

Class Finance plc

UBT 13/14, San Gwann Industrial Estate,
San Gwann SGN 3000, Malta

Dear Sirs,

Independent Accountant's Report on the compilation of forecast financial information for Class Finance plc.

We report on the forecast statement of financial position, forecast income statement and forecast cash flow statement ("the Forecast Financial Information") of Class Finance plc (the "**Company**") for the four financial years ending 31 December 2021, 2022, 2023 and 2024 (FY21, FY22, FY23 and FY24). The Forecast Financial Information, the basis of preparation and the material assumptions upon which the forecasts are based, are set out in the "Summary of significant assumptions and accounting policies".

This report is required in terms of Appendix 4.7 (4) in the Prospects MTF Rules issued by the Malta Stock Exchange dated October 2021 and is given for the purpose of complying with that regulation and for no other purpose.

Directors' responsibilities for the forecast financial information

It is the responsibility of the Directors of the Company ("the **Directors**") to prepare the Forecast Financial Information and the assumptions upon which it is based, as set out in the "Summary of significant assumptions and accounting policies" in Schedule 4 of the Company's Admission Document, in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Accountant's responsibility

It is our responsibility to form an opinion as required by Appendix 4.7 (4) in the Prospects MTF Rules as issued by the Malta Stock Exchange as to the proper compilation of the Forecast Financial Information, in so far as the application of the underlying assumptions and accounting policies and accuracy of calculations are concerned, and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addresses, to the fullest extent permitted by law, we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with our statement, required by and given solely for the purposes of complying with the Prospects MTF Rules.

Basis of Opinion

We have examined the basis of compilation and material assumptions of the accompanying Forecast Financial Information of the Company for the years ending 31 December 2021, 2022, 2023 and 2024 in accordance with ISAE 3000 "Assurance Engagements Other than Audits and Reviews of Historical Financial Information". Our work included evaluating the basis on which the financial information included in the forecast has been prepared and considering whether the Forecast Financial Information has been accurately computed based upon the disclosed assumptions and the accounting policies of the Company.

The assumptions upon which the Forecast Financial Information is based is solely the responsibility of the Directors of Class Finance p.l.c. and accordingly we express no opinion on the validity of the assumptions. However, we considered whether anything came to our attention to indicate that any of the assumptions adopted by the Directors, which, in our opinion, are necessary for the proper understanding of the Forecast Financial Information, have not been disclosed and whether any material assumption made by the Directors appears to us to be unrealistic.


We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Forecast Financial Information has been properly compiled on the basis stated, in so far as the application of the underlying accounting policies and accuracy of calculations are concerned.

The Forecast Financial Information is not intended to, and does not provide all the information and disclosures necessary to give a true and fair view of the results of the operations and the financial position of the Issuer in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs).

Since the Forecast Financial Information and the stated assumptions related to the future and may therefore be affected by unforeseen events, we express no opinion as to whether the actual results reported will correspond to those shown in the Forecast Financial Information and difference may be material.

Opinion

In our opinion, the forecast financial information presented in Schedule A has been properly compiled in the basis stated and the basis of accounting used is consistent with the accounting policies to be adopted by Class Finance p.l.c.



Mr. Alexander Micallef
In the name and on behalf of
Griffiths + Associates Ltd
Certified Public Accountants
Level 1, Casal Naxaro,
Labour Avenue,
Naxxar, NXR9021, Malta

Date: 28th December 2021

Schedule A

Projected Consolidated	Forecast	Forecast	Forecast	Forecast
Income Statement	2021	2022	2023	2024
	€'000	€'000	€'000	€'000
Revenue	8,110	8,514	8,716	8,899
Cost of sales	(4,405)	(4,664)	(4,747)	(4,848)
Gross profit	3,705	3,850	3,970	4,051
Other income	228	230	232	233
Direct overheads	(1,356)	(1,392)	(1,490)	(1,516)
Indirect overheads	(1,271)	(1,288)	(1,290)	(1,308)
EBITDA	1,307	1,401	1,422	1,461
Depreciation	(459)	(440)	(432)	(433)
Finance costs	(144)	(260)	(251)	(242)
Profit before tax	704	701	738	785
Taxation	(265)	(258)	(263)	(278)
Profit after tax	439	443	475	507

% Gross profit margin	46%	45%	46%	46%
% EBITDA margin	16%	16%	16%	16%
% PBT margin	9%	8%	9%	9%
Interest cover	9.08	5.39	5.66	6.04

Note: Totals may not tally due to rounding

Projected Statement of Financial

	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Position	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>
	€'000	€'000	€'000	€'000

ASSETS

Non-current assets

Property, plant & equipment	5,621	5,271	4,944	4,562
Investment in joint ventures	17	17	17	17
Total non-current assets	5,639	5,288	4,961	4,579

Current assets

Inventory	2,459	2,466	2,472	2,483
Receivables	4,000	4,168	4,013	4,099
Bank & cash	1,092	1,582	2,061	2,165
Total current assets	7,551	8,215	8,546	8,746

TOTAL ASSETS	13,190	13,503	13,507	13,325
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EQUITY & LIABILITIES

Equity

Share capital	373	373	373	373
Reserves	5,335	5,558	5,812	6,081
Total equity	5,708	5,931	6,185	6,454

Long term liabilities

Bond	3,000	3,000	3,000	3,000
Deferred tax	76	76	76	76
Lease liability	2,155	1,985	1,812	1,631
Bank loans	151	61	-	-
Total long-term liabilities	5,382	5,122	4,887	4,707

Current liabilities

Payables	1,786	2,116	2,125	1,904
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Projected Statement of Financial Position (continued)	<i>Forecast 2021</i>	<i>Forecast 2022</i>	<i>Forecast 2023</i>	<i>Forecast 2024</i>
	€'000	€'000	€'000	€'000
Corporate tax	65	71	75	79
Bank loans and overdraft	90	90	61	-
Lease liability	160	170	174	181
Total current liabilities	2,100	2,450	2,435	2,164
 TOTAL EQUITY & LIABILITIES	 13,190	 13,503	 13,507	 13,325

Note: Totals may not tally due to rounding

Projected Consolidated	Forecast	Forecast	Forecast	Forecast
Cash Flow Statement	2021	2022	2023	2024
	€'000	€'000	€'000	€'000
EBITDA	1,030	1,401	1,422	1,461
Movements in working capital	301	137	142	185
Taxation	(279)	(287)	(301)	(313)
Operating cash flows	1052	1,250	1,263	1,333
Capital expenditure	(1,946)	(98)	(118)	(53)
Investing cash flows				
Bank loan	(314)	-	-	-
Bond proceeds	3,000	-	-	-
Bond Issue Expenses	(128)	(23)	(23)	(23)
Bond Interest	-	(135)	(135)	(135)
Loans to group companies	(900)	-	-	(500)
Dividends	(310)	(220)	(221)	(238)
Financing cash flows	1,348	(378)	(379)	(896)
Net cash movements	454	774	766	384
Cash brought forward	638	1,092	1,582	2,061
Cash carried forward	1,092	1,582	2,061	2,165

Note: Totals may not tally due to rounding

Summary of Significant Assumptions and Accounting Policies

A. Introduction

The forecast statement of financial position, the forecast income statement, and the forecast statement of cash flows (the “**Forecasts**”) of the Issuer for the period ending 31 December 2021 and the year ending 31 December 2021 have been prepared to provide financial information for the purposes of inclusion in the Company’s Admission Document. Together with the forecast, the Issuer is presenting the audited consolidated statement of financial position for the year ended 31 December 2020, a reconciliation between the consolidated financial statements for the year ended 31 December 2020 prepared using GAPSME and converted to IFRS, and interim financial information for the period ended 30 June 2021. The Proforma Financial Information as presented in this Annex, together with 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.

The forecast statement of financial position, the forecast income statement, and the forecast statement of cash flows were formally approved on 28th December 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 Class Finance plc (the “**Company**”) 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 period under consideration;
- There will be no material adverse movements originating from market and economic conditions affecting the retail market in Malta following a possible end to the COVID-19 pandemic, 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
- The Company will enjoy good relations with its employees throughout the period 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

- Revenues for FY2021 are expected to surpass FY2019 by approximately 5%. It is assumed that COVID-19 will not have significant impact to the business unlike what happened in FY2020. Revenues are expected to grow from FY2022 onwards.
- Own store revenues are projected on a per store basis based on past trends, growth reported during FY2019 and an inflationary growth rate of 2% p.a. after stabilisation.
- Revenue from the manufacturing side is expected to keep on increasing year on year due to planned exports and growth in Malta's population.
- Revenue from the B2B distribution is expected to remain constant with an inflationary growth rate of 2% p.a. after stabilisation.

2 Cost of Sales

Cost of sales is projected as the difference between revenue and gross profit. The assumptions underlying the gross profit calculation. The wages and salaries of the personnel involved in the manufacturing are included within the cost of sales. It is forecasted that wages will keep on increasing year on year.

3 Gross Profit

- Gross profit is projected using actual gross margins reported by the current revenue sectors.
- Margins are kept constant throughout the projected period

4 Other Income

- Other Income is projected to be average around the EUR 245k annually from FY2021 onwards.
- Other Income mainly consists of a management fee payable for two stores which are not owned by the Company but managed by the Company through Vision Opticians Ltd and other contributions payable by the suppliers annually
- For FY2020, the Company was entitled to the Wage Supplements payable by Malta Enterprise and these have been categorised as 'Other Income'

5 **Direct Overheads**

- Direct Overheads includes the expenses which are directly attributed to the business generating business unit including wages and salaries.
- Direct Overheads are forecasted on FY2019 and the additional commitments carried out in FY2020. It is expected that the direct overheads will increase year on year especially the wages and salaries of the personnel.

6 **Indirect Overheads**

- Indirect Overheads consists mainly of the management fee being charged by Class Holding Ltd which is the management company of the group offering administrative services to the various subsidiaries of the whole group and other administrative costs which cannot be categorized to one particular business generating business unit.

7 **Depreciation**

- Depreciation is calculated on a straight-line basis in order to allocate the cost of the assets over their estimated useful lives. IFRS 16 requires that all lease obligations are treated similarly to a finance lease by the lessee. As a result the Company will be required to book a lease liability and recognise a right-of-use asset in relation to the lease agreement with INDIS Malta Ltd (the "Lease Agreement"). The Net Present Value of future obligations under the Lease Agreement is estimated to be €354,814. The right-of-use asset and the value of improvements rendered to the leasehold property (i.e. the value of the factory) are amortised and depreciated on a straight line basis over the remaining lease period. The following useful life estimates are used to depreciate the remaining asset classes:

- Computers, electronics and equipment: 5 years;
- Furniture, fixtures, fittings and soft furnishings: 10 years;
- Electrical and plumbing installation: 20 years;
- Lifts: 10 years;
- Air conditioners: 10 years;
- Other Plant: 10 years

8 **Finance Costs**

Forecast finance costs include:

- Interest costs associated with an existing COVID loan with principal balance of €300k that is contracted for at a variable interest rate. The loan is expected to be paid in full in FY2021. No further bank interest is projected throughout this period being projected;

- Interest costs associated with the bond are taken to be equal to the annual coupon cost on the planned bond of €3m, which are calculated using a rate of 4.5%; •
- Finance costs also includes the deemed interest expense on the present value of future lease obligations due under the Lease Agreement in accordance with IFRS 16.

9 Finance Income

The company plans to invest some of the cash balances which it will hold throughout the terms of the bond in low-risk financial instruments with a guaranteed capital return.

10 Working Capital

The following working capital assumptions have been utilised to forecast the business' working capital requirements:

- Day's receivable outstanding of 100 days;
- Day's inventory outstanding of 180 days;
- Day's payable outstanding of 80 days

11 Revaluation Reserve

Following the completion of the factory and office, the Company plans to revalue the Leased Property at its market value in accordance with IAS36. The Revaluation Reserve is projected to amount EUR 1,476,356 which is the gain on the revaluation of property, plant and equipment based on the architect's valuation report which valued the factory and office at €3.4m.

12 Capital Expenditure

The cashflow for FY2020 and FY2021 include capital expenditure related to the refurbishment of the factory and office at San Gwann Industrial Estate. In total such works are anticipated to amount to EUR 2.36 million.

13 Dividends

Dividends are projected using a dividend pay-out ratio amounting to 50% of the profits after tax.