period under review, competition has strengthened and a tight labour market contributed for higher payroll costs, the results are particularly satisfactory. The Group registered consistent growth in revenue of Owned outlets as well as in the Franchise operated accounts. The strategy of optimising the return from our space and assets continues to produce significant cash generation and sustainable profits.

Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to €3.6 million. This is net of the impact of the introduction of IFRS16 for the 'Right-of-use assets', which amounted to €1.3 million. IFRS 16, which is the new accounting standard covering Leases and which is adopted in the preparation of these financial statements, became effective as from 1 January 2019. This accounting standard replaced IAS 17 according to which, operating lease charges to be reflected within the profit and loss of the Group, would have been €725K. However, through the application of IFRS 16, EBITDA for the period ended 31 December 2019 has been impacted favourably by the same amount as a result of having the operating lease charge being reversed from operational costs and replacing it by a depreciation charge of €796K.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

The table below analyses the impact of the implementation of IFRS 16 on the Profit before tax.

	Group
	26.07.2018
	to
	31.12.2019
	€
Reported Profit before tax	1,696,563
Effect of IFRS 16 implementation	
- Depreciation charge of right-of-use assets	796,386
- Interest expense (included in finance costs)	462,496
- Lease charges	<u>(724,951)</u>
<b>Resultant Profit before tax</b>	<b><u>2,230,494</u></b>

Tax for the period amounted to just under €1 million, resulting in an effective tax rate on Reported Profit Before Tax of 57%. If IFRS 16 had not been adopted the effective tax rate on the Resultant Profit Before Tax would have been 43%.

When comparing these results with the Forecast as incorporated in the Company Admission Document dated 8 March 2019, apart from the variance due to the implementation of IFRS 16, the Resultant Profit Before Tax of €2.2 million is €0.8 million lower than the projected Profit Before Tax for the period under review of €3 million. This is mainly attributable to a loss on acquisition of subsidiaries of €352K and additional costs of €446K incurred in supporting the strengthening of the finance and IT functions and further digitalisation of operations. These were not planned at the time of the preparation of the Company Admission Document referred to earlier. The Group considered this cost as an investment which is essential from a strategic viewpoint in order to further streamline operations and back-office support facilities, whilst at the same time improving customers' buying experience.

These results would not have been possible without the dedication and hard work of all our employees. Their professionalism and dedication have been crucial in establishing The Convenience Group as one of Malta's leading retail chain in less than a decade. We are grateful for their constant support and valued contribution.

***Financial Position***

The Group's total assets as at 31 December 2019 amounted to €25.9 million.

The Group remains highly liquid with a strong generation of cash. Cash and cash equivalents as at 31 December 2019 amounted to €1.8 million.

In addition, the Group, recognised the leased premises at an amount of €7.2 million, as right-of-use asset, in accordance with the new IFRS 16 Leases.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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The Group's net borrowings (excluding impact of IFRS 16) amounted to €5.7 million, whilst following the inclusion of the liabilities in accordance with IFRS 16, the gearing ratio stood at 132.8%. Total equity of the Group including shareholders' loans amounted to €4.3 million.

During the period under review, the Group invested a €1.8 million, opening 7 new shops to strengthen its retail network. Capital investment to upgrade existing outlets continued to be undertaken in order to ensure that the look and feel of the shops is consistently of good quality across the entire network.

***Financial risk management***

The Group and the Parent Company is exposed to a variety of financial risks, including market risk, credit risk and liquidity risk, as disclosed in Note xx to the financial statements.

***Outlook for 2020 and events subsequent to the financial reporting date***

On 11 March 2020, the World Health Organisation (WHO) declared the Coronavirus/COVID-19 outbreak to be a global pandemic. Around the world, many governments introduced unprecedented measures in efforts to contain and control the spread of the outbreak. In Malta, the authorities moved quickly and introduced measures that included the imposition of quarantine, self-isolation and travel restrictions, the closure of schools, universities and other academic/learning and care institutions, as well as ordering the shuttering of all bars, restaurants, clubs and gyms. Non-essential shops were also instructed to close and as of 21 March 2020 Malta International Airport was closed for all but a limited number of flights. Social distancing and 'stay at home' regulations were enacted. These measures have thus far successfully contained the number of infections and fatalities experienced on the Island.

In the face of the precipitous economic downturn and the threat of massive unemployment, governments have responded with co-ordinated stimulus measures, business support initiatives and employment protection programmes on a scale never witnessed before. Governments have also announced business loan and guarantee schemes and, given the exceptional nature of the crisis, are encouraging banks to grant temporary moratoria on interest and capital repayments on personal mortgages and business loans. It soon became apparent that what started as a public health emergency was very quickly becoming a serious economic crisis.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

---

Notwithstanding the unprecedented measures taken by governments as they struggled to combat the outbreak and to support businesses, jobs and the economy in general, the nature of COVID-19 and the consequent economic impact are causing great uncertainty. Notwithstanding the lifting of imposed restrictions that has started in May 2020, there is still great anxiety about how long it will take businesses, especially those operating in the aviation, entertainment and hospitality sectors to get to pre-COVID-19 levels of activity.

The Group has approached this crisis with a positive and strong sense of responsibility towards the Community by ensuring that all shops serve the general public in the best possible manner, ensuring that stocks of products are at the desired levels at all times and adhering to the highest health and safety requirements as imposed by the health authorities.

During this challenging time, the Group saw further opportunities for growing the retail business. During the first quarter of 2020, the Group opened two new outlets in Rabat and Bugibba. The Group will be continuing to invest with the opening of four new strategic outlets, starting with a new shop in St Paul's Bay in June, first 'Service Station' outlet in Gzira - Paul & Rocco Station in July. By end of August, the Group will then open their flag ship outlet in Dingli Street, Sliema and later on in Q4 another new outlet in the northern part of the island.

Furthermore, the Group strengthened the retail network and distribution capability with the launch of an online portal to enable people, especially the 'vulnerable' section of the Community, to shop from the comfort of their home and have the purchased products delivered within a 24-hour time window.

Management and the Board have revised the budgets for 2020 and financial forecasts for the subsequent two-year period 2021 and 2022 and have been examining a number of scenarios (including stressed scenarios) under which the impact of the current crisis on the businesses of the Group is being assessed. Management and the Board are pleased to note that as a result of the measures taken by the Group as partly explained earlier through the introduction of an online portal and the positive spill-over effect on customer spending on groceries as a result of closure of bars and restaurants, there is a reasonable expectation that the Group and the parent Company will keep registering good results in line or even better than originally planned.

Looking to the year ahead, while the economic environment remains uncertain, the Group is well positioned for the year ahead and beyond. The Group will continue to drive business with distinct strategies, to maximise profitability in order to deliver value for shareholders.



***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;
- account for income and charges relating to the accounting period on accrual basis;
- value separately the components of asset and liability items; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, Cap. 386. This responsibility includes designing, implementing and maintaining such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. 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 The Convenience Shop (Holding) plc for the period ended 31 December 2019 are included in the Annual Report 2019, which is 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.

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

- the financial statements give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2019, and of the financial performance and the cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the annual report includes a fair review of the development and performance of the business and the position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that the Group and the parent Company face.

### ***Dividends***

The impact of the COVID-19 pandemic and the outlook for 2020 creates a time of great uncertainty for the business and there is a lack of forward visibility concerning the recovery from the current crisis. At such times, the Board of Directors believes that a prudent approach is necessary when it comes to the declaration of dividends.

On 21 November 2019, the board of directors of The Convenience Shop Limited (C 87556) declared an interim net dividend of €350,000 in favour of the Company and the board of directors of The Convenience Shop (Management) Limited (C 87711) declared an interim net dividend of €350,000 in favour of the Company. Furthermore, The Convenience Shop Limited (C 87556) declared a final net dividend of €50,000 in favour of the Company during its annual general meeting held on the 15th June 2020, and The Convenience Shop (Management) Limited declared a final net dividend of €250,000 in favour of the Company during its annual general meeting also held on the 15th June 2020.

The Board is proposing the payment of a final net dividend of €700,000 for consideration at the forthcoming Annual General Meeting of the Company

### ***Going concern***

As at 31 December 2019, total assets exceeded total liabilities by €0.4 million. The Directors, at the time of approving the financial statements, have determined that there is reasonable expectation that the Group and the Parent Company have adequate resources to continue operating for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the financial statements. Reference is made to the outlook as explained earlier on for the financial period ending 31 December 2019 and events occurring after the statement of financial position date.

As required by Listing Rule 5.62, upon due consideration of the Company's profitability and statement of financial position, the Directors confirm the Company's ability to continue operating as a going concern for the foreseeable future.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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***Auditors***

RSM Malta, Certified Public Accountants, have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

Approved by the Board on 15 June and signed on its behalf by:



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Benjamin Muscat  
Chairman



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Charles Scerri  
Non-executive Director

**CORPORATE GOVERNANCE – STATEMENT OF COMPLIANCE**

for the period ended 31 December 2019

**Introduction**

The Prospects MTF Rules issued by the Malta Stock Exchange require qualifying companies admitted to Prospects MTF to observe relevant corporate governance standards, in this case the Code of Principles of Good Corporate Governance ("the Code").

The Board of Directors (the "Board" or the "Directors") of The Convenience Shop (Holding) plc (the "Company") acknowledges that although the Code does not dictate or prescribe mandatory rules, compliance with the principles of good corporate governance recommended in the Code is in the best interests of the Company, its shareholders and other stakeholders.

The Company's decision-making structure is designed to meet the Company requirements and to ascertain that decision making is subject to the checks and balances where this is appropriate.

**General**

Good corporate governance is the responsibility of the Board as a whole, and has been, and remains a priority for the Company. In deciding on the most appropriate manner in which to implement the Code, the Board took cognisance of the Company's size, nature and operations, and is of the opinion that the adoption of certain mechanisms and structures is proportionate to the scale of operations which the Company has.

The Board considers that, to the extent otherwise disclosed herein, the Company has generally been in compliance with the Code throughout the period under review.

This Statement shall now set out the structures and processes in place within the Company and how these effectively achieve the goals set out in the Code for the period under review. For this purpose, this Statement makes reference to the pertinent principles of the Code and then set out the manner in which the Board considers that these have been adhered to, and where it has not.

For the avoidance of doubt, reference in this Statement to compliance with the principles of the Code means compliance with the Code's main principles.

The Directors believe that for the financial period under review, the Company has generally complied with the requirements for each of the Code's main principles. Further information in this respect is provided hereunder.

***Principle One: The Company's Board of Directors***

The Directors report that for the financial period under review, the Directors have provided the necessary leadership in the overall direction of the Company and have performed their responsibilities for the efficient and smooth running of the Company with honesty, competence and integrity. The Board is composed of members who are fit and proper to direct the business of the Company with honesty, competence and integrity. All the members of the Board are fully aware of, and conversant with, the statutory and regulatory requirements connected to the business of the Company. The Board is accountable for its performance and that of its delegates to shareholders and other relevant stakeholders.

The Board has throughout the period under review adopted prudent and effective systems which ensure an open dialogue between the Board and senior management.

The Company has a structure that ensures a mix of executive and non-executive directors and that enables the Board to have direct information about the Company's performance and business activities.

***Principle Two: The Company's Chairman and Chief Executive***

The roles of the Chairman and the Chief Executive are held by separate individuals and the division of responsibilities are clearly established and agreed by the Board.

The Chairman exercises independent judgment and is responsible to lead the Board and set its agenda, whilst also ensuring that the directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the Company. The Chairman is also responsible for ensuring effective communication with shareholders and ensuring active engagement by all members of the Board for discussion of complex or contentious issues.

The Chief Executive reports regularly to the Board on the business and affairs of the Company and the Group and the commercial, economic and other challenges facing it. He is also responsible to ensure that all submissions made to the Board are timely, give a true and correct picture of the issue or issues under consideration, and are of high professional standards as may be required by the subject matter concerned.

Each subsidiary within the Group has its own management structure and accounting system and internal controls, and is governed by its own Board, whose members, are appointed by the Company. This provides sufficient delegation of powers to achieve effective management. The organisational structure ensures that decision making powers are spread wide enough to allow proper control and

reporting systems to be in place and maintained in such a way that no one individual or small group of individuals actually has unfettered powers of decision.

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***Principle Three: Composition of the Board***

The Board is composed of 6 members, with 3 executive and 3 non-executive Directors, with each member offering core skills and experience that are relevant for the successful operation of the Company. The non-executive Directors are independent from the Group. The Board is responsible for the overall long-term strategy and general policies of the Company, of monitoring the Company's systems of control and financial reporting and communicating effectively with the market as and when necessary.

The Board of Directors consists of the following:

- Benjamin Muscat – Chairman / Non-executive Director (appointed on 16 December 2018)
- Charles Scerri – Non-executive Director (appointed on 16 December 2018)
- Kevin Deguara – Non-executive Director
- Joseph Pace – Director
- Ivan Calleja - Director
- Manuel Piscopo - Director

In accordance with the provisions of the Company's Articles of Association, the appointment of Directors to the Board is exclusively reserved to the Company's shareholders, except in so far as appointment is made by the Board to fill a casual vacancy, which appointment would be valid until the conclusion of the next Annual General Meeting of the Company following such an appointment. In terms of the Articles of Association, a Director shall hold office without retirement until death or until they retire or are removed by the Company in accordance with Article 140 of the Companies Act, Cap. 386.

Mr. Benjamin Muscat and Mr. Charles Scerri are considered by the Board to be independent non-executive members of the Board.

None of the independent non-executive Directors:

- a) is or has been employed in any capacity with the Company and/or the Group;
- b) has or had a significant business relationship with the Company and/or the Group;
- c) has received significant additional remuneration from the Company and/or the Group;
- d) has close family ties with any of the Company's executive Directors or senior employees;
- e) has served on the Board for more than twelve consecutive years; or
- f) is or has been within the last three years an engagement partner or a member of the audit team of the present or former external auditor of the Company and/or the Group.

Each non-executive Director has declared in writing to the Board that he undertakes:

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

***Principle Four: The Responsibilities of the Board***

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for the Company's strategy and decisions with respect to the issue, servicing and redemption of its bond in issue, and for monitoring that its operations are in conformity with its commitments towards bondholders, shareholders, and all relevant laws and regulations. The Board is also responsible for ensuring that the Company establishes and operates effective internal control and management information systems and that it communicates effectively with the market.

Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the Company's expense.

The Board has also established an Audit Committee in terms of rule 4.01.01(d) of the Prospects MTF Rules as follows:

**The Audit Committee**

The Audit Committee's primary objective is to assist the Board in fulfilling its responsibilities: in dealing with issues of risk, control and governance; and review the financial reporting processes, financial policies and internal control structure. During the financial period under review, the Audit Committee met four times.

Although the Audit Committee is set up at the level of the Company its main tasks are also related to the activities of the Group.

The Board has set formal terms of establishment and the terms of reference of the Audit Committee that establish its composition, role and function, the parameters of its remit as well as the basis for the processes that it is required to comply with. The Audit Committee is a sub-committee of the Board and is directly responsible and accountable to the Board.

Furthermore, the Audit Committee has the role and function of scrutinising and evaluating any proposed transaction to be entered into by the Company and a related party, to ensure that the execution of any such transaction is at arm's length and on a commercial basis and ultimately in the best interests of the Company.

The Audit Committee is composed of 3 members:

- Charles Scerri – Chairman
- Benjamin Muscat – Member
- Ivan Calleja – Member

Mr. Charles Scerri and Mr. Benjamin Muscat are non-executive Directors and qualified accountants, who the Board considers as independent and competent in accounting.

#### **Internal Control and Risk Management Internal Control**

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. The Directors are aware that internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against normal business risks.

During the financial year under review the Company operated a system of internal controls which provided reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing the Company.

Other key features of the system of internal control adopted by the Company in respect of its own internal control as well as the control of its subsidiaries and affiliates are as follows:

#### ***Risk Identification, control and reporting***

The Board, with the assistance of the management team, is responsible for the identification and evaluation of key risks applicable to the areas of business in which the Company and its subsidiaries are involved. These risks are assessed on a continual basis with a view to control and mitigate where deemed necessary. Major risks applicable to their areas of business are reported upon on a monthly basis.

#### ***Information and communication***

Periodic strategic reviews which include consideration of long-term financial projections and the evaluation of business alternatives are regularly convened by the Board. An annual budget is prepared and performance against this plan is actively monitored and reported to the Board.



**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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In conclusion, the Board considers that the Company has generally been in compliance with the Principles throughout the period under review as befits a company of this size and nature. Non-compliance with the principles and the reasons therefor have been identified below.

***Reporting***

The Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties and reviews by management. On a monthly basis the Board receives a comprehensive analysis of financial and business performance, including reports comparing actual performance with budgets as well as analysis of any variances.

***Principle Five: Board Meetings***

The Directors meet regularly to dispatch the business of the Board. The Directors are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting Board papers, which are circulated in advance of the meeting. Minutes are prepared during Board meetings recording faithfully attendance, and resolutions taken at the meeting. The Chairman ensures that all relevant issues are on the agenda supported by all available information, whilst encouraging the presentation of views pertinent to the subject matter and giving all Directors every opportunity to contribute to relevant issues on the agenda. The agenda on the Board seeks to achieve a balance between long-term strategic and short-term performance issues.

The Board meets as often as frequently required in line with the nature and demands of the business of the Company. Directors attend meetings on a frequent and regular basis and dedicate the necessary time and attention to their duties as Directors of the Company. The Board met six times during the financial period under review.

***Principle Five: Board Meetings - continued***

The following Directors attended Board meetings as follows:

<b>Name</b>	<b>Designation</b>	<b>Number of Meetings</b>
Benjamin Muscat	Chairman/Non-executive Director	6 out of 6
Charles Scerri	Non-executive Director	6 out of 6
Kevin Deguara	Non-executive Director	6 out of 6
Joseph Pace	Director	6 out of 6
Ivan Calleja	Director	6 out of 6
Manuel Piscopo	Director	6 out of 6

***Principle Six: Information and Professional Development***

As part of succession planning and employee retention, the Board and Chief Executive ensure that the Company implements appropriate schemes to recruit, retain and motivate employees and senior management and keep a high morale amongst employees.

The Chief Executive, although responsible for the recruitment and selection of senior management, consults with the Board on the appointment of, and on a succession plan for, senior management.

Training (both internal and external) of management and employees is a priority, coordinated through the Company's Human Resources Department.

The Board has access to the advice and services of the company secretary who is responsible to the board for ensuring that board procedures are complied with, as well as for ensuring sound information flows between the Board and the Audit Committee.

***Principle Seven: Evaluation of the Board's Performance***

Under the present circumstances, the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the Board's performance is always under the scrutiny of the shareholders of the Company.

***Principle Eight: Remuneration and Nomination Committees***

The Board of Directors considers that the size and operation of the Company does not warrant the setting up of nomination and remuneration committee. The Company will not be incorporating a nomination committee. Appointments to the Board of Directors are determined by the shareholders of the Company in accordance with the company's Memorandum and Articles of Association. The Company considers that the members of the Board possess the level of skill, knowledge and experience expected in terms of the Code.

***Principles Nine and Ten: Relations with Bondholders and with the Market and Institutional Shareholders***

Pursuant to the Company's statutory obligations in terms of the Companies Act (Cap. 386 of the Laws of Malta), the Annual Report and Financial Statements, the election of Directors and approval of Directors' fees, the appointment of the auditors and the authorisation of the Directors to set the auditors' fees, and other special business, are proposed and approved at the Company's Annual General Meeting.

The Board is responsible for making relevant public announcements and for the Company's compliance with its continuing obligations in terms of the rules of Prospects MTF. With respect to the Company's

bondholders and the market in general, during the financial period under review, there were ten Company announcements issued to the market.

***Principle Eleven: Conflicts of Interest***

The Directors are strongly aware of their responsibility to act at all times in the interest of the Company and its shareholders as a whole and of their obligation to avoid conflicts of interest.

All of the Directors of the Company, except for Benjamin Muscat and Charles Scerri, are executive officers of the Company. The executive Directors, Kevin Deguara, Joseph Pace, Ivan Calleja and Manuel Piscopo, have a direct beneficial interest in the share capital of the Company, and as such are susceptible to conflicts arising between the potentially diverging interests of the shareholders and the Company. During the financial period under review, no private interests or duties unrelated to the Company were disclosed by the Directors which were or could have been likely to place any of them in conflict with any interests in, or duties towards, the Company.

If a Director has a continuing material interest that conflicts with the interests of the Company, he/she is obliged to take effective steps to eliminate the grounds for conflict. In the event that such steps do not eliminate the grounds for conflict then the Director should consider resigning.

***Principle Eleven: Conflicts of Interest - continued***

Moreover, the Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the Company. Furthermore, in accordance with the provisions of article 145 of the Companies Act (Cap. 386 of the Laws of Malta), every Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company is under the duty to fully declare his interest in the relevant transaction to the Board at the first possible opportunity and he will not be entitled to vote on matters relating to the proposed transaction and only parties who do not have any conflict in considering the matter will participate in the consideration of the proposed transaction (unless the Board finds no objection to the presence of such Director with conflict of interest).

***Principle Twelve: Corporate Social Responsibility***

The Company seeks to adhere to sound Principles of Corporate Social Responsibility in its management practices and is committed to enhance the quality of life of all stakeholders and of the employees of the Company and the Group.

The Board is mindful of the environment and its responsibility within the community in which it operates.

Since its origins, the Group chooses to recognise its social and environmental responsibilities by making Corporate Social Responsibility an important tool to mediate and achieve an optimum balance in responding to the different needs of the various stakeholders.

The Group is aware of its Corporate Social Responsibility and seeks to play an active role in supporting initiatives. The Group has supported Caritas, the Malta Community Chest Fund Foundation and has announced a new partnership with the Malta National Blood Transfusion Centre to provide nutritious post donation snacks to blood and platelet donors.

The Group has a retail outlet in Qormi with all profits being passed on to Puttinu Cares. The Group also:

- sponsors major charitable events on a national level,
- promotes the industrial heritage of the Maltese Islands,
- liaises with NGOs and the provision of employment opportunity for groups of people with a disability on a yearly basis, and
- supports employees needing support, rehabilitation, counselling and advice.

In carrying on its business, the Group is fully aware and at the forefront to preserving the environment and continuously review its policies aimed at respecting the environment and encouraging social responsibility and accountability.

***Non-Compliance with the Code***

As at the date hereof, the Board considers the Company to be in compliance with the Code except for the following:

***Principle Seven: Evaluation of the Board's Performance***

The Board has not appointed a committee for the purpose of undertaking an evaluation of the Board's performance in accordance with the requirements of Code Provision 7.1. The Board believes that the size of the Company and the Board itself does not warrant the establishment of a committee specifically for the purpose of carrying out a performance evaluation of its role. Whilst the requirement under Code Provision 7.1 might be useful in the context of larger companies having a more complex set-up and a larger Board, the size of the company's Board is such that it should enable it to evaluate its own performance without the requirement of setting up an ad-hoc committee for this purpose. The Board shall retain this matter under review over the coming year.

***Principle Eight: Committees***

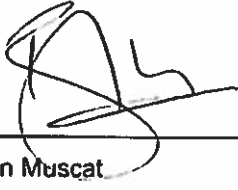
The Board considers that the size and operation of the Company does not warrant the setting up of nomination and remuneration committee in line with Code Provision 8A. The Board relies on the constant scrutiny of the Board itself, the company's shareholders, the market and the rules by which the Company is regulated as a listed company. In addition, the Board took into consideration the fact that the remuneration of the Board is not performance related. The Board intends to keep under review the utility and possible benefits of having a Remuneration Committee in due course.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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Appointments to the Board of Directors are determined by the shareholders of the Company in accordance with the company's Memorandum and Articles of Association. The Company considers that the members of the Board possess the level of skill, knowledge and experience expected in terms of the Code.

Approved by the Board on 15 June and signed on its behalf by:



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Benjamin Muscat  
Chairman



---

Charles Scerri  
Non-executive Director



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Zebbug ZBG 9015  
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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of The Convenience Shop (Holding) p.l.c.

Report on the audit of the financial statements

### **Opinion**

We have audited the accompanying financial statements of The Convenience Shop (Holding) p.l.c. ("the Company") and the consolidated financial statements of the Company and its subsidiaries (together "the Group"), set out on pages 27-56, which comprise the statements of financial position as at 31 December 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2019, and of their financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

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

### **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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and of the Group in accordance with the ethical requirements of both the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Code of Ethics for Warrant Holders in Malta. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The non-audited services that we have provided to the Group and its subsidiaries, in the period from 26 July 2018 to 31 December 2019 are disclosed in Note 6 to the financial statements.

## **INDEPENDENT AUDITORS' REPORT - continued**

### **Key Audit Matters**

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

#### *Business combinations*

As disclosed in Note 14 to the financial statements, the Group made several acquisitions which resulted in three subsidiaries and two associates. The Company acquired 100% ownership interest in Gbake Manufacturing Limited and Gbake Retail Limited together with an 80% interest in Daily Retail Challenges Limited. Further to these, the Company also acquired Seafront Express Limited and Aynic & Co Limited in which it has an ownership interest of 50%, but the Company can exercise control over these companies.

As part of the same transaction and overall restructuring, The Convenience Shop Limited and The Convenience Shop (Management) Limited acquired the business operations of companies engaged in the operation of various retail outlets under the brand "The Convenience Shop".

The Company and the Group accounted for such acquisitions in accordance with *IFRS 3 Business Combinations*, by performing a Purchase Price Allocation (PPA). The PPA is subject to significant directors' judgement and estimation in the following areas: (1) identification of intangible assets; (2) valuation of tangible and intangible assets; and (3) determination of the amortisation period for the identified intangible assets.

Through the use of an independent specialist, the directors performed the PPA and has identified Suppliers' agreement as intangible asset and also determined the resulting goodwill. Given that this is a non-routine and significant accounting transaction which involves judgement, we consider this to be a key audit matter for our audit.

In responding to the significant judgement involved, our audit procedures included reviewing the relevant acquisition agreements to obtain an understanding of the transaction and to confirm the consideration. We also engaged our internal valuation specialist to assess the appropriateness of the assets identified and the valuation methodology applied. We assessed and challenged the directors' judgement that there is no foreseeable limit to the period over which the identified indefinite useful life of the suppliers' agreements, as an intangible asset, will generate cash flows. We also considered the adequacy of the related disclosures in the notes to the financial statements.

#### *Impairment assessment of intangible assets with indefinite useful lives*

As disclosed in Note 14, the Group's goodwill and suppliers' agreements balance is €5.6 million and €3.1million, respectively. These intangible assets arose from the PPA exercise referred to in the preceding key audit matter.

In line with IAS 36, "Impairment of assets", the directors are required to assess whether the intangible assets with indefinite useful lives are potentially impaired.

The impairment assessment is subject to significant directors' judgement and estimation in the following areas (1) the selection of an appropriate impairment model to be used, in this case, the discounted cash flows model, (2) the assessment and determination of the expected cash flows (3) setting appropriate growth rates; and (4) selection of the appropriate discount rate.

In light of the significant directors' judgement we consider this to be a key audit matter for our audit.

## **INDEPENDENT AUDITORS' REPORT - continued**

### **Key Audit Matters - continued**

#### *Impairment assessment of intangible assets with indefinite useful lives - continued*

In responding to the significant judgement involved, our audit procedures included, assessing the appropriateness of the impairment model, assessing the reasonableness of the key assumptions employed in the valuation model, including the discount rate adopted with the help of our internal valuation specialist, and we challenged and evaluated key assumptions related to revenue projection.

#### *Inventory and sale of goods*

The business is characterized by fast movement of consumer goods and operates 32 shops around Malta. The inventory of the Group primarily consists of food, goods and other ancillary products that are sold through its retail outlets in the fast-moving consumer goods industry. The revenue and inventory processes are key drivers to the development of the business. We identified the accuracy and existence of the inventory and revenue as an area of higher risk of material misstatement and consequently, a key audit matter.

As at 31 December 2019, the Group's inventories amounted to €1.8 million, while revenue amounted to €35 million as disclosed in Notes 18 and 5 to the financial statements.

In responding to the risk identified, we obtained an understanding of the revenue cycle, inventory management processes and inventory count procedures. We assessed the design and implementation of the key controls over these processes. We were not able to take a control reliant audit approach on certain assertions due to weaknesses noted in the IT environment and inventory process. Where we noted deficiencies, we extended the scope of our substantive procedures.

Our audit procedures also included, but were not restricted to, observing inventory count procedures at selected shops and performing test counts. We traced our test counts to the inventory system to determine if the system reflects actual count results.

Analytical procedure on gross margin was performed by linking the margin against supplier agreements and selling prices, on a sample basis.

### **Other Information**

The directors are responsible for the other information. The other information comprises the directors' 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. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## **INDEPENDENT AUDITORS' REPORT - continued**

### **Other Information - continued**

Under Article 179(3) of the Companies Act (Cap. 386), we are required to consider whether the information given in the directors' report is compliant with the disclosure requirements of Article 177 of the same Act.

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

- the directors' report has been prepared in accordance with the Companies Act (Cap. 386);
- the information given in the directors' report for the financial period on which the financial statements had been prepared is consistent with those in the financial statements; and
- in light of our knowledge and understanding of the Company and the Group, and their environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

### **Responsibilities of the Directors and those charged with governance for the Financial Statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and the requirements of the 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 Company and 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 Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

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

### **Auditors' 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 auditors' 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 skepticism 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 and the Group's internal control.

## **INDEPENDENT AUDITORS' REPORT - continued**

### **Auditors' Responsibilities for the Audit of the Financial Statements - continued**

- 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 and 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company and/or 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

### **Report on Other Legal and Regulatory Requirements**

#### **Report on the Statement of Compliance with the Principles of Good Corporate Governance**

The Prospects MTF Rules issued by the Malta Listing Authority requires the directors to prepare and include in their Report a Statement of Compliance providing explanation of the extent to which they have adopted the Code of Principles of Good Governance and the effective measures that they have taken to ensure compliance throughout the period with those principles.

The Prospects MTF Rules also require the auditors to report on the Statement of Compliance prepared by the directors.

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

## **INDEPENDENT AUDITORS' REPORT - continued**

### **Report on Other Legal and Regulatory Requirements - continued**

### **Report on the Statement of Compliance with the Principles of Good Corporate Governance - continued**

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

In our opinion, the Statement of Compliance with the Principles of Good Corporate Governance has been properly prepared in accordance with the requirements of the Prospects MTF Rules issued by the Malta Listing Authority.

### **Other matters on which we have to report by exception**

We also have responsibilities:

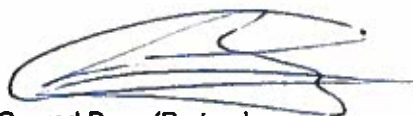
- Under the Companies Act, Cap. 386 to report to you if, in our opinion:
  - Adequate accounting records have been kept, or that returns adequate for our audit have been received from branches not visited by us.
  - The financial statements are not in agreement with the accounting records and returns.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

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

### **Appointment**

We were first appointed by the directors as auditors of the Company on 29 October 2019 for the financial period ended 31 December 2019.

*This copy of the audit report has been signed by*

A handwritten signature in blue ink, appearing to read 'Conrad Borg', written over a horizontal line.

**Conrad Borg (Partner)**  
*for and on behalf of*

**RSM Malta**  
Certified Public Accountants

15 June 2020

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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**STATEMENT OF COMPREHENSIVE INCOME**

		<u>Group</u>	<u>Company</u>
		26.07.18	26.07.18
		to	to
	Note	31.12.19	31.12.19
		€	€
Revenue	5	39,566,047	1,076,923
Cost of sales		<u>(33,529,781)</u>	-
<b>Gross profit</b>		6,036,266	1,076,923
Administrative expenses		<u>(3,638,208)</u>	<u>(46,198)</u>
<b>Operating profit</b>	6	2,398,058	1,030,725
Other income	8	327,037	-
Loss on acquisition of subsidiaries	14	(346,279)	-
Share in loss of an associate	16	(5,600)	-
Finance cost	9	(677,466)	(188,233)
Finance income	10	<u>813</u>	<u>244,329</u>
<b>Profit before tax</b>		1,696,563	1,086,821
Tax	11	<u>(969,095)</u>	<u>(396,557)</u>
<b>Profit for the financial period</b>		<u>727,468</u>	<u>690,264</u>
<b>Total comprehensive income for the period</b>		<u>727,468</u>	<u>690,264</u>
<b>Total comprehensive income for the period is attributable to:</b>			
Non-controlling interest		(46,458)	-
Owners of the Company		773,926	690,264
Earnings per share		14.55	13.81

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

**STATEMENT OF FINANCIAL POSITION**

As at 31 December

		<u>Group</u>	<u>Company</u>
	Note	2019	2019
		€	€
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	3,218,579	-
Intangible assets	14	8,973,282	-
Right-of-use asset	13	7,165,129	-
Investment in subsidiaries	15	-	219,809
Investment in associates	16	-	3,376
Loans receivable	17	-	4,267,318
Deferred tax asset	11	19,107	-
		<u>19,376,097</u>	<u>4,490,503</u>
<b>Current assets</b>			
Inventories	18	1,847,120	-
Trade and other receivables	19	2,804,911	794,843
Cash and cash equivalents	23	1,819,424	507,029
		<u>6,471,455</u>	<u>1,301,872</u>
<b>TOTAL ASSETS</b>		<u>25,847,552</u>	<u>5,792,375</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	20	50,000	50,000
Retained earnings		773,926	690,264
		<u>513,473</u>	<u>740,264</u>
Non-controlling interest		(123,492)	-
<b>TOTAL EQUITY</b>		<u>700,434</u>	<u>740,264</u>
<b>Non-current liabilities</b>			
Interest – bearing loans and borrowings	21	5,333,333	4,744,206
Lease liability	13	7,013,720	-
		<u>12,347,053</u>	<u>4,744,206</u>
<b>Current liabilities</b>			
Current tax payable	11	979,993	19,634
Interest – bearing loans and borrowings	21	4,261,568	250,000
Lease liability	13	442,721	-
Trade and other payables	22	7,115,783	38,271
		<u>12,800,065</u>	<u>307,905</u>
<b>TOTAL LIABILITIES</b>		<u>25,147,118</u>	<u>5,052,111</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>25,847,552</u>	<u>5,792,375</u>

The financial statements on pages 27 to 56 have been authorised for issue by the Board of Directors on 15 June 2020 and were signed on its behalf by:

  
**Benjamin Muscat**  
Chairman

  
**Charles Scerri**  
Non-executive Director

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

**STATEMENT OF CHANGES IN EQUITY**

<b>THE GROUP</b>	<b>Note</b>	<b>Share capital €</b>	<b>Retained earnings €</b>	<b>Non-Controlling interest €</b>	<b>Total €</b>
<b>Financial period ended 31 December 2019</b>					
Net assets acquired	14	-	-	(77,035)	(77,035)
Issuance of share capital		50,000	-	-	50,000
Total comprehensive income for the period					
- Profit for the financial period		-	773,926	(46,458)	727,468
<b>Balance at 31 December 2019</b>		<b>50,000</b>	<b>773,926</b>	<b>(123,492)</b>	<b>780,434</b>
<b>THE COMPANY</b>					
<b>Financial period ended 31 December 2019</b>					
Issuance of share capital		50,000	-	-	50,000
Total comprehensive income for the period					
- Profit for the financial period		-	690,264	-	690,264
<b>Balance at 31 December 2019</b>		<b>50,000</b>	<b>690,264</b>	<b>-</b>	<b>740,264</b>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

**STATEMENT OF CASH FLOWS**

	<u>Group</u>	<u>Company</u>
	26.07.18	26.07.18
	to	to
	31.12.19	31.12.19
Note	€	€
<b>Cash flows from operating activities</b>		
Receipts from customers	34,914,016	-
Payments to suppliers and employees	(28,347,533)	(1,179,693)
Other revenue	327,037	1,076,923
<b>Net cash flows from operating activities</b>	<u>6,893,520</u>	<u>(102,770)</u>
<b>Cash flows from investing activities</b>		
Acquisition of investments in subsidiaries	(346,279)	(219,809)
Acquisition of investments in associates	(5,600)	(3,376)
Acquisition of property, plant and equipment	(4,131,988)	-
Acquisition of intangible assets	(397,950)	-
Payments to acquire business	(8,743,926)	-
Proceeds from disposal of PPE	88,473	-
<b>Net cash flows used in investing activities</b>	<u>(13,537,270)</u>	<u>(223,185)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of share capital	50,000	50,000
Advances from ultimate beneficial owner	3,886,443	-
Proceeds from interest-bearing loan	714,252	-
Interest on borrowings	(25,924)	-
Proceeds from bond issuance	4,805,973	4,805,973
Loan issued to subsidiary	-	(4,022,989)
Payment of lease liability	(967,570)	-
<b>Net cash flows from financing activities</b>	<u>8,463,174</u>	<u>832,984</u>
<b>Net cash increase in cash and cash equivalents</b>	1,819,424	507,029
<b>Cash and cash equivalents at beginning of period</b>	-	-
<b>Cash and cash equivalents at end of period</b>	23 <u>1,819,424</u>	<u>507,029</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. INCORPORATION**

The Company was incorporated on 26 July 2018 under the terms of the Companies Act (Cap. 386) enacted in Malta. Accordingly, the financial statements cover the period from the date of incorporation to 31 December 2019.

On 1 September 2018, the Company acquired the equity interests of Daily Retail Challenges Limited ("DRC") (80%), Aynic & Co. Limited (50%), Seafront Express Limited (50%), GBake Manufacturing Limited (100%) and GBake Retail Limited (100%). Also during the period, the following subsidiaries, The Convenience Shop Limited, The Convenience (Management) Limited and The Convenience for Puttinu Cares Ltd were incorporated as part of the Group.

### **2. GENERAL INFORMATION**

The Convenience Shop (Holding) plc ("the Company") is a limited liability company incorporated in Malta with registration number of C 87554 and registered address at Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta.

The principal activity of the Company is to act as a holding company. The Company, together with its subsidiaries ("the Group") is engaged to operate in the fast-moving consumer goods industry and is engaged in the retailing of food, goods and other ancillary products through its shops located across Malta.

The ownership of the Company's share capital and voting rights is such that no particular individual or identifiable group of individuals may be deemed to exercise ultimate control over the Company.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of measurement and statement of compliance**

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Companies Act (Cap. 386) enacted in Malta.

The financial statements have been prepared under the historical cost basis.

The accounting policies set out below have been applied consistently throughout the period.

#### **Functional and presentation currency**

The financial statements are presented in Euro (€) which is the Company's and the Group's functional and presentation currency.

#### **New or revised standards, interpretations and amendments issued but not yet effective**

Several new or revised standards, interpretations and amendments were in issue and endorsed by the EU but are not yet effective for the current financial period. The Company has not early adopted the new or amended standards in preparing these financial statements. The directors anticipate that the adoption of the new standards, interpretations or amendments thereto, will not have a material impact on the financial statements upon initial application.



**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Basis of Consolidation**

The consolidated financial statements incorporate the assets and liabilities of all the subsidiaries of The Convenience Shop (Holding) plc and the results of all the subsidiaries for the period then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the 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.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

When the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Revenue from contracts with customers**

Revenue from contracts with customers is recognised at an amount that reflects the consideration to which the Company and the Group are expected to be entitled when the performance obligation is satisfied in a manner that depicts the transfer of control over the goods or services promised to the customer. A performance obligation may be satisfied either at a point in time or over time.

The consideration relates to the transaction price allocated to each performance obligation as defined in the contract with the customer. The transaction price reflects discounts, rebates, refunds granted to customers and excludes sales taxes, if any.

*Sale of goods*

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Tax**

The tax charge/(credit) in profit or loss normally comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period.

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised and/or sufficient taxable temporary differences are available. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The tax charge/(credit) in the profit or loss for the period normally comprises current and deferred tax.

**Property, plant and equipment**

An item of property, plant and equipment are initially measured at cost. Cost includes the purchase prices and other expenditures directly attributable to bringing the assets to the location and condition for its intended use. Subsequent expenditure relating to the assets is added to the carrying values of the assets when it is probable that future economic benefits associated with the asset, in excess of the originally assessed standards of performance, will flow back to the Company and the Group. All other subsequent expenditure is recognised in profit or loss.

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

	%
Improvements to premises	10
Plant and machinery	10
Office equipment	10 - 25
Motor Vehicles	20

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The effects of any revisions are recognised in profit or loss when the changes arise.

On disposal of an item of property, plant and equipment, the cost and related accumulated depreciation and impairment losses, if any, are derecognised and the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at fair value at the date of acquisition. Intangible assets acquired separately are initially measured at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill and suppliers' agreements*

Goodwill and suppliers' agreements arise on the acquisition of a business. These intangible assets are not amortised. Instead, these are tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses are taken to profit or loss and are not subsequently reversed.

The Group's other intangible asset pertains to key money. This represents expenditure associated with acquiring existing operating lease agreements for shops where there is an active market, or the shop is ready for its intended use.

The amortisation of key money is calculated on the straight-line method to write off the cost of each asset to its residual value over its estimated useful life of 2-14 years.

**Investment in subsidiaries**

Subsidiaries are all those entities over which the Company has control, i.e., when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Investment in subsidiaries are initially recognised at cost, being the fair value of the consideration given, including acquisition costs and are subsequently carried at cost less accumulated impairment losses, if any. Dividend income is recognised when the Company's right to receive payment is established.

**Investment in associates**

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are initially recognised at cost, including transaction costs. Subsequently, investments in associates are accounted for using the equity method, that is, the carrying amount is increased or decreased to recognise the Company's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Company.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has obligations or made payments on behalf of the associate.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Investment in associates - continued**

The Company determines whether there is objective evidence that the investment in associate undertaking is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate undertaking and its carrying value. The Company recognises the loss within the statement of comprehensive income.

Gains and losses arising from partial disposals or dilutions in investments in associates are recognised in profit or loss.

Investments in associates are derecognised when the Company loses significant influence. Any retained interest in the entity is remeasured at its fair value. The difference between the carrying amount of the retained investment at the date when significant influence is lost and its fair value is recognised in profit or loss.

**Impairment of non-financial assets**

The carrying amounts of the Company and the Group's non-financial assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

For the purpose of impairment assessment, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis, or on a Company basis, as a cash-generating unit (CGU), when the individual asset does not generate cash inflows that are largely independent of those from other assets in the Group to which the asset belongs. To determine the value-in-use, management estimates expected future cash flows from each CGU and determines a suitable discount rate in order to calculate the present value of those cash flows.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

A reversal of impairment loss for an asset is recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

**Inventories**

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are carried at the lower of cost and net realisable value (NRV). Cost is calculated using the first in first out (FIFO) method.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised when the Company and the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognised when they are extinguished, discharged, cancelled or expired.

*Financial assets*

Financial assets are classified at initial recognition in accordance with how they are subsequently measured, as follows:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income; and
- financial assets at fair value through profit or loss.

The Company and the Group's financial assets are mainly financial assets at amortised cost.

*Financial assets at amortised cost*

Financial assets at amortised costs are financial assets that are held within the business model whose objective is to collect contractual cash flows ("hold to collect") and the contractual terms give rise to cash flows that are solely payments of principal and interest.

On initial recognition, financial assets at amortised cost are recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Discounting is omitted where the effect of discounting is immaterial. Trade receivables without a significant financing component are measured at the transaction price as a practical expedient.

Financial assets at amortised cost are subsequently carried at amortised cost using the effective interest method less impairment losses, if any. Gain or losses are recognised in profit or loss when the asset is derecognised, modified, or impaired.

The Company's financial assets under this classification include loans receivable, trade and other receivables and cash and cash equivalents.

The Group's financial assets under this classification include loans receivable, trade and other receivables and cash and cash equivalents.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial instruments – continued**

*Impairment of financial assets*

The Company and the Group recognises an allowance for expected credit losses (ECLs) on financial assets that are measured at amortised cost.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company and the Group expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (lifetime ECL).

*Financial liabilities*

Financial liabilities are classified at initial recognition in accordance with how they are subsequently measured as follows:

- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit or loss.

The Company and the Group's financial liabilities are mainly financial liabilities at amortised cost.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost are initially recognised at fair value, net of transaction cost and are subsequently measured at amortised cost using the effective interest method. All interest-related charges under the interest amortisation process are recognised in profit or loss.

On derecognition, the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, are recognised in profit or loss.

The Company's financial liabilities under this classification include bonds payable, and trade and other payables.

The Group's financial liabilities under this classification include bonds payable, interest-bearing loans and borrowings, lease liability and trade and other payables.

*Offsetting of financial assets and financial liabilities*

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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Cash and cash equivalents**

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at banks, net of outstanding bank overdrafts.

**Equity**

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

**Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

*Right-of-use asset*

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

*Lease liability*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term and discounted at the Group's incremental borrowing rate of five percent (5%). The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Lease payments on short-term leases (i.e. leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Business combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interests in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all information possible to determine the fair value.

**Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.



**NOTES TO THE FINANCIAL STATEMENTS – continued**

**4. SIGNIFICANT JUDGEMENTS AND CRITICAL ESTIMATION UNCERTAINTIES**

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The directors have considered the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates. Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Company's 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 disclosure in terms of the requirements of IAS 1 *Presentation of Financial Statements*, except for the matters described below.

*Business combinations*

As discussed in Note 3, the Company and the Group accounted for acquisitions in accordance with *IFRS 3 Business Combinations*, by performing a Purchase Price Allocation (PPA). Through the use of an independent specialist, the directors performed the PPA and determined the resulting goodwill. Suppliers' agreements were identified by the directors as intangible assets acquired via business combination. The suppliers' agreements were valued as a group of assets in view that the nature of the supplier chain renders economies of scale fundamental to the business model. The value of these assets has been estimated based on directly attributable cash flows. The directors assessed that there is no foreseeable limit to the period over which the identified indefinite useful life of the suppliers' agreements, as an intangible asset, will generate cash flows.

*Impairment assessment of intangible assets with indefinite useful lives*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and suppliers' agreements have suffered any impairment, in accordance with the accounting policy stated in Note 3.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

**5. REVENUE**

	<u>Group</u>	<u>Company</u>
	26.07.18	26.07.18
	to	to
	31.12.19	31.12.19
	€	€
Dividend income	-	1,076,923
Sale of goods	34,999,084	-
Franchise income	1,066,156	-
Management fee income	811,258	-
Recharge income	634,593	-
Rebate income	1,631,813	-
Commission income	423,143	-
	<u>39,566,047</u>	<u>1,076,923</u>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**6. OPERATING PROFIT**

The operating profit is stated after charging:

	<u>Group</u>	<u>Company</u>
	26.07.18	26.07.18
	to	to
	31.12.19	31.12.19
	€	€
Staff costs (Note 7)	4,213,555	-
Directors' remuneration	-	22,000
Auditors' remuneration	26,300	8,000
Tax compliance services	3,400	600
Depreciation of property, plant and equipment (Note 12)	645,878	-
Depreciation of right of use asset (Note 13)	796,386	-
	<u>796,386</u>	<u>-</u>

**7. STAFF COSTS**

Staff costs incurred during the period were as follows:

	<u>Group</u>
	26.07.18
	to
	31.12.19
	€
Salaries and wages	3,950,056
Social security costs	255,211
Maternity fund contribution	8,288
	<u>4,213,555</u>

The average number of persons employed by the Group during the period was 224 employees.

**8. OTHER INCOME**

	<u>Group</u>
	26.07.18
	to
	31.12.19
	€
Commission income	86,572
Rental income	101,000
Recharges	260
Other income	139,204
	<u>327,036</u>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**9. FINANCE COSTS**

	<u>Group</u>	<u>Company</u>
	26.07.18	26.07.18
	to	to
	31.12.19	31.12.19
	€	€
Interest expense on bonds payable (Note 21)	188,233	188,233
Interest expense on bank loan (Note 21)	26,737	-
Interest expense on lease liability (Note 13)	462,496	-
	<u>677,466</u>	<u>188,233</u>

**10. FINANCE INCOME**

	<u>Group</u>	<u>Company</u>
	26.07.18	26.07.18
	to	to
	31.12.19	31.12.19
	€	€
Interest income from bank	813	-
Interest income from loans receivable (Note 17)	-	244,329
	<u>813</u>	<u>244,329</u>

**11. TAX**

The tax charged to profit or loss comprised of the following:

	<u>Group</u>	<u>Company</u>
	26.07.18	26.07.18
	to	to
	31.12.19	31.12.19
	€	€
Current tax charge	988,202	396,557
Deferred tax credit	(19,107)	-
	<u>969,095</u>	<u>396,557</u>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**11. TAX - continued**

The tax on the Company's and the Group's profit differs from the theoretical tax charge that would arise using the applicable tax rate in Malta of 35% as follows:

	<u>Group</u>	<u>Company</u>
	26.07.18	26.07.18
	to	to
	31.12.19	31.12.19
	€	€
Profit before tax	<u>1,696,563</u>	<u>1,086,821</u>
Theoretical tax credit at 35%	593,797	380,387
Disallowed formation expenses	16,169	16,170
Non-deductible expenses	325,924	-
Income at different tax rate	(63)	-
Difference between tax base and carrying amounts of property, plant and equipment	4,909	-
Absorbed tax losses	(6,769)	-
Absorbed capital allowances	(11,530)	-
Unutilised tax losses	46,658	-
	<u>969,095</u>	<u>396,557</u>

As at 31 December 2019, the Group had a potential deferred tax asset of €202,593 emanating from unabsorbed capital allowances, unutilised tax losses and differences in the carrying amount and tax base of fixed assets. This amount has not been recognised in the statement of financial position since the directors do not consider it prudent to recognise such asset.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Annual Report and Consolidated Financial Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**12. PROPERTY, PLANT AND EQUIPMENT**

<b>THE GROUP</b>	<b>Improvements to premises €</b>	<b>Plant and machinery €</b>	<b>Office equipment €</b>	<b>Motor Vehicles €</b>	<b>Total €</b>
<b>Cost</b>					
Assets acquired on business combination	1,599,582	955,447	225,078	40,258	2,820,365
Additions	738,292	399,379	160,952	13,000	1,311,623
Disposals	(47,975)	(26,883)	(13,616)	-	(88,473)
<b>Balance at 31 December 2019</b>	<b>2,289,899</b>	<b>1,327,943</b>	<b>372,414</b>	<b>53,258</b>	<b>4,043,514</b>
<b>Accumulated depreciation</b>					
Assets acquired on business combination	(25,508)	(131,728)	(8,850)	(19,203)	(185,589)
Release on disposals	3,764	1,762	1,006	-	6,532
Depreciation	(332,578)	(182,854)	(121,530)	(8,916)	(645,878)
<b>Balance at 31 December 2019</b>	<b>(354,622)</b>	<b>(312,820)</b>	<b>(129,374)</b>	<b>(28,119)</b>	<b>(824,935)</b>
<b>Carrying amount At 31 December 2019</b>	<b>1,935,277</b>	<b>1,015,123</b>	<b>243,040</b>	<b>25,139</b>	<b>3,218,579</b>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**13. LEASES**

The Group leases several properties which it operates as retail outlets. The terms of the leases range from 2 to 18 years commencing on 1 September 2019. Lease payments are subject to escalations.

The Group also has leases which it uses as a warehouse and an office space. The term of the lease is 8 years and 11 months commencing on 1 September 2018. Lease payments are subject to escalation of 3% every four years starting on 1 May 2019.

During the period, the Group also entered into a lease agreement for the use of a site measuring 1,400 square metres through temporary emphyteusis. The lease has a term of 65 years and lease payments are subject to escalation of 5% every 5 years.

***Right-of-use asset***

The carrying amount of the right-of-use asset recognised and the movements during the period are as follows:

	<u>Group</u>
	2019
	€
Adoption of IFRS 16 on lease commencement date	7,961,515
Less Accumulated depreciation	<u>(796,386)</u>
<b>Balance as at 31 December 2019</b>	<b><u>7,165,129</u></b>

***Lease liability***

The carrying amount of lease liability recognised and the movements during the period are as follows:

	<u>Group</u>
	2019
	€
Lease liability	7,456,441
Less current portion	<u>(442,721)</u>
<b>Lease liability: non-current</b>	<b><u>7,013,720</u></b>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**14. INTANGIBLE ASSETS**

<b>THE GROUP</b>	<b>Goodwill</b>	<b>Suppliers</b>	<b>Key</b>	<b>Total</b>
	<b>€</b>	<b>agreements</b>	<b>money</b>	<b>€</b>
	<b>€</b>	<b>€</b>	<b>€</b>	
<b>Cost</b>				
Assets acquired on business combination	5,567,244	3,099,647	280,334	8,947,225
Additions	-	-	117,616	117,616
<b>Balance at 31 December 2019</b>	<b>5,567,244</b>	<b>3,099,647</b>	<b>397,950</b>	<b>9,064,841</b>
<b>Accumulated amortisation</b>				
Assets acquired on business combination	-	-	(14,546)	(14,546)
Amortisation	-	-	(77,013)	(77,013)
<b>Balance at 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>(91,559)</b>	<b>(91,559)</b>
<b>Carrying amount At 31 December 2019</b>	<b>5,567,244</b>	<b>3,099,647</b>	<b>306,391</b>	<b>8,973,282</b>

*Business combinations*

On 1 September 2018, the Company acquired the equity interests of Daily Retail Challenges Limited ("DRC") (80%), Aynic & Co. Limited (50%), Seafront Express Limited (50%), GBake Manufacturing Limited (100%) and GBake Retail Limited (100%). The cost of acquisition exceeded the fair value of the subsidiaries and associates acquired resulting in a loss of €346,279 and is presented in the profit or loss.

As part of the same transaction and overall restructuring, The Convenience Shop Limited and The Convenience Shop (Management) Limited, also acquired the business operations of companies engaged in the operation of various retail outlets within the sector of retail selling of grocery and general consumer and household items under the brand "The Convenience Shop". This is pursuant to the Company's acquisition and management of the "The Convenience Shop" retail outlets. The total consideration paid for these acquisitions amounted to €11,813,974.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**14. INTANGIBLE ASSETS - continued**

Details of the acquisition are as follows:

	Fair value €
Cash	61,200
Trade and other receivables	326,495
Inventories	1,142,904
Loans receivable	93,909
Intangible assets	200,334
Property, plant and equipment	1,821,193
Trade and other payables	(289,992)
Loans payable	<u>(208,960)</u>
Net assets acquired	3,147,083
Suppliers' agreements	3,099,647
Goodwill	5,567,244
Purchase consideration	<u>11,813,974</u>

The book value of the assets and liabilities acquired was deemed by the directors to be representative of the fair value. Hence, there were no fair value adjustments.

The non-controlling interest as at acquisition date amounts to €77,035 which is deemed to be representative of its fair value.

Suppliers' agreements were identified by the directors as intangible assets acquired via business combination. The suppliers' agreements were valued as a group of assets in view that the nature of the suppliers' chain renders economies of scale fundamental to the business model. The value of these assets has been estimated based on directly attributable cash flows.

**15. INVESTMENT IN SUBSIDIARIES**

	Company	
	2019 %	2019 €
	<b>shareholding</b>	
<b>At cost:</b>		
The Convenience Shop Limited (Note i)	100	100,000
The Convenience Shop for Puttinu Cares Limited (Note ii)	99	1,199
The Convenience Shop Management Limited (Note iii)	100	1,200
Gbake Retail Limited (Note iv)	100	1,973
Gbake Manufacturing Limited (Note v)	100	114,477
Daily Retail Challenges (Note vi)	80	960
		<u>219,809</u>



**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**15. INVESTMENT IN SUBSIDIARIES**

During the period, the Company acquired the following:

- i. 1,200 ordinary shares with a nominal value of €1 each for a total consideration of €1,200. During the period, as part of the restructuring plan, the Company loaned the subsidiary the amount of €98,800. During the same period, the same amount was capitalised as a capital contribution.
- ii. 1,199 ordinary shares with a nominal value of €1 each for a total consideration of €1,199.
- iii. 1,200 ordinary shares with a nominal value of €1 each for a total consideration of €1,200.
- iv. 700 ordinary shares with a nominal value of €1 each for a total consideration of €1,969. During the same period, the Company acquired an additional 700 ordinary shares in the subsidiary for a total consideration of €4.
- v. 40,700 ordinary shares with a nominal value of €1 each for a total consideration of €114,473. During the same period, the Company acquired an additional 40,700 ordinary shares in the subsidiary for a total consideration of €4.
- vi. 960 ordinary shares with a nominal value of €1 each for a total consideration of €960.

The following summarizes the financial position and performance of the Company's subsidiaries as at and for the period ended 31 December 2019:

<b>Subsidiaries</b>	<b>Registered Office</b>	<b>Capital and reserves</b>	<b>Profit/(loss) for the period</b>
The Convenience Shop Limited	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	283,147	533,147
The Convenience Shop for Puttinu Cares Limited	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	(26,188)	(27,388)
The Convenience Shop (Management) Limited	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	508,565	867,365
Gbake Retail Limited	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	(63,960)	19,743
Gbake Manufacturing Limited	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	(2,561)	(18,633)
Daily Retail Challenges	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	(332,669)	(116,834)

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**16. INVESTMENT IN ASSOCIATES**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2019</b>	<b>2019</b>	<b>2019</b>
	<b>%</b>	<b>€</b>	<b>%</b>	<b>€</b>
	<b>shareholding</b>		<b>shareholding</b>	
<b>At cost:</b>				
Seafront Express Limited (Note i)			50	1,688
Aynic & Co. Limited (Note ii)			50	1,688
<b>At equity method:</b>				
GNJ Company Limited (Note iii)	50	5,000		
GNG Manufacturing Ltd (Note iv)	50	600		
		<u>5,600</u>		<u>3,376</u>

During the period, the Company acquired the following:

- i. 600 ordinary A shares with a nominal value of €1 each for a total consideration of €1,688 by virtue of a share transfer agreement. The Company exercises control over the associate.
- ii. 600 ordinary A shares with a nominal value of €1 each for a total consideration of €1,688 by virtue of a share transfer agreement. The Company exercises control over the associate.

The Group through the acquisition of Gbake Manufacturing Limited indirectly owns the following:

- iii. 5,000 ordinary shares with a nominal value of €1 each
- iv. 600 ordinary shares with a nominal value of €1 each

In both cases, the directors believe that the Group has significant influence but no control over the investees. Consequently, these are accounted for under the equity method as follows:

	<u><b>Group</b></u>
	<b>2019</b>
	<b>€</b>
Additions on business combination	5,600
Share of losses for the period	<u>(5,600)</u>
	<u>-</u>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**16. INVESTMENT IN ASSOCIATES**

The following summarizes the financial position and performance of the Company's associates as at and for the period ended 31 December 2019:

<b>Associates</b>	<b>Registered Office</b>	<b>Capital and reserves</b>	<b>Profit/(loss) for the period</b>
Seafront Express Limited	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	(57,933)	(1,626)
Aynic & Co. Limited	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	(180,780)	(136,141)
GNJ Company Limited	Marant Food Products, Mdina Road, Zebbug ZBG 9017, Malta	(247,837)	(257,837)
GNG Manufacturing Ltd (Note i)	37, Triq Dun Mikiel Xerri, Attard, Malta	68,038	121,211

- i. The capital and reserves and profit/(loss) for the year of GNG Manufacturing Ltd are based on the latest available management accounts dated 30 September 2018.

**17. LOANS RECEIVABLE**

	<u>Company</u> 2019 €
Loan to subsidiary	<u>4,267,318</u> <u>4,267,318</u>

On 27 March 2019, the Company entered into a loan facility agreement with The Convenience Shop Limited through which the balance of €4,900,000 was made available to the latter. An interest of 6.5% per annum shall accrue on a daily basis on the entire amount of the Loan Facility and shall be repayable annually in arrears. The utilised amounts shall be repayable on the expiration of the loan facility period i.e. the maturity date of the issued bond or the early redemption date if this option is exercised by the lender. The interest income during the period amounted to €244,329.

**18. INVENTORIES**

	<u>Group</u> 2019 €
Fast moving consumer goods	<u>1,847,120</u>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**19. TRADE AND OTHER RECEIVABLES**

	<u>Group</u>	<u>Company</u>
	2019	2019
	€	€
Trade receivables	423,804	-
Amounts owed by subsidiaries	-	68,744
Prepayments	62,983	-
VAT receivable	116,998	26,099
Other receivables	820,398	-
Term deposit	107,589	-
Deposits	2,432	-
Rebates receivable	806,358	-
Dividends receivable	-	700,000
Loans to third parties	13,353	-
Amounts owed by related parties	148,578	-
Amounts owed by an associate	77,418	-
Accrued income	225,000	-
	<u>2,804,911</u>	<u>794,843</u>

The amounts owed by subsidiaries, related parties and an associate are unsecured, interest-free and have no fixed repayment date.

**20. SHARE CAPITAL**

	<u>Group and</u>
	<u>Company</u>
	2019
	€
<b>Authorised</b>	
50,000 ordinary shares of €1 each	<u>50,000</u>
<b>Issued and fully paid up</b>	
50,000 ordinary shares of €1 each	<u>50,000</u>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**21. INTEREST-BEARING LOANS AND BORROWINGS**

	<u>Group</u>	<u>Company</u>
	2019	2019
	€	€
<b>Non-current</b>		
Bank loan (Note i)	589,127	-
Bonds payable (Note iii)	<u>4,744,206</u>	<u>4,744,206</u>
	<u>5,333,333</u>	<u>4,744,206</u>
<b>Current</b>		
Bank loan (Note i)	125,125	-
Loans payable to ultimate beneficial owners (Note ii)	3,886,443	-
Bonds payable (Note iii)	<u>250,000</u>	<u>250,000</u>
	<u>4,261,568</u>	<u>250,000</u>

- (i) The Group has the following bank loans:

The Convenience Shop Limited has the following two banking facilities:

- (i) €99,000 which is subject to 4.25% per annum and is to be repaid by no later than 30 November 2022.
- (ii) €40,000 which is secured by a general hypothec over the Company's assets and that of the related party. The rate of interest during the period was 5.4% and is to be repaid by no later than 31 December 2020.

Aynic & Co. Limited has a banking facility of €500,000 which is secured by a general hypothec over the Company's assets and by general and special hypothecs over assets of a shareholder and third parties. The rate of interest during the period was 3.50% and is to be repaid by no later than 19 July 2026.

Gbake Manufacturing Limited has a banking facility of €250,000 which is secured by a general hypothec of €250,000. The rate of interest during the period was 4.27% and is to be repaid by no later than 21 March 2024.

Gbake Retail Limited has a banking facility of €100,000 which is secured by a pledge on bank balances amounting to €40,000. The rate of interest during the period was 4.73% and is to be repaid by no later than 21 March 2024.

- (ii) The Convenience Shop Limited has loans payable to ultimate shareholders representing the unpaid consideration of shops acquired on 31 August 2018 and 31 October 2018. The loans are non-interest bearing and repayable on demand. The ultimate shareholders earmarked €2,238,878 of the loaned amount for capitalisation.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**21. INTEREST-BEARING LOANS AND BORROWINGS - continued**

- (iii) The Convenience Shop (Holding) plc issued bonds for an aggregate amount of €5,000,000 during the period ended 31 December 2019. The Bonds are subject to interest at the rate of 5% per annum and are repayable in full upon maturity on 8<sup>th</sup> March 2029 unless previously re-purchased and cancelled, or the Company exercises the option to redeem all or any part of the Bonds at their nominal value prior to the Redemption Date, between 8<sup>th</sup> March 2026 and 8<sup>th</sup> March 2029.

**22. TRADE AND OTHER PAYABLES**

	<u>Group</u>	<u>Company</u>
	2019	2019
	€	€
Trade payables – third parties	3,957,855	-
Trade payables – related parties	321,054	-
Amounts owed to related parties	1,041,815	-
VAT payables	25,743	-
Accruals	944,969	38,271
Other payables	824,347	-
	<u>7,115,783</u>	<u>38,271</u>

The amounts owed to related parties are unsecured, interest-free and have no fixed date of repayment.

**23. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash in hand and in banks, net of overdrawn bank balances. Cash and cash equivalents included in the statement of cash flow reconcile to the amounts shown in the statement of financial position as follows:

	<u>Group</u>	<u>Company</u>
	2019	2019
	€	€
Cash in hand	257,368	-
Cash at bank	1,786,246	507,029
Overdrawn bank balances	(224,190)	-
	<u>1,819,424</u>	<u>507,029</u>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

*The Group*

	Balance at 26.07.2018	Proceeds	Repayments	Non-cash adjustment	Capitalisation of bond issuance costs	Balance at 31.12.2019
	€	€	€	€	€	€
Issuance of share capital	-	50,000	-	-	-	50,000
Proceeds from cash advances from Ultimate Beneficiary owner	-	3,886,443	-	-	-	3,886,443
Proceeds from interest-bearing loan	-	714,252	-	-	-	714,252
Bonds payable	-	5,000,000	-	-	(194,027)	4,805,973
Payment of lease liability	7,961,515	-	(967,570)	462,496	-	7,456,441
	<u>7,961,515</u>	<u>9,650,695</u>	<u>(967,570)</u>	<u>462,496</u>	<u>(194,027)</u>	<u>16,450,613</u>

*The Company*

	Balance at 26.07.2018	Proceeds	Advances	Non-cash adjustment	Capitalisation of bond issuance costs	Balance at 31.12.2019
	€	€	€	€	€	€
Issuance of share capital	-	50,000	-	-	-	50,000
Loan issued to subsidiary	-	-	(4,511,647)	244,329	-	(4,267,318)
Bonds payable	-	5,000,000	-	-	(194,027)	4,805,973
		<u>5,050,000</u>	<u>(4,511,647)</u>	<u>244,329</u>	<u>(194,027)</u>	<u>588,655</u>

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**25. RELATED PARTY TRANSACTIONS**

The Company has related party relationships with companies over which there exists common control and directors exercise common control. Transactions are carried out with related parties on a regular basis and in the ordinary course of the business.

	<u>Group</u>
	26.07.18
	to
	31.12.19
	€
<b>Purchase of goods</b>	
GNJ Company Limited	659,918
Marant Food Products	<u>1,397,527</u>
	<u>2,057,445</u>
<b>Recharge income</b>	
GNJ Company Limited	<u>651</u>
<b>Commission income</b>	
GNJ Company Limited	<u>145,749</u>
<b>Amounts owed by related parties</b>	
CPZ Limited	148,578
GNG Manufacturing Ltd	<u>77,418</u>
	<u>225,996</u>
<b>Amounts owed to related parties</b>	
CPZ Management Ltd	<u>1,041,815</u>
<b>Borrowings</b>	
Ultimate Beneficial Owner	<u>3,886,443</u>

*Transactions within the Group*

During the period under review, The Convenience Shop Limited extended funds to various group companies for working capital purposes amounting to €744,952.

Also, The Convenience Shop (Management) Limited charged the group of companies for the following management fee and accounting fee services amounting to €786,506 and €37,200, respectively.



**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

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**NOTES TO THE FINANCIAL STATEMENTS – continued**

**26. RELATED PARTY TRANSACTIONS – continued**

	<u>Company</u>
	<u>26.07.18</u>
	to
	<u>31.12.19</u>
	€
<b>Dividend income</b>	
The Convenience Shop Limited	350,000
The Convenience Shop (Management) Limited	<u>350,000</u>
	<u>700,000</u>
<b>Interest income</b>	
The Convenience Shop Limited	<u>244,329</u>
<b>Amounts owed by subsidiaries</b>	
The Convenience Shop Limited	418,744
The Convenience Shop (Management) Limited	<u>350,000</u>
	<u>768,744</u>

The outstanding amounts arising from these transactions are disclosed in Notes 19, 21 and 22 to the financial statements.

**27. FINANCIAL RISK MANAGEMENT**

The Company's directors are responsible for managing the risks faced by the Group. This responsibility includes identifying, analysing, setting the appropriate risk limits and controls, and monitoring adherence to such limits and controls.

At period end, the Company's financial assets are comprised of financial assets at amortised cost namely loans receivable, trade and other receivables and cash and cash equivalents while the Group's financial assets at amortised cost comprise of loans receivables, trade and other receivables and cash and cash equivalents. At period end, there were no off-balance sheet financial assets.

At period end, the Company financial liabilities are comprised of financial liabilities at amortised cost namely bonds payable and trade and other payables while the Group's financial liabilities at amortised cost include bonds payable, interest-bearing loans and borrowings, lease liability and trade and other payables. At period end, there were no off-balance sheet financial liabilities except as disclosed in Note 21 to the financial statements.

The Company and the Group's financial instruments are exposed to market, credit and liquidity risks.

**Market risk**

Market risk is the risk that changes in market prices (e.g. foreign exchange rates, interest rates and equity prices) will affect the Company and the Group's income or the value of its holdings of financial instruments. The Company and the Group is exposed mainly to changes in interest rates.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**27. FINANCIAL RISK MANAGEMENT – continued**

**Market risk - continued**

*Interest rate risk*

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The directors manage interest rate risk by minimising variable-rate long-term borrowings.

The Group is exposed to changes in market interest rates through bank borrowings at variable interest rates. The Company's bonds payable are at fixed interest rates.

The Group's bank loans amounting to €714,252 are principal and interest payment loans. An official increase/decrease in interest rates of 100 basis points would have an adverse/favourable effect on profit before tax of €7,143 per annum.

**Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge its obligation to the Company or the Group.

Financial assets which potentially subject the Company and the Group to concentrations of credit risk consist of loans receivable, trade receivables and cash in banks. The maximum exposure to credit risk at the reporting date in respect of the recognised financial assets is the carrying amount disclosed in the statement of financial position and notes to the financial statements.

**Cash at Bank**

The credit risk relating to cash in banks is considered to be low in view of management's policy of placing it in reputable financial institutions.

**Trade receivables**

The Group's risk is managed through assessing the credit quality of its customers by taking into account the financial position, past experience and other factors and incorporating forward looking information such as economic conditions where the debtors operate and other macroeconomic factors affecting the ability of the customers to settle the receivables.

An impairment analysis is performed at each reporting date for these assets using the simplified approach to measure the allowance ECL on trade receivables. The Company determines the allowance for ECL by using a provision matrix as they possess shared credit risk characteristics, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

**Loans receivable**

The Group has adopted a 12-month ECL method to its loan receivable. As at 31 December 2019, the Board of Directors consider the probability of default to be zero given management's assessment of the counterparty's ability to meet its contractual obligations. Thus, no loss allowance has been recognised based on 12-month expected credit losses.

**THE CONVENIENCE SHOP (HOLDING) PLC**  
**Supplementary Statements - 31 December 2019**

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**27. FINANCIAL RISK MANAGEMENT – continued**

**Credit risk - continued**

The following table summarises the maximum exposure to credit risk arising from the Company's and the Group's financial assets:

	<u>Group</u>	<u>Company</u>
	2019	2019
	€	€
Cash in banks	1,819,424	507,029
Trade receivables	423,804	-
Loans receivable	-	4,267,318
	<u>2,243,228</u>	<u>4,774,347</u>

*Collateral*

The Company and the Group do not hold any collateral.

**Liquidity risk**

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes the risk that obligations cannot be met as and when they fall due.

The directors manage liquidity risk by maintaining adequate cash reserves and/or available borrowing facilities by continuously monitoring actual and forecast cash flows as well as the maturity profiles of financial liabilities.

The following table analyses the undiscounted contractual cash flows arising from the Group's and Company's financial liabilities.

*Group*

	Within 12 months	Between 1 to 5 years	More than 5 years	Total
Bonds payable (Note 21)	250,000	2,502,977	2,241,229	4,944,206
Bank loan (Note 21)	125,125	490,909	98,218	714,252
Loans payable to ultimate beneficial owners (Note 21)	3,886,443	-	-	3,886,443
	<u>4,261,568</u>	<u>2,993,886</u>	<u>2,339,447</u>	<u>9,594,901</u>

*Company*

	Within 12 months	Between 1 to 5 years	More than 5 years	Total
Bonds payable (Note 21)	250,000	2,502,977	2,241,229	4,944,206

During the period under review the Group entered into a number of lease arrangements resulting in an outstanding lease liability of €7,013,720 out of which €442,721 is repayable within the year.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**27. FINANCIAL RISK MANAGEMENT – continued**

**Fair value of financial instruments**

As at period end, the carrying amounts of the cash and cash equivalents, trade and other receivables and payables 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 non-current receivables and payables is not different from its carrying amount.

**Timing of cash flows**

The presentation of the financial assets and liabilities listed above under the current and non-current headings within the statement of financial position is intended to indicate the timing in which cash flows will arise.

**Capital risk management**

The capital structure of the Company and the Group consists of debt, which includes the borrowings disclosed in Note 21, and equity attributable to equity holders, comprising issued share capital and retained earnings as disclosed in Note 20 to these financial statements and in the statement of changes in equity.

The Company and the Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

**28. EVENTS AFTER THE END OF THE REPORTING PERIOD**

On 11 March 2020, the World Health Organisation (WHO) declared the Coronavirus/COVID-19 outbreak to be a global pandemic. Around the world, including Malta, governments introduced unprecedented measures to contain and control the spread of the outbreak. Notwithstanding the measures taken to combat the outbreak and to support businesses, jobs and the economy in general, the nature of COVID-19 and the consequent economic impact are causing great uncertainty.

The Group has approached the crisis with a positive and strong sense of responsibility towards the Community by ensuring that all shops serve the general public in the best possible manner, ensuring that stocks of products are at the desired levels at all times and adhering to the highest health and safety requirements as imposed by the health authorities.

Furthermore, the Group strengthened the retail network and distribution capability with the launch of an online portal to enable people, especially the 'vulnerable' section of the Community, to shop from the comfort of their home and have the purchased products delivered within a 24-hour time window.

Management and the Board are pleased to note that as a result of the measures taken by the Group including the introduction of an online portal and the positive spill-over effect on customer spending on groceries as a result of closure of bars and restaurants, there is a reasonable expectation that the Group and the parent Company will keep registering good results in line or even better than originally planned.