Financial statements and Independent auditor's report

Retail Group Georgia Limited Liability Company

31 March 2020

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Independent auditor's report

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To the shareholders of Retail Group Georgia LLC

Opinion

We have audited the financial statements of Retail Group Georgia LLC (the "Company"), which comprise the statement of financial position as of 31 March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Notes 20 and 21 to the financial statements which describe the uncertainty related to the impact of the COVID-19 pandemic. As of 31 March 2020, the Company closed all its retail shops in response to the pandemic and the shops stay closed for two months. From June 2020 stores were opened, but at the end of November due to deterioration of pandemic situation in Georgia and as a result of strict regulations imposed by Georgian Government, all retail stores were closed again. Though the Company plans to open stores for December 24 to December 31, 2020 (as currently allowed by government) and then step by step starting from the end of January 2021, still there is no clear decision from Georgian Government how retail market will continue operations for the next period and it is still unknown when the sales volumes may reach the normal pre-pandemic levels. Our opinion is not qualified in respect to this matter.

Other matter

We draw attention to Note 21 to the financial statements, which describes the critical judgments made by management in applying accounting policies.

During the course of its operations the Group companies conduct various transactions with entities under common control and the ultimate controlling party (supply of goods, borrowings without stated repayment dates). The Company management considers these transactions to have been made on non-commercial terms at the behest and instruction of the ultimate controlling party, and has accounted for these transactions as those conducted with owners, by recording any gains arising on these transaction as credit to equity (capital contribution). Our opinion is not modified in respect of this matter.

Management reporting

Management is responsible for the Management Reporting. The Management Reporting comprises the information about the activities of the Company, risk analysis, future plans and other matters as required by the Law of Georgia on Accounting, Reporting and Auditing.

In connection with our audit of the financial statements, our responsibility is to read the Management Reporting 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 and to present relevant report.

In addition, our responsibility is to express an opinion whether the Management Reporting is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing and includes all required information.

If, based on the work we have performed, we conclude that there is a material misstatement in the Management Reporting, we are required to report that fact and the substance of misstatement. We have nothing to report in this regard.

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

- the information given in the Management Reporting for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Reporting is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing and includes all the information required by the Law.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ketevan Ghambashidze

Director, Registered Auditor

17 December 2020

Statement of financial position

In thousand Georgian lari	Note	As of 31 March 2020	As of 31 March 2019
Assets			
Non-current assets			
Property and equipment	4	1,455	2,004
Right-of-use-asset	5	1,565	-
Investment in subsidiaries		1	2
		3,021	2,006
Current assets			
Inventories	6	4,986	4,333
Trade and other receivables	7	7,816	12,762
Current income tax		1,925	1,925
Cash and bank balances	8	3,273	1,023
		18,000	20,043
Total assets		21,021	22,049
Equity and liabilities			
Capital and reserves			
Capital contribution	9.2	47,635	51,252
Accumulated loss		(30,578)	(31,706)
		17,057	19,546
Non-current liabilities			
Lease liabilities	10	1,348	-
		1,348	-
Current liabilities			
Trade and other payables	11	2,362	2,503
Lease liabilities	10	254	-
		2,616	2,503
Total equity and liabilities		21,021	22,049

The financial statements were approved on 17 December 2020 by:

Revaz Maghalashvili
Retail Director

Pikria Gvishiani
Financial Manager

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 35.

Statement of profit or loss and other comprehensive income

In thousand Georgian lari	Note	Year ended 31 March 2020	Year ended 31 March 2019
Revenue	12	6,546	5,399
Cost of sales	13	(5,524)	(4,112)
Gross profit		1,022	1,287
Revenue from management services	14	4,810	5,355
Distribution and marketing expenses	15	(334)	(266)
Administrative expenses	16	(7,711)	(7,106)
Results from operating activities		(2,213)	(730)
Finance income	17	271	557
Finance costs	17	(107)	-
Gain from exchange differences	18	3,177	2,478
Profit before income tax		1,128	2,305
Income tax expense	19	-	(19)
Profit for the year		1,128	2,286
Other comprehensive income		-	-
Total comprehensive income for the year		1,128	2,286

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 35.

Statement of changes in equity

In thousand Georgian lari	Capital contribution	Accumulated loss	Total
As of 1 April 2018	55,356	(33,992)	21,364
Profit for the year	-	2,286	2,286
Total comprehensive income for the year	-	2,286	2,286
Decrease of capital contribution (note 9.2)	(4,104)	-	(4,104)
Transactions with owners	(4,104)	-	(4,104)
As of 31 March 2019	51,252	(31,706)	19,546
Profit for the year	-	1,128	1,128
Total comprehensive income for the year	-	1,128	1,128
Decrease of capital contribution (note 9.2)	(3,617)	-	(3,617)
Transactions with owners	(3,617)	-	(3,617)
As of 31 March 2020	47,635	(30,578)	17,057

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 35.

Statement of cash flows

In thousand Georgian lari	Note	Year ended 31 March 2020	Year ended 31 March 2019
Cash flows from operating activities			
Profit for the year		1,128	2,286
Adjustments for:			
Depreciation	16	793	657
Loss on disposal of property and equipment	16	-	344
Movement in inventory provision	16	509	(198)
Loss from inventory write-off	16	252	-
Finance cost	17	107	-
Income tax expense	19	-	19
Finance income	17	(271)	(557)
Foreign exchange (gain)/loss	18	(3,177)	(2,478)
Operating profit before working capital changes		(659)	73
Change in trade and other receivables		7,609	3,772
Change in inventories		(1,414)	(100)
Change in trade and other payables		(54)	162
Cash generated from operations		5,482	3,907
Income tax paid		-	(278)
Net cash from operating activities		5,482	3,629
Cash flows from investing activities			
Acquisition of property and equipment		(93)	(324)
Interest income received		271	557
Net cash used in investing activities		178	233
Cash flows from financing activities			
Repayment of loans and borrowings and leasing liabilities		(222)	-
Distribution of capital contribution		(3,617)	(4,104)
Net cash used in financing activities		(3,839)	(4,104)
Net increase/(decrease) in cash and bank balances		1,821	(242)
Foreign exchange effect on cash		429	11
Cash and bank balances at the beginning of the year	8	1,023	1,254
Cash and bank balances at the end of the year	8	3,273	1,023

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 35.

Notes to the financial statements

1 Nature of operations and general information

Retail Group Georgia LLC was founded in April 2011, in Tbilisi, Georgia.

The main activity of the Company is retail trade of fashion apparel and accessories of a number of well-established brands, through stores, located in malls and shopping areas of Tbilisi city.

The Company has wholly-owned subsidiaries, which are listed in note 2.6.

The registered address of the Company is: Old Tbilisi region, 20 Telavi Street, Tbilisi, Georgia.

The office address of the Company is: 50/18 Ketevan Tsamebuli Avenue, Tbilisi, Georgia.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

These financial statements constitute separate financial statements of the Company prepared in accordance with IAS 27 *Separate Financial Statements*. These separate financial statements were prepared in addition to consolidated financial statements of the Company and its subsidiaries as of and for the year ended 31 March 2019, prepared in accordance with IFRS 10 *Consolidated Financial Statements*, for the purpose of publication in accordance with the regulations of the Service for Accounting, Reporting and Auditing Supervision (SARAS) of the Ministry of Finance of Georgia. The consolidated financial statements may be obtained at the following address: 50/18 Ketevan Tsamebuli Avenue, Tbilisi, Georgia.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are stated at present discounted value of future cash flows.

2.3 Functional and presentation currency

The national currency of Georgia is the Georgian lari ("Georgian lari"), which is the Company's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in thousand Georgian lari (unless otherwise stated), since management believes that this currency is more useful for the users of these financial statements. All financial information presented in thousand Georgian lari has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 21 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 April 2019.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2019

Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

There has not been material impact on the Company's financial statements.

IFRS 16 *Leases*

IFRS 16 *Leases* replaces IAS 17 *Leases* along with three Interpretations (IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases-Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

The adoption of this new standard has resulted in the Company recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 6.12%.

IFRIC 23 *Uncertainty over Income Tax Treatment*

IFRIC 23 provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

The Company elected to adopt IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as of the date of initial application, 1 January 2019.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning on or after the effective date of the pronouncement.

2.6 Subsidiaries

The financial statements include the following subsidiaries:

As of 31 March 2020

	Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
1	Retail Group Holding Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
2	Fashion Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
3	Spanish Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
4	Global Apparel Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
5	Mega Store Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
6	Master Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
7	Pro Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
8	Best Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
9	Master Home Retail	100%	Georgia	10-Mar-2017	Retail apparel and accessories	10-Mar-2017

As of 31 March 2019

	Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
1	Retail Group Holding Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
2	Fashion Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
3	Spanish Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
4	Global Apparel Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
5	Mega Store Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
6	Master Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
7	Pro Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
8	Best Retail Georgia	100%	Georgia	1-July-2011	Retail apparel and accessories	1-July-2011
9	Master Home Retail	100%	Georgia	10-Mar-2017	Retail apparel and accessories	10-Mar-2017

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the National Bank of Georgia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the National Bank of Georgia prevailing on the reporting date, which is 3.2845 Georgian lari for 1 US dollar and 3.6363 Georgian lari for 1 euro as of 31 March 2020 (31 March 2019: 2.6914 lari for 1 US dollar and 3.0203 lari for 1 Euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the statement of profit or loss.

Expenditure related to the improvement of leasehold properties are recognized as an item of property and equipment and are presented separately and is depreciated over the useful life of the asset or the term of the leasehold agreement, whichever is shorter.

Depreciation is charged to the statement of profit or loss on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The annual depreciation rates based on estimated useful lives are as follows:

Vehicles	-	25%
Furniture and fixtures	-	10-12.5%
Leasehold improvement	-	12.5%
Computers and other equipment	-	10-12.5%.

3.3 Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

3.4 Leased assets

As described in note 2.5, the Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 January 2019

The Company as a lessee

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct “how and for what purpose” the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been presented separately.

The Company as a lessor

The Company's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Accounting policy applicable before 1 January 2019

The Company as a lessee

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Company obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

For the depreciation methods and useful lives for assets held under finance leases refer to note 3.2.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Company is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.5 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.6 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the Company’s business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses. A summary of the Company’s financial assets by category is given in note 22.2.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company’s cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

Impairment of financial assets

IFRS 9’s impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model". This replaces IAS 39’s "incurred loss model". Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to note 23 (b) for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

The Company's financial liabilities include loans and borrowings, trade and other payables and finance lease liabilities. A summary of the Company's financial liabilities by category is given in note 22.2.

Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.7 Cash and cash equivalents

Cash and bank balances comprise cash on hand, bank accounts and cash in transit.

For the purpose of the statement of cash flows, cash equivalents are on-demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

3.8 Equity

Charter capital represents the nominal value of shares that have been issued.

Accumulated profit or loss includes all current and prior period retained profits or accumulated losses.

Dividends are recognized as a liability in the period in which they are declared.

Transactions with owners are recognized directly in equity.

3.9 Income tax

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

Changes in corporate income tax effective from 1 January 2017

Effective 1 January 2017, there are significant amendments to the Tax Code of Georgia, related to introduction of a new model for corporate income taxation.

The new model (the “Estonian model of corporate taxation”) implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company’s profit before tax, regardless of profit retention or distribution. As a result of changes, starting 1 January 2017 companies will pay corporate income tax on earnings distribution (profit distributed to shareholders as dividends) and on individual transactions that may be considered as indirect distribution of earnings (benefits, gifts, payments, non-arm’s length cross-border transactions with related parties, expenses not related to economic activities, etc).

The corporate income tax arising from distribution of dividends is recognized as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which dividends are distributed. The tax rate is 15/85 of the amount of net distribution.

For tax payable on any dividends declared and paid in 2017 and later, from earnings accumulated prior to 2016, tax credit is available for corporate income tax paid on undistributed earnings under the previous model.

According to the amended concept of corporate income taxation, there will be no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Therefore, deferred tax assets and liabilities, as defined in IAS 12 *Income Taxes*, are not formed subsequent to 1 January 2017.

3.10 Revenue

Revenue arises mainly from sale of fashion apparel items through chain of retail stores or re-sale of stock to entities under common control.

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers. An asset is transferred when (or as) the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The Company recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due. The Company does not have customer loyalty programs, and does not provide goods or services, which would have unsatisfied performance obligations beyond point of sale

Sale of goods

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company and is recognize at the point of sale.

Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from services

The Company also has revenues from management services rendered to its subsidiaries. Revenues from management services to subsidiaries are recognised over time, as the clients (subsidiaries) simultaneously receive and consume the services.

Interest income

Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

4 Property and equipment

In thousand Georgian lari	Leasehold improve-ment	Furniture and fixtures	Vehicles	Computers and other equipment	Total
Cost					
As of 1 April 2018	4,034	1,101	228	633	5,996
Additions	14	66	-	244	324
Disposals	(699)	(37)	-	-	(736)
As of 31 March 2019	3,349	1,130	228	877	5,584
Additions	20	-	-	73	93
As of 31 March 2020	3,369	1,130	228	950	5,677
Accumulated depreciation and impairment					
As of 1 April 2018	1,756	1,101	159	300	3,316
Charge for the year	12	57	10	577	656
Eliminated on disposal	(364)	(28)	-	-	(392)
As of 31 March 2019	1,404	1,130	169	877	3,580
Charge for the year	537	-	32	73	642
As of 31 March 2020	1,941	1,130	201	950	4,222
Carrying amount					
As of 31 March 2019	1,945	-	59	-	2,004
As of 31 March 2020	1,428	-	27	-	1,455

Depreciation expense and impairment losses have been charged to administrative expenses. (refer to note 16)

Additions in leasehold improvements and furniture and fixtures represent expenditures on newly opened stores.

In prior year disposal of leasehold improvement is related to closing of shops. During prior year as a result of cancellation of shop area rental agreements, the entire balance of construction and renovation costs, previously capitalized and recognized as leasehold improvement, was written off.

5 Right of use assets

In thousand Georgian lari	Buildings	Total
Cost		
As of 1 April 2019	-	-
Adjustment on transition to IFRS 16	1,715	1,715

As of 31 March 2020	1,715	1,715
Accumulated depreciation		
As of 1 April 2019	-	-
Charge for the year	150	150
As of 31 March 2020	150	150
Carrying amount		
As of 1 April 2019	-	-
As of 31 March 2020	1,565	1,565

The assets leased include stores with ten to twenty years of lease term.

6 Inventories

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Apparel and accessory items for sale	4,877	4,447
Goods in transit	899	168
Packaging items	41	40
Provision for slow-moving and obsolete inventory	(831)	(322)
	4,986	4,333

During the year ended 31 March 2020 the Company recognized an increase in the provision of slow moving nventory at Georgian lari 509 thousand (year ended 31 March 2019: 198) (refer to note 16).

During the year inventory form closed stores were written off with amount of Georgian lari 252 thousand (refer to note 16).

All inventories were pledged as security under commercial Bank guarantee.

7 Trade and other receivables

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Financial assets		
Trade receivables	8,345	13,539
Allowances for credit losses	(1,067)	(1,067)
	7,278	12,472
Non-financial assets		
Prepayments to the State budget	180	28
Prepaid rent	160	167
Other prepayments	198	95
	538	290
Trade and other receivables	7,816	12,762

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

No interest is charged on trade receivables.

Management believes that the receivables from the State budget are fully recoverable.

Prepayments made to the State budget consist of the following:

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Value added tax	149	-
Property tax	31	20
Other	-	8
	180	28

All of the Company's trade and other receivables in the comparative periods have been reviewed for indicators of impairment. The impaired trade receivables are from related parties.

Note 23 (b) includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The above comparative for impairment provisions refers to the IAS 39 measurement basis which applied an incurred loss model, whereas the current year applies IFRS 9 which is an expected loss model.

Refer to note 23 (a) for the currencies in which the trade and other receivables are denominated.

8 Cash and bank balances

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Cash in hand	-	48
Bank accounts	3,273	975
	3,273	1,023

Refer to note 23 (a) for the currencies in which the cash and bank balances are denominated.

9 Capital and reserves

9.1 Charter capital

The charter capital consists of one share at the nominal value of Georgian lari 167 (which in these financial statements is rounded to 0 as the financials are presented in thousands of lari) and belongs to Advanced Retail International Co. United Kingdom of Saudi Arabia (80%) and International Fashion Trading Limited, United Kingdom of Saudi Arabia (20%).

9.2 Capital contribution

During the course of its operations the Company conducts various transactions with subsidiaries and entities under common control. These transactions represent mainly supply of equipment and shop fittings to the group companies from entities under common control for which no stated repayment terms or schedules exist or can be forecasted by the Company management.

In addition, the group companies receive cash contributions from the ultimate controlling party, on a non-interest bearing unsecured financing modality, without stated repayment dates, terms or schedule.

The Company considers these transactions to have been made on non-commercial terms at the behest and instruction of the ultimate controlling party, and has accounted for these transactions as those conducted with owners, by recording gains arising on these transaction as credit to equity (capital contribution). Where, however a payment has been made to an entity under common control in connection to such supplies of goods or services previously considered as contribution to equity, such transfer of cash and cash equivalents have been accounted for as debit to equity (withdrawal of capital contribution).

10 Leases

Lease liabilities are presented in the statement of financial position as follows:

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Current	254	-
Non-current	1,348	-
	1,602	-

The Company has leases for the buildings for stores, warehouse and office. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Company sales) are excluded from the initial measurement of the lease liability and the asset. The Company presents separately a right-of-use-asset (Refer to note 5).

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognized on the statement of financial position:

Right-of-use asset	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with options to purchase	Number of leases with variable payment linked to an index	Number of leases with termination options
Buildings	1	10	10	1	-	-	-

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 March 2020 were as follows:

In thousand Georgian lari	Minimum lease payments	
	As of 31 March 2020	As of 31 March 2019
Within one year		
Lease payments	369	-
Finance charges	(115)	-
	254	-
In second to fifth years inclusive		
Lease payments	1,383	-
Finance charges	(367)	-
	1,016	-
After five years		
Lease payments	534	-
Finance charges	(202)	-
	332	-
Net present value	1,602	-

Lease payments not recognized as a liability

The Company has elected not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less). Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

In thousand Georgian lari	Year ended 31 March 2020
Short-term leases	598
Variable lease payments	5
	603

Variable lease payments expensed on the basis that they are not recognised as a lease liability include rentals based on revenue from the use of the underlying asset and excess use charges on office equipment.

Additional information on the right-of-use assets by class of assets as of 31 March 2020 is as follows:

In thousand Georgian lari	Carrying amount (refer to note 5)	Accumulated depreciation
Buildings	1,715	150
Total right-of use assets	1,715	150

11 Trade and other payables

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Payables to the State budget	1,607	1,684
Trade payables	506	509
Payables to employees	249	310
	2,362	2,503

State budget include the following:

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Personal income tax	1,607	1,549
Value added taxes	-	135
	1,607	1,684

Refer to note 23 (a) for more information about the Company's exposure to foreign currency risk.

12 Revenue

In thousand Georgian lari	Year ended 31 March 2020	Year ended 31 March 2019
Export sales	3,316	2,158
Sales on local market	3,230	3,241
	6,546	5,399

The Company's revenue is entirely earned from sale of goods transferred at a point in time. The Company has no contract liabilities for unsatisfied performance obligations.

13 Cost of sales

Cost of sales contains purchase cost of inventory.

14 Revenue from management services

This type of revenue contains revenues from management service fee from subsidiaries. Revenues from management services to subsidiaries are recognised over time, as the clients (subsidiaries) simultaneously receive and consume the services.

15 Distribution and marketing expenses

In thousand Georgian lari	Year ended 31 March 2020	Year ended 31 March 2019
Employee benefits	116	84
Inland freight and distribution expenses	94	76
Credit card commissions	45	23
Advertisement and sales promotion expenses	41	51
Other	38	32
	334	266

16 Administrative expenses

In thousand Georgian lari	Year ended 31 March 2020	Year ended 31 March 2019
Employee benefits	3,161	4,541
Depreciation and amortization (refer to note 4 and note 5)	793	657
Travel and transportation	667	562
Rental expenses	603	800
Provision for inventory obsolesce	509	-
Inventory write off	252	-
Utility and communication	204	214
Office maintenance expenses	84	55
Taxes, other than income tax	83	49
Insurance	49	60
Bank charges	24	65
Management service fee expenses to subsidiaries	16	103
Other expenses	1,266	-
	7,711	7,106

17 Finance income and costs

In thousand Georgian lari	Year ended 31 March 2020	Year ended 31 March 2019
Interest expenses for leasing arrangements	(107)	-
Total finance costs	(107)	-
Interest income on bank balances	271	557
Total finance income	271	557
Net finance income/(costs)	164	557

18 Gain from exchange differences

In thousand Georgian lari	Year ended 31 March 2020	Year ended 31 March 2019
Financial assets at amortized cost	3,092	2,484
Financial liabilities measured at amortized cost	85	(6)
	3,177	2,478

19 Income tax expense

Current tax is related to non-deductible items, taxed at the time of the transaction.

No reconciliation of effective tax rate is presented, as no dividends have been declared for the years ended 31 March 2020 and 31 March 2019.

Corporate income tax legislation

As a result of changes, starting from 1 January 2017 companies pay corporate income tax on earnings distribution (profit distributed to shareholders as dividends) and on individual transactions that may be considered as indirect distribution of earnings (benefits, gifts, payments, non-arm's length cross-border transactions with related parties, expenses not related to economic activities, etc). According to the amended concept of taxation, there are no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

20 Subsequent events

At the beginning of 2020, The World Health Organisation has declared the COVID-19 coronavirus outbreak to be a pandemic. Globally, COVID-19 has resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile asset prices and currency exchange rates. In March 2020, Georgian government received decision about stopping all commercial businesses, except some exceptions. From June 2020 stores were opened, but at the end of November due to deterioration of pandemic situation in Georgia and as a result of strict regulations imposed by Georgian Government, all retail stores were closed again.

This has influenced not only the Company's business, but also the whole retail sector in Georgia. By the end of February and during the March of 2020 there was a decrease in sales. By the end of March 2020 till June 2020, when the Georgian government declared an emergency situation in Georgia, all stores were closed. As mentioned above at the end of November all retail stores were closed again. There was made decision that administrative staff will work remotely from home.

The Company's management, as the organization with high social responsibility, decided to maintain all staff and paid the whole salaries during this period.

The Company is working with its head office from Saudi Arabia to organize the working process in such way as to be able to deal with such challenges. There is no clear plan if the Company is going to keep all staff, it will be depended on the economic situation in Georgia.

The Company's management has negotiations with all trading malls. They want to change rental conditions in more flexible ways.

Because the Company's stores were closed approximately two months (from March to May) and by the end of November till the issuing of the report, the management of inventory will be made in a different way. The Company's management is going to make sales promotions for old collections. The Company decided to make less purchases for new collections.

Though the Company plans to open stores for December 24 to December 31, 2020 (as currently allowed by government) and then step by step starting from the end of January 2021, still there is no clear decision from Georgian Government how retail market will continue operations for the next period.

In addition, to improve financial situation, the Company management decided to start online sales and has already created relevant online platform (http://rggdirect.ge/), it is also possible to make purchases using mobile applications. The Company formed agreements with partner organizations and offers to its clients delivery services for online purchases.

21 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

21.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property and equipment

Management has estimated useful lives of the property and equipment. Management believes that estimated useful lives of the property and equipment are not materially different from economical lives of those assets. If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

Recoverable amounts for property and equipment

Management has estimated the recoverable amounts of its property and equipment and has recognized impairment loss as the difference between assets' carrying amounts and their recoverable amounts. These estimations are based on a number of assumptions related to the performance of various cash-generating units, the weighted average cost of the capital for the Company and others, described in note 4. If actual results are different from these assumptions, financial statements may be materially different.

Significant estimates in inventories

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future situation on retail market in Georgia that may reduce future selling prices.

21.2 Critical judgments in applying accounting policies

Additional capital

During the course of its operations the Company conduct various transactions with subsidiaries and entities under common control, related mainly to supply of equipment and shop fittings to the group companies from entities under common control for which no stated repayment terms or schedules exist or can be forecasted by the Company management.

The Company receives cash contributions from the ultimate controlling party, on a non-interest bearing unsecured financing modality, without stated repayment dates, terms or schedule. No payments have been made or are expected to be made by the Company in the foreseeable future to repay these contributions.

The Company considers these transactions to have been made on non-commercial terms at the behest and instruction of the ultimate controlling party, and has accounted for these transactions as those conducted with owners, by recording any gains arising on these transaction as credit to equity (capital contribution).

21.3 Key assumptions concerning the future

Management's key assumptions concerning important future events include the following:

- Management will be successful in eliminating obsolete stock balances through warehouse and outlet sales within the next 12 months, without incurring losses in excess of estimated inventory provision as of 31 March 2020;
- As noted in note 20 above, to respond to distortion to retail sales in large malls and generally in stores, the Company has started online sales and created relevant online platform (http://rggdirect.ge/), it is also possible to make purchases using mobile applications. The Company expects that the new strategy and method will be successful and the overall impact of COVID 19 pandemic on the Company's operations in Georgia will not be critically negative;
- The ultimate controlling party of the Company will not demand immediate and full repayment of financial contributions previously made to the Company's operations in Georgia in form of non-interest bearing cash borrowings, which do not have any stated repayment terms and maturity dates and are considered by Company management as additional capital contributions to the equity of the Company (refer to note 9.2).

22 Financial instruments

22.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 3.6.

22.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

Financial assets

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Amortized cost		
Trade and other receivables	7,278	12,472
Cash and cash equivalents	3,273	1,023
Total financial assets	10,551	13,495

Financial liabilities

In thousand Georgian lari	As of 31 March 2020	As of 31 March 2019
Amortized cost		
Lease liability	1,602	-
Trade and other payables	755	819
Total financial liabilities	2,357	819

23 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

Financial risk factors

a) Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, which result from its operating activities.

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Most of the Company's transactions are carried out in thousand Georgian lari. Exposures to currency exchange rates arise from the Company's overseas sales and purchases, which are primarily denominated in US dollars, British Pounds and Euro.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Georgian lari at the closing rate:

Item As of 31 March 2020	US dollar	Euro	Other
Financial assets			
Trade and other receivables	625	-	1,265
Cash and bank balances	148	1,818	1,203
	773	1,818	2,468
Financial liabilities			
Trade and other payables	14	58	757
Lease liability	1,602	-	-
	1,616	58	757
Net position	(843)	1,760	1,711

Item As of 31 March 2019	US dollar	Euro	Other
Financial assets			
Trade and other receivables	16	84	12,372
Cash and bank balances	15	30	889
	31	114	13,261
Financial liabilities			
Trade and other payables	55	-	6
	55	-	6
Net position	(24)	114	13,255

The following table details the Company's sensitivity to a 15% (2019: 15%) increase and decrease in thousand Georgian lari against US dollar. 15% (2019: 15%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 15% (2019: 15%) change in foreign currency rates.

If Georgian lari had strengthened against US dollar and Euro by 15% (2019: 15%) then this would have had the following impact:

In thousand Georgian lari	US dollar impact		Euro impact		British Pound Impact	
	2020	2019	2020	2019	2020	2019
Profit or loss	126	4	(264)	(17)	(257)	(1,988)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from financial assets, including cash and cash at banks, trade and other receivables.

The credit risk is managed on a group basis based on the Company's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks are managed via diversification of bank accounts, and are only with major reputable financial institutions.

The Company's revenue is predominantly earned from retail trade (over 96%) with cash settlement of transactions at the time of sale. The remaining small portion of revenue is entirely earned from trading with entities under common control (fashion apparel retail trade entities within Fawaz Abdulaziz Al Hokair & Co. group). The Company does not apply credit rating and monitoring policies towards entities under common control, as these transactions are made as part of the Fawaz Abdulaziz Al Hokair Company's global business trade model, and receivables from such trade transactions are mostly settled in full.

The Company does not hold any security on the trade receivables balance. In addition, the Company does not hold collateral relating to other financial assets (e.g. cash held with banks).

Trade receivables

The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables are assessed on a collective basis as they possess shared credit risk characteristics. They are grouped based on the days past due.

The expected loss rates are based on the payment profile for sales over the past 48 months, as well as the corresponding historical credit losses during that period.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Company on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

However, given the characteristics of Company's operations described above (retail trade with cash settlement and related party transactions settled between entities under common control), the application of the expected credit loss model has not had any impact on the financial statements.

The expected credit loss for trade receivables as of 31 March 2020 and 31 March 2019 was determined as follows:

In thousand Georgian lari As of 31 March 2020	Expected credit loss	Gross carrying amount	Lifetime expected credit loss
Over 1 year	100%	(1,067)	(1,067)
		(1,067)	(1,067)

In thousand Georgian lari As of 31 March 2019	Expected credit loss	Gross carrying amount	Lifetime expected credit loss
Over 1 year	100%	(1,067)	(1,067)
		(1,067)	(1,067)

The impaired amount represents 2 individual items of trade receivables arising in 2012, due from entities under common control.

c) *Liquidity risk*

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

31 March 2020	Non-interest bearing	Finance lease liability	Total
Weighted average effective interest rate (%)		6.12%	
Less than 6 months	755	127	882
6 months to 1 year	-	127	127
1-5 years	-	1,016	1,016
More than 5 years	-	1,372	1,372
	755	2,642	3,397

31 March 2019	Non-interest bearing	Finance lease liability	Total
Weighted average effective interest rate (%)			
Less than 6 months	819	-	819
6 months to 1 year	-	-	-
1-5 years	-	-	-
More than 5 years	-	-	-
	819	-	819

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables. The Company's cash resources and trade receivables exceed the current cash outflow requirements.

24 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24.1 Fair value measurement of financial instruments

Financial instruments measured at amortized cost for which the fair value is disclosed

Management believes that fair values of financial assets and financial liabilities measured at amortized cost approximate their carrying amounts.

Fair value has been determined by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise, most significant input is the discount rate. Estimated fair values of the above financial assets and financial liabilities are classified within Level 2 of the fair value hierarchy.

24.2 Fair value measurement of non-financial assets

The estimated fair values of the assets within cash-generated units (furniture and fixtures, computer and other equipment), in respect of which impairment has been recognized during the year ended 31 March 2020 are categorized within Level 2 or 3 of the fair value hierarchy.

Fair value less costs of disposal for individual assets were determined by the market method, using inputs in Level 2 and Level 3 of fair value hierarchy. Where required, these inputs were adjusted for "forced sales", in cases where no market exists for similar assets, i.e. there are no willing market participants. Special assumptions underlying the forced sale estimations include the following:

- Demand elasticity of the asset;
- Time period required for expedited selling;
- Cost of financing of potential market participant, based on average market interest rates.

25 Contingencies

25.1 Business environment

Georgia continues to undergo political and economic changes. As an emerging market, Georgia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Deterioration of economic situation of countries collaborating with Georgia, caused by COVID 19 pandemic led to the shortage of money transfers from abroad, upon which the economy of Georgia is significantly dependent. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, significant depletion of Georgian currency against US dollar and possible prolongation of restirctive measures taken by government of Georgia in response to COVID 19 pandemic, may lead to deterioration of the situation of Georgian economy and of the Company. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

26 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousand Georgian lari	Lease liabilities	Total
As of 1 April 2018	-	-
Cash-flows		
Repayments	-	-
Non-cash		
Fair value	-	-
Interest accrued	-	-
Foreign exchange gain	-	-
As of 31 March 2019	-	-
Cash-flows		
Repayments	(222)	(222)
Non-cash		
Recognition of lease liability under IFRS 16	1,715	1,715
Interest accrual	107	107
Effect of Foreign exchange	2	2
As of 31 March 2020	1,602	1,602

27 Related parties

The Company's related parties include its shareholders, subsidiaries and entities under common control, key management and others as described below.

27.1 Control relationships

The Company is controlled by its shareholder Advanced Retail International Co. United Kingdom of Saudi Arabia (80%). International Fashion Trading Limited, United Kingdom of Saudi Arabia (20%) is a minority shareholder. The ultimate controlling party is shareholder is Fawaz Abdulaziz Al Hokair & Co., United Kingdom of Arabia.

27.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousand Georgian lari

Transactions	Year ended 31 March 2020	Year ended 31 March 2019
Entities under common control		
Sale of goods	3,316	2,158
Subsidiaries		
Income from Management service fee	4,810	5,355
Management service fee expenses	16	103
Key management remuneration		
Employee benefits	1,947	1,802

In thousand Georgian lari

Outstanding balances	As of 31 March 2020	As of 31 March 2019
Entities under common control		
Trade and other receivables	7,278	12,472
Subsidiaries		
Trade and other receivables	192	172