

FOOD CHAIN LIMITED

Annual Report and Financial Statements
31 January 2023

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Directors' report

The directors present their report and the audited financial statements for the year ended 31 January 2023.

Principal activities

The company's principal function, is the operations of Kentucky Fried Chicken® outlets, Burger King® outlets, and Pizza Hut® and Boost Juice® outlets in Malta.

Review of the business

FY 2023 saw the beginning of a steady economic recovery from the effects of the COVID-19 pandemic, with all restrictions being slowly lifted during the second half of 2022, number of tourist arrivals slowly picked up but remained below the pre COVID-19 levels. The easing of the COVID-19 related pressures was met with a combination of economic aftershocks particularly the emergence of inflationary pressures and the disruption of supply chain. This evolving market scenario saw the Company generate a turnover of €21.8 million increasing by 38% compared to previous year whilst a significant reduction in profit margins was registered. Apart from the non-recurrence of the wage supplement recorded in FY 2022, the increase in labour shortage and associated increase in costs together with the substantial increase in the costs related to imported products led to a reduced profit before tax of €693,815 as compared to €1,580,370 the previous year.

During the year, the company launched the Australian smoothie franchise chain, Boost Juice Bars through the opening of three outlets in Sliema, Gzira and the University Campus Hub. Further investments were undertaken with the relocation of the KFC Gzira outlet, and the opening of two outlets at the University Campus Hub one for Burger King and one for Pizza Hut.

At the end of this financial year, the total number of outlets operated by Food Chain amount to twenty.

Outlook for financial year 31 January 2024

The Board of Directors together with management will continue to monitor the rising cost base of the operations in this highly inflationary market in order to manage turnover and profitability growth from all outlets. Further investments in existing outlets will be undertaken during the next financial year.

Going concern basis

After making enquiries, the Directors, at the time of approving the financial statements, have determined that there is reasonable expectation that the Company has 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.

Financial risk management

The company's activities expose it to a variety of financial risks, including market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Refer to Note 2 in these financial statements.

Results and dividends

The income statement is set out on page 12. The directors do not recommend the payment of a dividend.

Directors' report - continued

Directors

The directors of the company who held office during the year were:

Mr. Norman Aquilina
Mr. Dominic Borg
Mr. Matthew J. Marshall
Ms. Anne Marie Tabone
Mr. Jan Zammit
Mr. Neil Psaila (appointed on 1 August 2022)

In accordance with the company's Memorandum and Articles of Association, all the directors retire and being eligible, offer themselves for re-election.

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 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 the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, Legal Notice 289 of 2015;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining 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, and that comply with the Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report - continued

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board



Norman Aquilina
Chairman

Registered office:
303, Qormi Road
Marsa
Malta

10 May 2023



Anne Marie Tabone
Director



Independent auditor's report

To the Shareholders of Food Chain Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of Food Chain Limited as at 31 January 2023 and of the Company's financial performance and cash flows for the year then ended in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-sized Entities) Regulations, 2015 and the Schedule accompanying and forming an integral part of those Regulations (GAPSME); and
- the financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

Food Chain Limited's financial statements, set out on pages 10 to 32, comprise:

- the statement of financial position as at 31 January 2023;
- the income statement[s] for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.



Independent auditor's report -continued

To the Shareholders of Food Chain Limited

Other information

The Directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

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, 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.

Responsibilities of the directors for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with GAPSME and the requirements of the Maltese 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'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 or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.



Independent auditor's report - continued

To the Shareholders of Food Chain Limited

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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's internal control.
- 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's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.

We communicate with the Directors 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.

Independent auditor's report -continued

To the Shareholders of Food Chain Limited

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2023* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the Annual Report and Financial Statements 2023 and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 1 to 3) The Maltese Companies Act (Cap. 386) requires the Directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: - the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and - the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.



Independent auditor's report - continued

To the Shareholders of Food Chain Limited

Area of the Annual Report and Financial Statements 2023 and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not 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 which, to the best of our knowledge and belief, we require for our audit.	We have nothing to report to you in respect of these responsibilities.



Independent auditor's report - continued

To the Shareholders of Food Chain Limited

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

PricewaterhouseCoopers

78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Stefan Bonello
Partner

10 May 2023

Statement of financial position

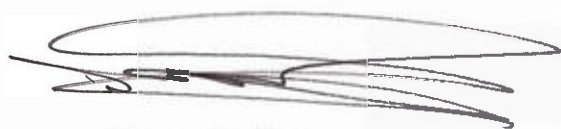
		As at 31 January	
	Notes	2023 €	2022 €
ASSETS			
Non-current assets			
Intangible assets	3	368,153	328,114
Property, plant and equipment	4	5,502,598	4,143,517
Deferred tax assets	5	434,681	340,658
Total non-current assets		6,305,432	4,812,289
Current assets			
Inventories	6	553,225	344,970
Trade and other receivables	7	8,241,106	6,061,585
Cash and cash equivalents	8	778,739	3,656,375
Total current assets		9,573,070	10,062,930
Non-current assets classified as held for sale	12	951,000	951,000
Total assets		16,829,502	15,826,219

Statement of financial position - continued

		As at 31 January	
	Notes	2023 €	2022 €
EQUITY AND LIABILITIES			
Equity			
Share capital	9	9,224,319	9,224,319
Accumulated losses		(771,166)	(1,270,262)
Total equity		8,453,153	7,954,057
Current liabilities			
Borrowings	10	-	353,328
Trade and other payables	11	7,933,701	6,432,498
Current tax liability		442,648	1,086,336
Total current liabilities		8,376,349	7,872,162
Total equity and liabilities		16,829,502	15,826,219

The notes on pages 15 to 32 are an integral part of these financial statements.

The financial statements on pages 10 to 32 were authorised for issue by the board on 10 May 2023 and were signed on its behalf by:



Norman Aquilina
Chairman



Anne Marie Tabone
Director

Income statement

		Year ended 31 January	
	Notes	2023 €	2022 €
Revenue	13	21,756,111	15,745,204
Cost of sales		(19,098,655)	(12,263,934)
Gross profit		2,657,456	3,481,270
Administrative expenses		(1,939,298)	(1,910,333)
Other operating income		22,315	35,148
Operating profit		740,473	1,606,085
Finance income	16	29,668	30,086
Finance costs	17	(76,326)	(55,801)
Profit before tax		693,815	1,580,370
Tax expense	18	(194,719)	(571,166)
Profit for the year		499,096	1,009,204

The notes on pages 15 to 32 are an integral part of these financial statements.

Statement of changes in equity

	Share capital €	Accumulated losses €	Total €
Balance at 1 February 2021	9,224,319	(2,279,466)	6,944,853
Profit for the year	-	1,009,204	1,009,204
Balance at 31 January 2022	9,224,319	(1,270,262)	7,954,057
Balance at 1 February 2022	9,224,319	(1,270,262)	7,954,057
Profit for the year	-	499,096	499,096
Balance at 31 January 2023	9,224,319	(771,166)	8,453,153

The notes on pages 15 to 32 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 January	
		2023 €	2022 €
Cash flows from operating activities			
Cash generated from operations	20	823,392	735,572
Interest received		29,668	30,086
Interest paid		(76,326)	(55,801)
Tax paid		(932,430)	(277,840)
Net cash (used in)/generated from operating activities		(155,696)	432,017
Cash flows from investing activities			
Purchases of property, plant and equipment		(2,191,411)	(1,399,179)
Renewal of intangible assets		(177,201)	(57,344)
Net cash used in investing activities		(2,368,612)	(1,456,523)
Net movement in cash and cash equivalents		(2,524,308)	(1,024,506)
Cash and cash equivalents at beginning of year		3,303,047	4,327,553
Cash and cash equivalents at end of year	8	778,739	3,303,047

The notes on pages 15 to 32 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) Regulations, Legal Notice 289 of 2015 (GAPSME), and the requirements of the Maltese Companies Act (Cap. 386).

These financial statements have been prepared under the historical cost convention.

1.2 Foreign currency translation

(a) Functional and presentation currency

The Company's financial results and financial position are measured in the functional currency, i.e. euro ("€"), which is the currency of the primary economic environment in which the Company operates. These financial statements are presented in euro ("€"), i.e. the presentation currency, which is the currency in which the Company's share capital is denominated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All foreign exchange gains and losses are presented in the income statement within 'other operating income'.

1.3 Intangible assets

Franchise rights are shown at historical cost. Franchise rights have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of franchise rights over their estimated useful lives (10 to 20 years).

Where an indication of impairment exists, in that the carrying amount of an intangible asset is greater than its estimated recoverable amount, a charge is made to write-down the value of the asset to its estimated recoverable amount (Note 1.5).

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost and are subsequently stated at cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	%
Plant, machinery and motor vehicles	10-33
Other fixtures, fittings, tools and equipment	10-20
Improvement to premises	2-20
Buildings	2

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.5).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

1.5 Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1. Summary of significant accounting policies - continued

1.6 Financial assets

1.6.1 Classification

The Company classifies its financial assets in the loans and receivables category. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments on initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Note 1.8 and 1.9).

1.6.2 Recognition and measurement

The Company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value plus transaction costs.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

1.6.3 Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Company first assesses whether objective evidence of impairment exists. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of these assets, although the decrease cannot yet be identified with the individual financial assets in the group.

1. Summary of significant accounting policies - continued

1.6.3 Impairment - continued

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of inventories comprises the invoiced value of goods and, in general, includes transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.8 Trade and other receivables

Trade receivables comprise amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.6.3). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

1.9 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.

1. Summary of significant accounting policies - continued

1.10 Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset. Non-current assets (classified as assets held for sale) are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

1.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1.12 Financial liabilities

The Company recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value, including transaction costs. These liabilities are subsequently measured at amortised cost. The Company derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 Offsetting financial instruments

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.

1.15 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

1. Summary of significant accounting policies - continued

1.15 Current and deferred tax - continued

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.16 Provisions

Provisions for legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is recognised upon delivery of products or performance of services, and is stated net of sales tax, returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

(a) Sales of goods - retail

Sales of goods are recognised when the Company sells a product to the customer.

1. Summary of significant accounting policies - continued

1.17 Revenue recognition - continued

(b) Finance income

Finance income is recognised for all interest-bearing instruments using the effective interest method, unless collectability is in debt.

1.18 Operating leases

The Company is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2. Financial risk management

2.1 Financial risk factors

The Company's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The parent Company's board of Directors provides principles for overall group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The Company did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. The Company is not exposed to foreign exchange risk.

The Company's revenues, operating expenses, financial assets and liabilities, including financing are denominated in euro.

Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(ii) Cash flow and fair value interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. Management monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Interest rates on these financial instruments are linked with the Central Intervention Rate issued by the European Central Bank.

Based on the above, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial. Up to the end of the reporting period the Company did not have any hedging arrangements with respect to the exposure of floating interest rate risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposures to customers, including outstanding receivables and committed transactions. The carrying amount of financial assets represents the maximum credit exposure.

The Company's exposure to credit risk at the end of the reporting periods is analysed as follows:

	2023 €	2022 €
Loans and receivables category:		
Trade and other receivables (Note 7)	7,282,720	4,776,552
Cash and cash equivalents (Note 8)	778,739	3,656,375
	8,061,459	8,432,927

The figures disclosed in the table above in respect of trade and other receivables excluded prepayments and advance payment to suppliers. The Company banks only with local financial institutions with high quality standing or rating. The Company's operations are principally carried out in Malta and most of the Company's revenues originate from clients based in Malta. The Company has no concentration of credit risk that could materially impact on the sustainability of its operations.

The Company assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of products and services are effected to customers with an appropriate credit history in the case of credit sales. The Company monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the Company's receivables taking into account historical experience in collection of accounts receivable.

The Company's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any material losses from non-performance by these customers.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Impairment losses

As at 31 January 2023 and 2022, no impairment provisions for the Company were present in respect of trade receivables that were overdue and that were not expected to be recovered. Overdue trade receivables that were not impaired amounted to €62,048 (2022: €30,009). The Company does not hold security against these receivables. These unsecured overdue amounts consisted of €11,356 (2022: €14,534) that were less than three months overdue and €50,692 (2022: €15,475) that were greater than three months overdue.

The Company's receivables also include advances to related parties on which no credit risk is considered to arise.

(c) Liquidity risk

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally of trade and other payables (Note 11). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Company's obligations.

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period and ensures that adequate financing facilities are in place for the coming year. The carrying amounts of the Company's assets and liabilities are analysed into relevant maturity groupings based on the remaining period to the contractual maturity date in the respective notes to the financial statements.

The Company's financial liability balances due within twelve months, equal their carrying balances, as the impact of discounting is not significant.

3. Intangible assets

	Franchise rights €
At 1 February 2021	
Opening net book amount	308,546
Additions	57,344
Amortisation	(37,776)
Closing net book amount	328,114
At 31 January 2022	
Cost	1,226,969
Accumulated amortisation	(898,855)
Net book amount	328,114
Year ended 31 January 2023	
Opening net book amount	328,114
Additions	177,201
Disposals	(691,809)
Amortisation	(137,162)
Amortisation released on disposals	691,809
Closing net book amount	368,153
At 31 January 2023	
Cost	712,361
Accumulated amortisation	(344,208)
Net book amount	368,153

Amortisation of €137,162 (2022: €37,776) is included in cost of sales.

4. Property, plant and equipment

	Assets in course of construction €	Buildings €	Improvement to premises €	Plant, machinery and motor vehicles €	Other fixtures, fittings, tools and equipment €	Total €
At 1 February 2021						
Cost	525,819	1,632,927	1,698,619	3,104,611	2,094,519	9,056,495
Accumulated depreciation and impairment	-	(756,068)	(972,472)	(2,164,339)	(1,595,059)	(5,487,938)
Net book amount	525,819	876,859	726,147	940,272	499,460	3,568,557
Year ended 31 January 2022						
Opening net book amount	525,819	876,859	726,147	940,272	499,460	3,568,557
Additions	163,608	-	468,907	446,114	320,550	1,399,179
Transfers	(525,819)	-	472,281	31,645	21,893	-
Depreciation	-	(29,020)	(154,316)	(302,896)	(337,987)	(824,219)
Closing net book amount	163,608	847,839	1,513,019	1,115,135	503,916	4,143,517
At 31 January 2022						
Cost	163,608	1,632,927	2,639,807	3,582,370	2,436,962	10,455,674
Accumulated depreciation and impairment	-	(785,088)	(1,126,788)	(2,467,235)	(1,933,046)	(6,312,157)
Net book amount	163,608	847,839	1,513,019	1,115,135	503,916	4,143,517
Year ended 31 January 2023						
Opening net book amount	163,608	847,839	1,513,019	1,115,135	503,916	4,143,517
Additions	-	-	542,964	550,843	1,097,604	2,191,411
Disposals	-	-	(238,894)	(232,503)	(178,126)	(649,523)
Transfer	(163,608)	-	17,316	70,998	75,294	-
Depreciation	-	(29,003)	(169,361)	(144,914)	(489,052)	(832,330)
Depreciation released on disposal	-	-	238,894	232,503	178,126	649,523
Closing net book amount	-	818,836	1,903,938	1,592,062	1,187,762	5,502,598
At 31 January 2023						
Cost	-	1,632,927	2,961,193	3,971,708	3,431,734	11,997,562
Accumulated depreciation and impairment	-	(814,091)	(1,057,255)	(2,379,646)	(2,243,972)	(6,494,964)
Net book amount	-	818,836	1,903,938	1,592,062	1,187,762	5,502,598

Depreciation of €832,330 (2022: €824,219) is included in cost of sales.

5. Deferred tax asset

	2023 €	2022 €
At beginning of year	340,658	261,499
Credit to income statement (Note 18)	94,023	79,159
At end of year	<u>434,681</u>	<u>340,658</u>

The balance at 31 January represent:

	2023 €	2022 €
Temporary differences attributable to the depreciation and amortisation of non-current assets	<u>434,681</u>	<u>340,658</u>

6. Inventories

	2023 €	2022 €
Raw materials and consumables	<u>553,225</u>	<u>344,970</u>

7. Trade and other receivables

	2023 €	2022 €
Current		
Trade receivables	121,250	140,570
Amount owed by parent	3,129,255	2,708,448
Amounts owed by fellow subsidiaries	3,902,695	1,864,255
Other receivables	129,520	63,279
Advance payment to suppliers	48,374	631,408
Prepayments	910,012	653,625
	<u>8,241,106</u>	<u>6,061,585</u>

Trade and other receivables are stated net of impairment provision as follows:

	2023 €	2022 €
Amounts owed by fellow subsidiaries	<u>49,804</u>	<u>49,804</u>

7. Trade and other receivables - continued

Amounts owed by parent and fellow subsidiaries are unsecured and repayable on demand. Included in these balances are year-end amounts of €850,000 (2022: €745,316) which are subject to an average interest rate of 3.5% (2022: 3.5%). Other balances within amounts owed from parent and fellow subsidiaries are interest free. The other classes within receivables do not contain impaired assets.

8. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2023 €	2022 €
Cash at bank and in hand	778,739	3,656,375
Bank overdraft (Note 10)	-	(353,328)
	<u>778,739</u>	<u>3,303,047</u>

9. Share capital

	2023 €	2022 €
Authorised		
39,600 ordinary shares of €232.937339 each	<u>9,224,319</u>	<u>9,224,319</u>
Issued and fully paid		
39,600 ordinary shares of €232.937339 each	<u>9,224,319</u>	<u>9,224,319</u>

10. Borrowings

	2023 €	2022 €
Bank overdraft	<u>-</u>	<u>353,328</u>

The Company's banking facilities as at 31 January 2023 amounted to €1,431,000 (2022: €1,431,000).

11. Trade and other payables

	2023 €	2022 €
Current		
Trade payables	1,964,584	828,626
Amounts owed to parent	-	-
Amounts owed to fellow subsidiaries	1,406,260	713,998
Other payables	207	207
Advance deposits	991,000	991,000
Indirect taxes and social security	2,123,443	2,533,150
Accruals and deferred income	1,448,207	1,365,517
	7,933,701	6,432,498

Amounts owed to fellow subsidiaries were unsecured, and repayable on demand.

12. Non-current assets held for sale

	2023 €	2022 €
Year ended 31 January	951,000	951,000

On 26 October 2017, the Company entered into a promise of sale agreement to transfer all of its shares in Sliema Fort Company to Trident Estates pic for a consideration of €951,000.

This investment is classified as Non-current assets held for sale in 2023 and 2022. The legal transfer will be executed when all the necessary approvals related to this transfer are obtained from the Lands Authority.

13. Revenue

All the Company's revenue is derived from the sale of food and beverage in the local market.

14. Profit

Profit is stated after charging the following:

	2023 €	2022 €
Amortisation on intangible assets (Note 3)	137,162	37,776
Depreciation on property, plant and equipment (Note 4)	832,330	824,219
Auditor's remuneration	28,092	30,694
Employee benefit expense (Note 15)	6,374,518	3,555,462
Property rentals payable	1,801,356	1,516,693

15. Employee benefit expense

	2023 €	2022 €
Wages and salaries	5,452,635	2,759,029
Social security costs	361,511	330,425
	5,814,146	3,089,454
Recharged from parent	560,372	466,008
	6,374,518	3,555,462

Employee benefit expense for financial year 2023 above is stated net of the COVID-19 wage supplement paid by the Government of Malta to the Company to support the payment of employees' wages and salaries amounting to €125,217 (2022: €1,409,457).

The average number of persons employed by the Company during the financial reporting period were 306(2022: 258)

16. Finance income

	2023 €	2022 €
Interest on amounts owed by parent	29,668	30,086

17. Finance costs

	2023 €	2022 €
Other finance charges	76,326	55,801

18. Tax expense

	2023 €	2022 €
Current tax expenses	288,742	650,325
Deferred tax credit (Note 5)	(94,023)	(79,159)
Tax expense	194,719	571,166

18. Tax expense - continued

The tax on the Company's results before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2023 €	2022 €
Profit before tax	693,815	1,580,370
Tax on profit at 35%	242,835	553,130
Tax effect of:		
Unrecognised deferred tax in prior year	-	711
Non allowable expenses	45,840	17,318
Temporary differences related to intangibles	19,803	-
Other temporary differences	(113,759)	7
Tax expense	194,719	571,166

19. Directors' fees

	2023 €	2022 €
Recharged from parent	59,554	57,717

20. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2023 €	2022 €
Operating profit	740,473	1,606,085
Adjustments for:		
Amortisation of intangible assets (Note 3)	137,162	37,776
Depreciation of property, plant and equipment (Note 4)	832,330	824,219
Changes in working capital:		
Inventories	(208,255)	(33,612)
Trade and other receivables	(2,179,521)	(2,892,693)
Trade and other payables	1,501,203	1,193,797
Cash generated from operations	823,392	735,572

21. Commitments

Capital commitments

Commitments for capital expenditure not provided for in these financial statements are as follows:

	2023 €	2022 €
Authorised but not contracted	948,000	1,075,000

Operating lease commitments - where the Company is a lessee

The future minimum lease payments payable under non-cancellable property operating leases are as follows:

	2023 €	2022 €
Not later than 1 year	1,478,387	1,468,218
Later than 1 year and not later than 5 years	3,816,399	4,756,142
Later than 5 years and not later than 30 years	1,485,799	1,898,207
	6,780,585	8,122,567

22. Related party transactions

The Company forms part of the Simonds Farsons Cisk p.l.c. Group of Companies. All companies forming part of this Group are related parties since these companies are all ultimately owned by Simonds Farsons Cisk p.l.c. Trading transactions between these companies include items which are normally encountered in a group context.

Farrugia Investments Limited, M.S.M. Investments Limited, Sciclunas Estates Limited (and their respective subsidiaries and associates) are related parties by virtue of their significant shareholding in the Company's ultimate parent.

The Directors make particular reference to the fact that Trident Estates plc and its subsidiaries are considered to be related parties due to common Directors and the common shareholding.

The following main transactions were carried out with related parties:

	2023 €	2022 €
Purchases of goods and services	(7,355,426)	(4,620,100)
Recharged expenses payable	(820,473)	(680,915)
Rental expenses	(496,503)	(498,914)
Interest income	36,083	30,086
Computer related expenses	(34,626)	(45,188)

22. Related party transactions - continued

Key management personnel compensation, consisting of Directors' fees, has been disclosed in note 19 to the financial statements.

Amounts due from/to parent and fellow subsidiaries within the group and other related parties, in connection with sales and purchases transactions and financing transactions, are disclosed in notes 7 and 11 to these financial statements.

23. Statutory information

Food Chain Limited is a limited liability Company and is incorporated in Malta.

The ultimate parent Company of Food Chain Limited is Simonds Farsons Cisk p.l.c., a Company registered in Malta, with its registered address at The Brewery, Mdina Road, Zone 2, Central Business District, Birkirkara, Malta. The financial statements of Food Chain Limited are included in the consolidated financial statements prepared by Simonds Farsons Cisk p.l.c.