The Convenience Shop (Holding) plc
C 87554
Marant Food Products, Mdina Road,
Zebbug, ZBG 9017, Malta

Financial Sustainability Forecasts

Summary of Significant Assumptions and Accounting Policies

A. Introduction

The forecast statement of financial position, the forecast statement of profit or loss, and the forecast statement of cash flows ("the Forecasts") of the Issuer for the year ending 31 December 2023 has been prepared to provide financial information for the purposes of the announcement of Financial Sustainability Forecasts. The assumptions set out below are the sole responsibility of the Directors of the Company.

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

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

These Forecasts were formally approved on 12 April 2023 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 2023 revenue is expected to grow by 9% or €3.7 million over the previous year as a result of an increase in own store revenue and new shop openings.

2. Cost of sales

Cost of sales is projected as the difference between revenue and gross profit. Cost of Sales includes, cost of goods sold, labour cost and depreciation charges. 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

The assumptions underlying the gross profit calculation is explained in Note 4 below.

3. Royalty fees

The Group acquired the Intellectual Property Rights (The Convenience Shop' trademark) from a related company during previous years and hence, does not pay royalty fees to related parties. The Parent Company charges royalty fees to its subsidiaries which has a nil effect on consolidation of results.

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. Administrative Expenses

Administrative expenses include mainly overheads such as advertising and promotion, repairs and maintenance, utilities, IT expenses, professional fees, CSR activities, staff costs, shop consumables and other charges. These are based on historical costs and are projected to increase by 13% in 2023 to support the business operations.

6. 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.

7. Taxation

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

8. Plant and equipment

Plant and equipment include office equipment, furniture and fittings, plant and machinery, motor vehicles and tools. These are depreciated using the straight-line method as explained in Note 2.

9. Intangibles

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

10. 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.

11. Debt

The projected debt relates to:

- The €5 million bond issue, net of deferred bond issue costs; and
- €882k outstanding loan balances from prior year banking facilities. The Company is also envisaged to apply for a new banking facility of €750k to finance new capex in 2023.

12. 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.

13. Capital expenditure

Capital expenditure includes:

- Improvements to the existing shops - refurbishment projects for upgrade and upkeep of shops are projected in line with the Group’s shops policy standards; and
- Investments in ICT to maintain technology enhancements required by the Group.
- Investment in the Company's new head office and underlying outlet project.

14. Dividends

The Company’s Board of Directors has implemented a policy to recommend a dividend distribution of 55% of the recurring free cash flow on an annual basis, subject to statutory requirements and availability of profits for distribution. The first part based on the interim results is paid as an Interim dividend in the same financial year whereas the remaining part is paid the following year following the publication of the full year audited results.

D. Conclusion

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

Approved by the Board of Directors on 12 April 2023.

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

		EUR 000s
	Audited	Forecast
	2022	2023
Revenue	42,431	46,088
Cost of Sales	(36,367)	(39,545)
Gross Profit	6,064	6,544
Administrative expenses	(3,026)	(3,418)
Operating profit	3,038	3,126
Other Income	396	633
Gain on disposal of subsidiaries	131	-
Finance Charges	(972)	(857)
Profit Before Tax	2,592	2,902
Tax Charge	(672)	(826)
Profit After Tax	1,920	2,076

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

	Audited 2022	Forecast 2023
		EUR 000s
ASSETS		
Plant & Equipment	3,624	4,564
Intangible assets	13,467	13,465
Right of Use Assets	8,789	9,914
Total Non Current Assets	25,880	27,943
Inventory	3,160	3,563
Trade Receivables	3,366	3,703
Cash & Cash Equivalents	1,211	2,415
Total Current Assets	7,737	9,681
Total Assets	33,617	37,624
EQUITY AND LIABILITIES		
Share Capital	4,768	4,768
Share Premium	729	729
Retained Earnings	2,164	2,890
Total Equity	7,661	8,387
Non-Current Liabilities		
Interest Bearing Loans and borrowings	5,706	6,318
Lease Liability	9,169	10,538
Deferred tax liability	156	196
Trade & Other Payables	352	224
Total Non-Current Liabilities	15,383	17,277
Current Liabilities		
Current Tax	153	385
Interest Bearing Loans and borrowings	138	198
Bank overdraft	10	-
Lease Liability	741	894
Trade & Other Payables	9,531	10,484
Total Current Liabilities	10,573	11,961
Total Equity & Liabilities	33,617	37,624

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

		EUR 000s
	Audited 2022	Forecast 2023
Cash flow from operating activities		
Receipts from customers	41,877	45,752
Payments to suppliers	(36,810)	(40,165)
Other revenue	396	633
Income taxes paid	(1,914)	(750)
Net cash flows generated from operating activities	3,548	5,469
Cash flows from investing activities		
Capital Expenditure	(588)	(1,800)
Acquisition of Intangible assets	(222)	(150)
Payments to acquire business	(10)	-
Net cash flows used in Investing Activities	(820)	(1,950)
Cash flows from financing activities		
Repayments / Proceeds from interest-bearing loan	(141)	672
Payment of lease liabilities	(1,192)	(1,250)
Movement in Shareholders Loans	(494)	(40)
Interest paid	(441)	(337)
Dividends Paid	(625)	(1,350)
Net cash flows used in Financing Activities	(2,892)	(2,305)
Net cash (decrease) / increase in cash and cash equivalents	(165)	1,214
Cash and cash equivalents at beginning of year	1,366	1,201
Cash and cash equivalents at end of year	1,201	2,415