Summary of Significant Assumptions and Accounting Policies

A. Introduction

The forecast statement of financial position, the forecast statement of profit or loss, and the forecast statement of cash flows ("the Forecasts") of the Issuer for the year ending 31 December 2021 have been prepared to provide financial information for the purposes of the announcement of Financial Sustainability Forecasts. The assumptions set out below are the sole responsibility of the Directors of the Company.

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

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

These Forecasts were formally approved on the 26th April 2021 by the Directors, and the stated assumptions reflect the judgements made by the Directors at that date. The assumptions that the Directors believe are significant to the prospective financial information are described in Section C below.

B. Significant accounting policies

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

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

C. Basis of preparation and significant assumptions

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

- The Company will continue to enjoy the confidence of its customers, and bankers throughout the year under consideration;

- There will be no material adverse movements originating from market and economic conditions affecting the groceries market in Malta, consumer spending levels, employment and job growth, amongst others;

- The rate of inflation will be in line with historic trends;

- The basis and rates of taxation, direct and indirect, will not change materially throughout the year covered by the Forecast Financial Information; and

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

1. Revenue

- In 2021 revenue is expected to grow by 11% or €3.6 million over the previous year.

- Own store revenue is projected to be the major revenue factor of the Group, representing 93% of the total revenue. 1 new shop will be opened in 2021. The increase in revenue in 2021 is mainly driven by the full year trading of the shops opened in 2020 and, the new shop opened during the year.

- Franchise fee revenue is expected to grow further in 2021. The projections are based on the past trends of each store and new stores to open during the year.

- In addition to the opening of new shops, revenue growth is predominately driven by the optimisation of the product mix in the shops. This is a result of a comprehensive exercise conducted by the management to improve the effectiveness of the product mix, profit margins and the efficiency of the shops' available space. This will also lead to an increase in the average value of the chit size.

2. Cost of sales

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

3. Royalty fees

No royalty fees are projected as the Group acquired the Intellectual Property Rights (The Convenience Shop' trademark) from a related company during 2020.

4. Gross profit

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

Margins are kept constant throughout the projected year.

5. Own store overheads

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

6. Head office costs

Head office costs include mainly overheads such as sub-contracting, advertising, utilities and professional fees. These are based on historical costs and are projected to increase by 10.5% in 2021 to support the business operations.

7. Depreciation

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

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

8. Finance charges

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

9. Taxation

Tax is calculated at 35% of adjusted taxable profit before tax.

10. Plant and equipment

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

11. Intangibles

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

12. Net working capital

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

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

13. Shareholders' loans

The Group intends to repay the shareholders' loans amounting to €300k in 2021.

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

14. Debt

The projected debt relates to:

- The €5m bond issue, net of deferred bond issue costs; and
- €1.3 million worth of bank financing outstanding as at end 2021. The Group is planned to have a net increase in bank lending of €242k in 2021 (€450 new facility drawdowns and €208k repayments in line with agreed repayment schedules).

15. Accrued interest

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

16. Capital expenditure

Capital expenditure includes:

- Investment in the opening of new stores – it is estimated that an investment of €100k per new store opened is made.
- Improvements to the existing shops - refurbishment projects for upgrade and upkeep of shops are projected in line with the Group's shops policy standards; and
- Investments in ICT to maintain technology enhancements required by the Group.

17. Dividends

In line with the Company's Policy, dividends are projected using a dividend pay-out ratio of 60% of the profit after tax. The first part (50%) is paid as Interim dividend in same financial year whereas the remaining part (remaining 50%) is paid the following year.

D. Conclusion

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

Approved by the Board of Directors on the 26th April 2021.

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

		EUR 000s
	Audited	**Forecast**
	2020	**2021**
Revenue	32,916	36,521
Cost of Sales	(29,455)	(32,216)
Gross Profit	**3,461**	**4,305**
Administrative expenses	(2,285)	(2,526)
Operating profit	**1,175**	**1,779**
Other Income	631	493
Loss on acquisition of subsidiaries	-	-
Share in loss of an associate	-	-
Finance Charges	(762)	(801)
Profit Before Tax	**1,044**	**1,471**
Tax Charge	(506)	(607)
Profit After Tax	538	864

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

		EUR 000s
	Audited 2020	**Forecast 2021**
ASSETS		
Plant & Equipment	3,768	3,750
Intangible assets	13,491	13,403
Right of Use Assets	9,474	9,129
Deferred Tax	-	22
Total Non Current Assets	**26,732**	**26,305**
Inventory	2,470	2,495
Trade Receivables	3,363	3,582
Cash & Cash Equivalents	1,065	1,318
Total Current Assets	**6,899**	**7,396**
Total Assets	33,631	33,701
EQUITY AND LIABILITIES		
Share Capital	70	70
Retained Earnings	321	765
Total Equity	**2,579**	**3,023**
Non-Current Liabilities		
Interest Bearing Loans	5,595	5,844
Lease Liability	9,446	9,377
Total Non-Current Liabilities	**15,071**	**15,251**
Current Laibilities		
Current Tax	1,433	607
Interest Bearing Loans	452	445
Lease Liability	598	668
Trade Creditors	13,497	13,707
Total Current Liabilities	**15,981**	**15,427**
Total Equity & Liabilities	33,631	33,701

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

		EUR 000s
	Audit 2020	**Forecast 2021**
Cash flow from operating activities		
Receipts from customers	31,272	36,533
Payments to suppliers	(28,202)	(33,057)
Other revenue	630	262
Cash generated from operating activities	**3,700**	**3,737**
Income taxes paid	(4)	(1,433)
Interest paid	(36)	(42)
Net cash generated from / used in financing activities	**3,660**	**2,261**
Cash flows from investing activities		
Capital Expenditure	(1,249)	(463)
Proceeds from disposal of PPE	-	-
Sale / Purchase for Investment	-	-
Payments to acquire business	-	-
Net Cash used in Investing Activities	**(1,249)**	**(463)**
Cash flows from financing activities		
Issue of share capital	2,208	-
Proceeds from bond issuance	-	-
Proceeds from interest-bearing loan	338	242
Payment of lease liabilities	(975)	(1,117)
Movement in Shareholders Loans	(3,586)	-
Interest on bond issued	(250)	(250)
Dividends Paid	(900)	(421)
Net Cash Generated from Financing Activities	**(3,166)**	**(1,546)**
Movement in Cash and Cash Equivalents	**(754)**	**253**
Opening Cash & Cash Equivalent	1,819	1,065
Closing Cash and Cash Equivalents	1,065	1,318