

**MARKA PJSC**

**DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL  
STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

# **MARKA PJSC**

## **DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

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## Directors' report

The Directors submit their report together with the audited consolidated financial statements of Marka PJSC (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2018.

### Principal activities

The principal activities of the Group are operation of retail stores dealing in restaurants and cafes of mid to high end dining options in addition to luxury apparel and accessories.

### Results

The results of the Group for the year ended 31 December 2018 are set out on page 8 of the consolidated financial statements.

### Going concern

During the year ended 31 December 2018, the Group incurred significant losses of AED 296 million, the accumulated losses amounted to AED 746 million with a negative net equity of AED 250 million as of that date.

The General Assembly meeting held on the 29<sup>th</sup> of November 2018 has resolved to restructure the capital by undertaking a conditional transaction which involves the reduction of the Company's share capital from AED 500,000,000 to AED 49,879,000 to be offset against the Group accumulated losses, followed by a capital increase of the issued share capital of the Company by an amount of up to AED 250,000,000.

Such deficit has resulted mainly because of the hurdles that the Company has faced during the capital restructure process leading to shortages of cash funds which in return had a significant impact on Reem Al Bawadi and other operations of the Group and resulted in massive increase in the accumulated losses. The delay in the capital restructure is mainly due to (1) the consecutive adjournments to obtaining the approval of the Company's General Assembly on the capital restructure (AGM of April 2018) noting that the approval of the capital increase and reduction has only been obtained during the general meeting of November 2018, (2) the lengthy negotiations with the lenders for debt reduction in addition to (3) having all the formalities and legalities surrounding the capital restructure duly approved.

The Group is currently formulating the future plans that can be deliberated by the shareholders. However, the increase in the share capital of AED 250 million will only absorb the Group accumulated losses, and any period losses in 2019 will lead to a net capital deficiency. Further, the Group has restructured some of its borrowings and is currently renegotiating the terms of its facilities with one of the banks with an outstanding principal of AED 343 million to extend the payment terms over a minimum period of 12 years. The outcome of this renegotiation is expected to be known within 2019, and if successful, will reflect positively on the Group's current ratio. We open the floor for the shareholders to deliberate on whether the Company should pursue to restructure its capital in any event or whether other alternatives should be pursued.

### Directors

The directors who served during the year were:

Mr. Khalid Bin Kalban (Chairman)  
H.E. Jamal Al Hai (Vice Chairman)  
H.E. Khaled Mohammed Alkamda  
Mr. Naser Al Nabulsi  
Mr. Khaled Salem Almheiri  
Mr. Mohammed Saif Darwish Ahmed Al Ketbi  
H.E. Hamad Al Shamsi  
Mr. Adel Zarouni  
Mr. Abdulla Hamad Al Awani

### Auditors

The consolidated financial statements have been audited by PricewaterhouseCoopers. Auditors for the year 2019 will be appointed during at the forthcoming Annual General Meeting.



.....  
Mr. Khalid Bin Kalban  
Chairman  
12 May 2019



## *Independent auditor's report to the shareholders of Marka PJSC*

### *Report on the audit of the consolidated financial statements*

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#### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Marka PJSC (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### **What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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#### *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 consolidated 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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#### *Material uncertainty relating to going concern*

We draw attention to Note 2.1 in the consolidated financial statements, which indicates that the Group incurred a net loss of AED 296 million during the year ended 31 December 2018 and, as of that date, the Group's net deficit in equity amounted to AED 250 million, the accumulated losses amounted to AED 746 million and its current liabilities exceeded current assets by AED 405 million. In addition, the Group defaulted on interest payments of AED 9.9 million on certain bank borrowings on their due dates, resulting in the borrowings with outstanding principal amount of AED 343 million as at 31 December 2018 being immediately due and payable on demand in accordance with the terms and conditions of the borrowings. As a result, the Group is dependent on the successful execution of the capital and debt restructuring plans that are being undertaken, including obtaining appropriate regulatory approvals, to enable it both to meet its obligations as they fall due and for the continuity of the operations without significant curtailment. These events and conditions, along with other matters as set forth in Note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



## Independent auditor's report to the shareholders of Marka PJSC (continued)

### Our audit approach

#### Overview

Key Audit Matter • Goodwill impairment review

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Material uncertainty relating to going concern* section above, we have determined the matter described below to be the key audit matter to be communicated in our report.

#### Key audit matter

#### How our audit addressed the Key audit matter

##### Goodwill impairment review

Goodwill, which arose on various acquisitions over the prior years, amounted to AED 68 million net of impairment, as at 31 December 2018.

In accordance with the Group's policy, goodwill is tested annually for impairment or whenever there is an impairment indicator. Goodwill is allocated across the Group's cash generating units ("CGUs") or group of cash generating units. Management identified the lowest level for which there are separately identifiable cash flows, i.e. the CGU's as disclosed in Note 6.

The Group determines the recoverable amount of goodwill as the higher of fair value less costs of disposal and value in use. The recoverable amount, being the value in use, is determined using the discounted cash flow model.

Management has assessed the goodwill of Reem Al Bawadi, Morelli's UAE, Morelli's Bahrain and Morelli's KSA using the value in use method. Based on the assessment, management recorded an impairment charge of AED 163 million during the year ended 31 December 2018 relating to Reem Al Bawadi, Morelli's UAE, Morelli's Bahrain and Morelli's KSA.

We tested the key assumptions in the impairment model as set out below:

##### ➤ Terminal growth rate and gross margins

We have tested management's assumptions in relation to the expected future cash flows that were approved by the Board of Directors. The inputs include the actual 2018 performance, the expected future growth rate, the Group's cash flows and gross margins. We have agreed the 2018 base data to the Group's accounting records and assessed the reasonableness of the growth rates based on historic performance and published external industry expectations. Further, own in-house valuation experts reviewed independently the assumed terminal growth rate. We have also validated the budgeted results against the actual performance per the latest available results.



## *Independent auditor's report to the shareholders of Marka PJSC* (continued)

### *Our audit approach (continued)*

#### **Key audit matters** (continued)

<b>Key audit matter</b>	<b>How our audit addressed the Key audit matter</b>
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#### *Goodwill impairment review (continued)*

The value in use assessment contains a number of significant assumptions, including gross margins, terminal growth rate and discount rate used in the discounted cash flow model.

Our focus on this area is due to the significance of management's judgments around these assumptions and the goodwill impairment amount recorded during the year.

Please refer to Note 4 (Critical accounting estimates and judgements) and Note 6 (Intangible assets) to the consolidated financial statements where the impairment of non-financial assets has been disclosed.

#### ➤ Discount rate

We used our own in-house valuation experts to independently review the discount rate, taking into account independently obtained data from similar markets and industries.

In addition, the mathematical accuracy of the cash flow model was tested and we also validated the inputs into the model.

We also ensured the disclosures in Notes 4 and 6 to the consolidated financial statements are consistent with IFRS disclosure requirements including sensitivity analyses and those assumptions which have the most significant effect on the determination of the impairment.

#### *Other information*

Management is responsible for the other information. The other information comprises the Directors' Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

#### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



## *Independent auditor's report to the shareholders of Marka PJSC*

(continued)

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### *Responsibilities of management and those charged with governance for the consolidated financial statements (continued)*

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

## *Independent auditor's report to the shareholders of Marka PJSC* (continued)

### *Auditor's responsibilities for the audit of the consolidated financial statements (continued)*

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### *Report on other legal and regulatory requirements*

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of accounts;
- iv) the financial information included in the Directors' Report is consistent with the books of account of the Group;
- v) as disclosed in Note 1 to the consolidated financial statements the Group has not purchased or invested in any shares during the year ended 31 December 2018;
- vi) Note 18 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
- vii) Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

As detailed in Note 2.1, the accumulated losses as at 31 December 2018 exceeded 50% of the Company's issued share capital and therefore in accordance with article 302 of UAE Federal Law No. (2) of 2015, the Board of Directors shall, within 30 days of the date of disclosing the consolidated financial statements, convene a general assembly to vote on a resolution for the continuation of the Company. The General Assembly had previously passed a resolution on 29<sup>th</sup> November 2018 for continuation of the Company.

PricewaterhouseCoopers  
12 May 2019



Jacques Fakhoury  
Registered Auditor Number 379  
Dubai, United Arab Emirates



# MARKA PJSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Notes	2018 AED'000	2017 AED'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	74,259	91,160
Intangible assets	6	127,217	306,626
Available for sale financial assets	7	-	50,000
Financial assets at fair value through other comprehensive income	7	42,650	-
Investment in a joint venture	8	12,775	14,731
Investment in an associate	9	200	200
		<b>257,101</b>	<b>462,717</b>
<b>Current assets</b>			
Inventories	10	3,928	6,409
Trade and other receivables	11	18,533	169,261
Due from related parties	18	21,155	57,789
Cash and bank balances	12	1,487	14,859
		<b>45,103</b>	<b>248,318</b>
<b>Total assets</b>		<b>302,204</b>	<b>711,035</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
<b>Equity attributable to the shareholders of the Company</b>			
Share capital	14	500,000	500,000
Share premium		143	143
Translation reserve		(4,082)	(1,932)
Accumulated losses		(745,970)	(450,121)
<b>Net (deficit)/equity</b>		<b>(249,909)</b>	<b>48,090</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	15	97,500	358,786
Provision for employees' end of service benefits	16	4,382	3,606
		<b>101,882</b>	<b>362,392</b>
<b>Current liabilities</b>			
Trade and other payables	17	93,937	102,405
Borrowings	15	356,294	198,148
		<b>450,231</b>	<b>300,553</b>
<b>Total liabilities</b>		<b>552,113</b>	<b>662,945</b>
<b>Total equity and liabilities</b>		<b>302,204</b>	<b>711,035</b>

These consolidated financial statements were approved by the Board of Directors on 12 May 2019 and were signed on its behalf by:



.....  
Mr. Khalid Bin Kalban  
Chairman



.....  
Mohammad Alas'ad  
Chief Financial Officer

# MARKA PJSC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2018 AED'000	Year ended 31 December 2017 AED'000
Revenue	19	76,025	99,610
Cost of sales	20	(49,460)	(68,278)
<b>Gross profit</b>		<b>26,565</b>	<b>31,332</b>
General and administrative expenses	21	(46,545)	(80,290)
Selling and distribution expenses	22	(53,835)	(79,337)
Impairment of property and equipment and intangible assets other than goodwill and brand name - net	5,6	(17,968)	(72,221)
Impairment of goodwill	6	(163,172)	-
Net impairment losses on financial assets	11	(15,515)	(15,693)
Provision for impairment of non-financial assets	11	(10,688)	(1,466)
Other income - net	24	9,118	5,663
<b>Operating loss</b>		<b>(272,040)</b>	<b>(212,012)</b>
Finance income		4,114	6,221
Finance costs		(28,117)	(35,578)
Finance costs - net		<b>(24,003)</b>	<b>(29,357)</b>
Share of profit in a joint venture and an associate accounted for using the equity method	8,9,13	194	708
Gain on interest sold	13	-	16,155
<b>Loss for the year from continuing operations</b>		<b>(295,849)</b>	<b>(224,506)</b>
Loss from discontinued operation	27	-	(18,187)
<b>Loss for the year</b>		<b>(295,849)</b>	<b>(242,693)</b>
Attributable to:			
The shareholders of the Company		(295,849)	(242,693)
		<b>(295,849)</b>	<b>(242,693)</b>
<b>Other comprehensive (loss)/ income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Share of exchange differences on translation of foreign operations of joint venture	8	(2,150)	543
<b>Other comprehensive (loss)/income for the year</b>		<b>(2,150)</b>	<b>543</b>
<b>Total comprehensive loss for the year</b>		<b>(297,999)</b>	<b>(242,150)</b>
Basic and diluted loss per share (AED)	29	(0.595998)	(0.484300)

# MARKA PJSC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to shareholders of the Company				Total AED'000
		Share capital AED'000	Share premium AED'000	Translation reserve AED'000	Accumulated losses AED'000	
<b>Transactions with shareholders</b>						
As at 1 January 2017		500,000	143	(2,475)	(207,428)	290,240
<b>Comprehensive income</b>						
Loss for the year		-	-	-	(242,693)	(242,693)
<b>Other comprehensive income</b>						
Share of exchange differences on translation of foreign operations of a joint venture	8	-	-	543	-	543
<b>Total comprehensive loss</b>		-	-	543	(242,693)	(242,150)
<b>As at 31 December 2017</b>		500,000	143	(1,932)	(450,121)	48,090
<b>Comprehensive income</b>						
Loss for the year		-	-	-	(295,849)	(295,849)
<b>Other comprehensive income</b>						
Share of exchange differences on translation of foreign operations of a joint venture	8	-	-	(2,150)	-	(2,150)
<b>Total comprehensive loss</b>		-	-	(2,150)	(295,849)	(297,999)
<b>As at 31 December 2018</b>		500,000	143	(4,082)	(745,970)	(249,909)

# MARKA PJSC

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2018 AED'000	Year ended 31 December 2017 AED'000
<b>Operating activities</b>			
Loss for the year from:			
Continuing operations		(295,849)	(224,506)
Discontinued operation		-	(18,187)
<b>Adjustments for:</b>			
Depreciation and amortisation	5,6	22,787	29,870
Impairment of property and equipment and intangible assets other than goodwill and brand name - net	5,6	17,968	72,221
Impairment of goodwill	6	163,172	-
Gain on sale of interest in a subsidiary	13	-	(16,155)
Gain on sale of a subsidiary	27	-	(9,710)
Provision for obsolescence of inventory	10	2,597	10,102
Provision for impairment of non-financial assets	11	10,688	1,466
Net impairment losses on financial assets	11	15,515	15,693
Loss on disposal of property and equipment	5	1,018	8,253
Waiver of supplier liabilities no longer needed	24	(6,011)	-
Reversal of supplier balances	24	(1,835)	-
Share of profit in joint venture and an associate accounted for using the equity method	8,9,13	(194)	(708)
Finance costs		28,117	35,816
Finance income		(4,114)	(6,221)
Provision for employees' end of service benefits	16	1,567	1,621
<b>Operating cash flows before end of service benefits paid and changes in working capital</b>			
End of service benefits paid	16	(791)	(1,375)
<b>Changes in working capital:</b>			
Trade and other receivables, net of movement of interest receivable and write-off of advances to suppliers		27,361	56,641
Inventories		(116)	(4,468)
Due from related parties		(10,068)	(8,016)
Trade and other payables, net of reversal of supplier balances		(622)	45,789
Due to related parties		-	(948)
<b>Net cash used in operating activities</b>		<b>(28,810)</b>	<b>(12,822)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	5	(8,635)	(31,614)
Interest received		5,344	-
Purchase of intangible assets	6	-	(7,256)
Proceeds from disposal of property and equipment		-	25,720
Proceeds from sale of Sukuk	7	7,350	-
Proceeds from sale of subsidiaries		142,636	129,243
<b>Net cash generated from investing activities</b>		<b>146,695</b>	<b>116,093</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	15	-	28,591
Repayment of borrowings	15	(99,324)	(172,980)
Interest paid		(31,933)	(30,629)
<b>Net cash used in financing activities</b>		<b>(131,257)</b>	<b>(175,018)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(13,372)</b>	<b>(71,747)</b>
Cash and cash equivalents, beginning of the year		14,859	86,606
<b>Cash and cash equivalents, end of the year</b>	12	<b>1,487</b>	<b>14,859</b>

There were no non-current assets held for sale or discontinued operations during the year.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 1 GENERAL INFORMATION

Marka PJSC (the “Company”) was incorporated on 23 June 2014 as a Public Joint Stock Company in accordance with the UAE Federal Law No. 8 of 1984, (as amended). The UAE Federal Law No. (2) of 2015, has come into effect on 1 July 2015, replacing the existing UAE Federal Law No. 8 of 1984. The Company was listed for trading on the Dubai Financial Market on 25 September 2014 following the Company’s Initial Public Offering (“IPO”).

The registered address of the Company is at Building 9 Level 3 Dubai Design District, Dubai, United Arab Emirates.

The principal activities of the Group are operation of retail stores dealing in restaurants and cafes of mid to high end dining options in addition to luxury apparel and accessories.

The Company holds investments in subsidiaries (referred together with the Company as the “Group”). The activities of the key subsidiaries are listed below:

Name of entity	Principal activity	2018 Legal ownership %	2018 Beneficial ownership %	2017 Legal ownership %	2017 Beneficial ownership %
<b>Subsidiaries incorporated in the United Arab Emirates</b>					
MARKA Hospitality Investments LLC	Intermediate holding company for companies that are engaged in the operation of restaurant, food and beverage business, cafeteria, kids’ amusement arcade, parties and entertainment services for kids	99*	100	99*	100
Reem Al Bawadi Restaurant & Café (L.L.C.)	Operation of restaurant, food and beverage business	100	100	100	100
MARKA Sports Investment LLC	Intermediate holding company for companies that are engaged in retailing, promoting, marketing, trading of goods, and merchandising of signed sporting memorabilia	99*	100	99*	100
MARKA Fashion Investment LLC	Intermediate holding company for companies that are engaged in the retail of fashion merchandise	99*	100	99*	100
MARKA Luxury Investments LLC	Intermediate holding company for companies that are engaged in the retail of luxury merchandise	99*	100	99*	100

\* Ownership of 1% is held in trust by Mr. Khaled Almheiri, a director of the Group, who has assigned right of title any profits, dividends or proceeds to Marka PJSC based on a Declaration of Trust signed between him and Marka PJSC.

The Group has not purchased or invested in any shares during the year ended 31 December 2018.

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 12 May 2019.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the IFRS Interpretations Committee (“IFRIC”) applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared under the historical cost convention except for financial instruments carried at fair value through other comprehensive income (previously available for sale financial assets).

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The figures have been rounded to the nearest thousand except when otherwise stated.

##### (a) *New standards, amendments and interpretations adopted by the Group*

Certain new standards and amendments have been issued and are effective from period beginning 1 January 2018:

#### **IFRS 15, ‘Revenue from contracts with customers’ (effective from 1 January 2018)**

IFRS 15 establishes a comprehensive framework for determining whether, how and when revenue is recognised. It replaced IAS 18 Revenues, IAS 11 Construction contracts and related interpretations.

The Group has adopted IFRS 15 using the modified retrospective transition approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives for 2017 will not be restated.

Changes in accounting policies resulting from the adoption of IFRS 15 has not resulted in material impact on opening balance of retained earnings/equity as of 1 January 2018.

#### **IFRS 9, ‘Financial instruments’ (effective from 1 January 2018)**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

The impact of the adoption of the standard and the new accounting policies is analysed and disclosed in Note 2.5.

The key changes to the Group’s accounting policies resulting from its adoption of IFRS 9 are summarised below. Changes in accounting policies resulting from the adoption of IFRS 9 has not resulted in a material impact on opening balance of retained earnings or equity.

##### (1) *Classification of financial assets and financial liabilities*

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). For financial assets, IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. For equity instruments, IFRS 9 now requires measurement of all assets at fair value and provides an irrevocable option to measure certain securities at FVOCI rather than through profit or loss. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see details in the note below.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies for financial liabilities.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.1 Basis of preparation (continued)

(a) *New standards, amendments and interpretations adopted by the Group (continued)*

(1) *Classification of financial assets and financial liabilities (continued)*

The table presented in Note 2.5 is a reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

(2) *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and assets at FVOCI.

As a result of adoption of IFRS 9, the Group adopted consequential amendments to IAS 1 Presentation of Financial Statements which requires presentation of impairment/reversal of impairment of financial assets to be presented in a separate line item in the consolidated statement comprehensive income.

Provision for impairment of trade receivables:

The Group reassessed its impairment loss on its trade receivables portfolio using an expected loss measurement basis using the simplified approach and did not observe a material change in the current levels of impairment allowances carried on such assets.

(b) *New and amended standards issued but not effective for the financial year beginning 1 January 2018 and not early adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group.

- IFRS 16, 'Leases' (effective from 1 January 2019).

IFRS 16 was issued in January 2016 and is mandatory for first interim periods within annual reporting periods. It will result in almost all leases being recognised on the consolidated statement of financial position, as distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The Group will adopt the standard from its mandatory date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured on transition at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Management is currently performing the assessment of the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments (Note 30).

There are no other standards or IFRS IC interpretations that are not yet effective and that would be expected to have material impact on the Group.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.1 Basis of preparation (continued)

##### Going concern

The Group incurred a net loss of AED 296 million during the year ended 31 December 2018, the Group's net deficit in equity amounted to AED 250 million, accumulated losses amounted to AED 746 million and current liabilities exceeded the Group's current assets by AED 405 million as at 31 December 2018. The Group has also defaulted on interest payments of AED 9.9 million on certain bank loans with an outstanding principal of AED 343 million as at 31 December 2018, which is considered an event of default and resulted in the loans being immediately due and payable on demand hence these borrowings have been reclassified to current liabilities (Note 15).

These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. In order to address the going concern, the Group will need to ensure that sufficient cash flows would be achieved in order to service the debt obligations and conduct its operations without significant curtailment.

During the Annual General Assembly Meeting held on 30th April 2017, the shareholders approved the Board of Directors' recommendation by a special resolution to increase the authorised capital to AED 1 billion and to amend the articles of association of the Company after obtaining the approvals. The Company's current issued and paid up share capital is 500 million shares with a nominal value of AED 1 per share.

During the Annual General Assembly Meeting held on 29th November 2018, the shareholders approved the following:

1. Continuity of the operations in accordance with the requirements of article 302 of the UAE Federal Law No. 2 of 2015 concerning Commercial Companies;
2. Subject to adopting the resolution below, reduction of the Company's share capital from AED 500,000,000 to AED 49,879,000 by cancelling a number of shares equivalent to 450,121,000 shares on a pro rata basis to extinguish the accumulated losses of AED 450,121,000 (the "Capital Reduction") at 31 December 2017. Thus, granting to the Board of Directors of the Company the full authority to effect the procedure for the Capital Reduction pursuant to the provisions of the Commercial Companies Law and the executive regulations of the Securities and Commodities Authority ("SCA"); and
3. Subject to adopting the resolution above, increase of the issued share capital of the Company by an amount up to AED 250,000,000 (the "Capital Increase") through the issuance of a maximum of 250,000,000 new shares of AED 1 per share to be offered to existing shareholders and to approve granting the Board of Directors of the Company the full authority to effectuate the procedure for the Capital Increase, as well as, granting the Board of Directors the full authority and authorising it to accept the final amount subscribed to in the Capital Increase by the rights holders without offering the outstanding balance for public subscription.

The Group is in the process of Capital Reduction and Capital Increase ("Capital Restructuring"), subject to regulatory approval, which will enable it to meet its obligations as they fall due. The Group has received a number of initial commitments in writing from investors to participate in the AED 250 million rights issue by subscribing to the Company's shares for an aggregate amount of AED 64.5 million. Such commitments are subject to regulatory approval.

Since the accumulated losses as at 31 December 2018 exceeded 50% of the issued share capital, and therefore in accordance with article 302 of UAE Federal Law No. (2) of 2015, the Board of Directors intend to convene a general assembly to vote on a resolution for the continuation of the Company.

Further, the Group has restructured some of its borrowings and is currently renegotiating the terms of its facilities with one of the banks with an outstanding principal of AED 343 million to extend the payment terms over a minimum period of 12 years. The outcome of this renegotiation is expected to be known within 2019, and if successful, will reflect positively on the Group's current ratio.

In addition, management has prepared detailed cash flow projections covering a two-year period which show that cash inflow from Capital Restructuring is essential for the Group to meet the cash outflows on borrowings and operational requirements.

These consolidated financial statements have been prepared on a going concern basis in view of the capital and debt restructuring initiatives which are currently in the process of being undertaken during and after the year ended 31 December 2018.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Basis of consolidation

##### (a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Any contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss. When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly within profit and loss in the consolidated statement of comprehensive income.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

##### (b) *Transactions eliminated on consolidation*

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

##### (c) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

##### (d) *Investment in joint arrangement*

Investment in a joint arrangement is classified as either a joint operation or joint venture, depending on the contractual rights and obligations that each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangement and determined that Icons Shop Limited ("Icons") is a joint venture whereby the Group has rights to the net assets of the joint arrangement.

Investments in joint venture are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Basis of consolidation (continued)

##### (e) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (f) below), after initially being recognised at cost.

##### (f) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the impairment policy.

#### 2.3 Foreign currency translation

##### (a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of primary economic environment in which the Group entities operate (the 'functional currency'). The consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Company's functional and presentation currency.

##### (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 the consolidated statement of comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income - net'.

##### (c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.3 Foreign currency translation (continued)

(c) *Group entities* (continued)

(iii) All resulting exchange differences are recognised in other comprehensive income in the consolidated statement of comprehensive income.

When a foreign operation is disposed of partially or in full, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the date of the consolidated statement of financial position. Exchange differences arising are recognised in other comprehensive income in the consolidated statement of comprehensive income.

#### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

#### 2.5 Financial instruments

##### Financial assets

(i) *Classification*

From 1 January 2018, the Group classifies its financial assets as at amortised cost. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows except for financial assets which are considered as equity instrument.

**Business model:** The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at Fair Value through Profit or Loss ("FVPL"). Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

**Solely Payments of Principal and Profit ("SPPI"):** Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent SPPI.

In making this assessment, the Group considers whether contractual cash flows present a nature consistent with a basic lending arrangement, i.e. profit includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

##### *Classification of financial assets at amortised cost*

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

The Group determines the amount of fair value changes which are attributable to credit risk, by first determining the changes due to market conditions which give rise to market risk, and then deducting those changes from the total change in fair value of the convertible debentures. Market conditions which give rise to market risk include changes in the benchmark interest rate.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 Financial instruments (continued)

##### Financial assets (continued)

###### (j) Classification (continued)

###### *Classification of financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income (FVOCI) comprise of equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

On the date of initial application, 1 January 2018, the financial assets of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original AED '000	New AED'000	Difference AED'000
Trade and other receivables	Loans and receivables	Amortised cost	135,283	135,283	-
Cash and bank balances	Loans and receivables	Amortised cost	14,859	14,859	-
Due from related parties	Loans and receivables	Amortised cost	57,789	57,789	-
Equity securities	Available for sale	FVOCI	50,000	50,000	-

The Group holds the following financial assets with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less loss allowance.

- Cash and bank balances. Cash and bank balances include cash in hand and balances in current accounts.
- Trade receivables, other receivables and due from related parties. Trade receivables are amounts due from customers for goods and 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 receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. Other receivables generally arise from transactions outside the usual operating activities of the Group. Collateral is not normally obtained for other receivables. Further information relating to due from related parties are disclosed in Note 18.

All other assets that were previously classified as loans and receivables will now be classified as assets measured at amortised cost under IFRS 9.

###### (ii) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial assets, including trade receivables, at its fair value plus, in the case of a financial asset not at Fair Value through Profit or Loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Immediately after initial recognition, an Expected Credit Loss (ECL) allowance is recognised for financial assets measured at amortised cost and at Fair Value through Other Comprehensive Income ("FVOCI"), which results in accounting loss being recognised in profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognises the difference as follows:

- a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- b) In all other cases, the difference is deferred and the time of recognition of deferred day one profit or loss is determined individually. It is either amortised over life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**2.5 Financial instruments** (continued)**Financial assets** (continued)*(iii) Subsequent measurement**Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Profit income from these financial assets, if any, is included in finance income using the effective profit rate method.
- *Fair value through other comprehensive income (FVOCI):* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit income, if any and foreign exchange gains and losses which are recognised in profit and loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Profit income, if any, from these financial assets is included in finance income using the effective profit rate method.

- *Fair value through profit or loss:* Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the profit or loss statement within other gains/ (losses) in the year in which it arises. Profit income, if any, from these financial assets is included in the finance income.

*Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income/(losses) in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

*(iv) Impairment*

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk and is computed based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

As trade receivables held by the Group have short credit period, i.e. tenor less than or equal to 12 months and does not comprise significant financing component, the Group applies simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised for receivables.

For all other receivables, at the end of each year the Group applies a three stage impairment approach to measure the expected credit losses (ECL) on all debt instruments carried at amortised cost.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**2.5 Financial instruments** (continued)**Financial assets** (continued)*(iv) Impairment* (continued)

The ECL three stage impairment is based on the change in the credit quality of financial assets since initial recognition. If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded. When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to Stage 1, i.e., recognition of 12-month expected credit losses.

When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance for credit losses equal to lifetime expected losses continues to be recorded or the financial asset is written off. The profit income, if any, is calculated on the gross carrying amount for financial assets in Stages 1 and 2 and on the net carrying amount for financial assets in Stage 3.

*Significant increase in credit risk*

In assessing whether the credit risk on its financial instrument has increased significantly since initial recognition, the Group compares the probability of a default occurring on the financial instrument as at the reporting date with the probability of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

*Definition of default*

The definition of default used by the Group to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Group considers a financial asset to be credit-impaired 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 Group considers the customer to be in default if the outstanding balance is 90 days past due.

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, and all the efforts for collection of the receivables are exhausted. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

*Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

ECLs for all financial instruments are recognised in other expenses in the consolidated statement of comprehensive income. In the case of debt instruments measured at amortised cost, they are presented net of the related allowance for expected credit loss on the consolidated statement of financial position.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 Financial instruments (continued)

##### Financial assets (continued)

###### (v) *Derecognition*

Financial assets (or, where applicable a part of a financial asset) are derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:
  - The Group has transferred substantially all the risks and rewards of the asset; or
  - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

###### (vi) *Accounting policies applied until 31 December 2017*

##### **Classification**

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (excluding prepayments and advances to suppliers), 'cash and bank balances' and 'due from related parties' in the consolidated statement of financial position (Notes 11, 18 and 12).

###### *Available for sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the consolidated statement of financial position date.

##### **Recognition and measurement**

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method.

##### **Impairment of financial assets**

###### *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or 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.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 Financial instruments (continued)

##### Financial assets (continued)

##### Impairment of financial assets (continued)

###### *Assets carried at amortised cost (continued)*

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group first assesses whether objective evidence of impairment exists. 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 carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income.

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 the consolidated statement of comprehensive income.

###### *Assets classified as available-for-sale*

The Group 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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated statement of comprehensive income – is removed from equity and recognised separately in the consolidated statement of comprehensive income.

Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

##### Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial liability not classified as fair value through profit or loss, at its fair value minus transactions costs that are incremental and directly attributable to the acquisition or issue of the financial liability. Transactions costs of financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

The Group classifies all financial liabilities as subsequently measured at amortised cost, using effective profit rate method, except for those instruments which are carried at fair value through profit or loss.

The Group derecognises financial liabilities when the obligation is discharged, cancelled or expires. Any difference between carrying value of financial liability extinguished and the consideration paid is recognised in consolidated statement of comprehensive income.

There were no changes to classification and measurement for financial liabilities from IAS 39 to IFRS 9 except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

##### Offsetting financial instruments

Financial assets and liabilities were offset and the net amount reported in the consolidated statement of financial position when there was a legally enforceable right to offset the recognised amounts and there was an intention to settle on a net basis or realise the asset and settle the liability simultaneously.



# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 Financial instruments (continued)

##### Financial assets measured at fair value

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

#### 2.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of 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 Group and the cost of the item can be measured reliably. The carrying value of the replaced part is de-recognised. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method, at rates calculated to reduce the cost of assets to their estimated residual value over their expected useful lives, as follows:

	<b>Years</b>
Building	10
Furniture and fixtures	5 – 8
Office and electrical equipment	3 – 10
Motor vehicles	5
Kitchen equipment	3 – 8

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognised within 'other income - net' in the consolidated statement of comprehensive income.

Capital work-in-progress is stated at cost and includes property and equipment that is being developed for future use. When commissioned, capital work-in-progress is transferred to the respective category, and depreciated in line with the Group's policy.

#### 2.7 Intangible assets

##### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary as of the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.7 Intangible assets (continued)

(b) *Brand name*

Brand name comprises values of brands acquired in business combinations. The amount is arrived at by calculating the present value of the expected future economic benefits to arise from application these brands in the market. The brand name of the acquired subsidiary has an indefinite period since the subsidiary has been in operation for almost 15 years and management has no intention to discontinue in the foreseeable future. The brand is subsequently measured at cost less accumulated impairment losses.

(c) *Supplier agreements*

These comprise of rights to distribution of sportswear and equipment of specific suppliers acquired as part of a business combination. The amount is arrived at by calculating the present value of the expected future economic benefits to arise from these contracts and relationships. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 2 years.

(d) *Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software to its intended use. These costs are amortised over their estimated useful lives of 2 to 5 years. Costs associated with developing or maintaining computer software programmes are recognised as an expense in the consolidated statement of comprehensive income as incurred.

(e) *Franchise agreements*

These comprise franchise agreements with third parties for licensing and operation of restaurant chains. The amount is arrived at by calculating the present value of the expected future economic benefits to arise from these franchise agreements over their useful lives. Amortisation is calculated using the straight-line method to allocate the costs over its estimated useful life of 5 to 10 years.

#### 2.8 Non-current assets classified as held for sale and discontinued operation

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**2.9 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. 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 of disposal 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 each reporting date.

For the purpose of impairment assessment, impairment will be first charged to goodwill until fully impaired, further impairment will be charged to the brand name.

**2.10 Inventories**

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

**2.11 Trade receivables**

Trade receivables are amounts due from customers for goods 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 receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has established a provision matrix that is based on the Group's historical credit loss experience, which is adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

**2.12 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, balances in current accounts, term deposits with original maturities of three months or less.

**2.13 Share capital**

Ordinary shares are classified as equity.

**2.14 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.14 Borrowings (continued)

Borrowing costs directly attributable to the acquisition or construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All borrowing costs are expensed on a time proportion basis using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the consolidated statement of financial position date.

#### 2.15 Employees' benefits

The liability for employees' end of service benefits is recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the value of plan assets. This cost is included in employee benefit expense in the consolidated statement of comprehensive income.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in the accumulated results in the consolidated statement of changes in equity and in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

#### 2.16 Trade and other payables

Trade and other payable are obligations payable to suppliers and accrued staff benefits and other accruals. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Financial liabilities included in trade and other liabilities are recognised initially at fair value and subsequently at amortised cost.

#### 2.17 Revenue

The Group recognises revenue from contracts with customers based on a five step model as set out in IFRS 15.

##### *Step 1 - Identify the contract(s) with a customer*

A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for each of those rights and obligations.

##### *Step 2 – Identify the performance obligations in the contract*

A performance obligation in a contract is a promise to transfer a good or service to the customer.

##### *Step 3 – Determine the transaction price*

Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to a customer, excluding amounts collected on behalf of third parties.

##### *Step 4 – Allocate the transaction price to the performance obligations in the contract*

For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.17 Revenue (continued)

##### *Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation*

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance obligations completed to date.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract based asset on the amount of consideration earned by the performance – unbilled receivables. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives right to a contract liability – advances from customers.

Revenue is measured at the fair value of the consideration received or receivable, taking into account the contractually agreed terms of payment excluding taxes and duties.

##### *(a) Food and beverage*

Revenue from food and beverage sales is recognised at a point in time i.e. when the control is transferred to the customer. The revenue is stated net of discounts.

##### *(b) Sale of merchandise*

Revenue from the sale of goods in the ordinary course of activities is measured at fair value of the consideration received or receivable, net of return, trade discounts and volume rebates and is recognised at a point in time i.e. at the time of transfer of title to the goods.

#### 2.18 Finance income and costs

Finance income comprises interest income on long term investments and other bank deposits. Interest income is recognised as it accrues in the consolidated statement of comprehensive income, using the effective interest method.

Finance costs are mainly interest payable on borrowings obtained from financial institutions at normal commercial rates and is recognised as an expense in the consolidated statement of comprehensive income in the period in which it is incurred.

#### 2.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

#### 2.20 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit/(loss) attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of equity shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group does not have any dilutive potential ordinary shares.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

The Group's activities may expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. The management carries out risk assessment for managing each of these risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(a) *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group's exposure to market risk arises from:

(i) Foreign exchange risk

The Group has an investment in a joint venture which operates in the United Kingdom and is exposed to foreign exchange risk arising from currency exposures, with respect to the Great British Pound ("GBP"). This risk is monitored and limited by the analysis of the foreign currency position.

At 31 December 2018, if the GBP had weakened/strengthened by 10% (2017: 10%) against the AED with all other variables held constant, comprehensive income for the year would have been higher/lower by AED 64,883 (2017: AED 66,266).

(ii) Price risk

The Group has no significant exposure to price risk as it does not hold any listed equity securities or commodities. The Group has some exposure in respect of the unlisted sukuk investment but this is not considered significant.

(iii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (floating rate borrowings). Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated statement of financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The Group does not hedge its exposure to interest rate risk.

At 31 December 2018, if profit and interest rates on variable rate borrowings had been 1% higher/lower with all other variables held constant, loss for the year ended 31 December 2018 would have been higher/lower by AED 205 thousand (2017: AED 300 thousand), mainly as a result of higher/lower finance cost on floating rate borrowings.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the fixed interest rate borrowings at the end of the reporting period are as follows:

	2018 AED'000	2017 AED'000
Not subject to re-pricing	66,486	138,000
<i>Interest rate – re-pricing dates:</i>		
3 months or less	375,830	403,640
	442,316	541,640

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### 3.1 Financial risk factors (continued)

##### (b) Credit risk

Credit risk mainly arises from 'trade and other receivables (excluding non-financial assets)' (Note 11), 'cash and bank balances (excluding cash on hand)' (Note 12) and 'due from related parties' (Note 18). The Group has policies in place to minimise its exposure to credit risk. Sales to customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The maximum exposure to credit risk is represented by the carrying value of financial assets on the consolidated statement of financial position date.

#### Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

	Total AED'000	Not past due AED'000	Up to 3 months AED'000	Between 3 to 6 months AED'000	Over 6 months AED'000
31 December 2018					
Expected loss rate	39%	11%	27%	50%	46%
Gross carrying amount	1,782	243	168	14	1,357
Loss allowance	699	27	45	7	620
1 January 2018					
Expected loss rate	24%	7%	25%	41%	33%
Gross carrying amount	2,511	913	369	445	784
Loss allowance	593	62	93	181	257

The closing loss allowance for trade receivables as at 31 December 2018 reconcile to the opening loss allowance as follows:

	2018 AED'000	2017 AED'000
Opening loss allowance as at 1 January 2018 - calculated under IAS39	593	-
Amounts restated through opening retained earnings	-	-
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9	593	-
Increase in loss allowance recognised in profit or loss during the year	106	593
At 31 December	699	593

Due from related parties balances relate to entities controlled by one of the Group's key management personnel. Based on management's assessment, there is no recoverability concern regarding those balances.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### 3.1 Financial risk factors (continued)

(b) *Credit risk (continued)*

(i) *Customer and other receivables*

The credit quality of customers and other trade debtors is assessed according to Group criteria prior to entering into contracts and other arrangements. Outstanding receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

	2018 AED'000	2017 AED'000
Trade and other receivables*	13,563	135,283
Due from related parties	21,657	57,789
	35,220	193,072

\*Trade and other receivables noted above exclude advances to suppliers and prepayments (Note 11).

Other receivables comprise of deposits related mostly to lease contracts and are neither past due nor impaired. The receivables are mostly with large leasing entities in the UAE and considered adequately provided for. The balance remaining is with reputable counterparties with low to acceptable credit ratings.

Balances due from related parties were not considered past due nor credit impaired and with no history of default. Credit risk in respect of the related parties balances are considered minimal and impairment provision against such balances is immaterial to the Group's consolidated financial statements.

No receivable balances have security or collateral to ensure collectability.

(ii) *Credit risk related to bank balances*

Credit risk from balances with banks and other financial institutions is managed by the Group by investing surplus funds only with approved and reputable counterparties and within credit limits assigned to each counterparty. Bank deposits, and term deposits are limited to high-credit-quality financial institutions. The table below presents an analysis of cash and bank balances by rating agency designation at the end of reporting period based on Moody's ratings or its equivalent for the main banking relationships:

Rating	2018 AED'000	2017 AED'000
A3	545	12,919
Baa 1	-	214
Not rated*	524	1,080
	1,069	14,213

The table of cash and cash equivalents exclude cash on hand amounting to AED 418 thousand (2017: AED 646 thousand). No impairment provision was required as credit risk was considered minimal.

\*Balance maintained with banks having no formal credit rating. However, management views these banks to be high credit quality financial institutions.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. The Group actively manages liquidity risk by monitoring actual and forecast cash flows and by maintaining adequate cash reserves. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest where applicable.



# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### 3.1 Financial risk factors (continued)

##### (c) Liquidity risk (continued)

	Within 1 year AED'000	2 to 5 years AED'000	Beyond 5 years AED'000	Total AED'000
31 December 2018				
Trade and other payables (Note 17)	93,937	-	-	93,937
Borrowings (Note 15)	363,103	88,423	42,609	494,135
	457,040	88,423	42,609	588,072
31 December 2017				
Trade and other payables (Note 17)	102,405	-	-	102,405
Borrowings (Note 15)	228,828	173,233	273,536	675,597
	331,233	173,233	273,536	778,002

The Group has experienced a shortage in cash resources during the year (Note 2.1) and as a result, there is liquidity risk in that the timing of Capital Restructuring is uncertain and the Group requires funding until that date. In order to be able to respond to liquidity requirements, the Group is currently in negotiation with one of its lenders in order to extend the payment terms for one of its major borrowings. In addition, the Group is in the process of Capital Restructuring (Note 2.1) that is expected to generate cash inflows to manage liquidity risk.

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratio at 31 December 2018 and 2017 are as follows:

	2018 AED'000	2017 AED'000
Total borrowings	453,794	556,934
Less: Cash and bank balances	(1,487)	(14,859)
Net debt	452,307	542,075
Equity	(249,909)	48,090
Total capital	202,398	590,165
Gearing ratio	223%	92%

As noted above, the Group is highly geared and is in the process of restructuring the capital and debts of the business. Refer to Note 2.1.

#### 3.3 Fair value estimation

The following list analyses financial instruments that are carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level).

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### 3.3 Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is based on valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, these instruments are included in level 2.

If one or more of the significant inputs are not based on observable market data, these instruments are included in level 3. There were no transfers between the levels.

Quoted price is used to determine the fair value of financial assets at FVOCI. The following table presents the group's assets that are measured at fair value at 31 December 2018.

	<b>Level 2</b> AED'000
<b>At 31 December 2018</b>	
<b>Assets</b>	
Financial assets at FVOCI	
- Investment in equity securities (Note 7)	42,650
<b>At 31 December 2017</b>	
<b>Assets</b>	
Available for sale financial assets	
- Investment in equity securities (Note 7)	50,000

The fair value of the sukuk was considered level 2 as the Group sold sukuk worth AED 7,350,000 during the year to multiple unrelated third parties which was the same as current carrying amount. On this basis, the fair value at the end of 2018 was considered to be appropriate.

The carrying value less impairment provision of trade receivables are assumed to approximate their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments. Other receivables and payables' carrying amounts approximate their fair values.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and judgements 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.

#### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)

The estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

*Impairment of goodwill and brand name*

The Group's policy is to test whether goodwill and brand name have suffered any impairment on an annual basis or when there is an indicator that these may be impaired. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. These assumptions are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The calculations use cash flow projections based on financial budgets approved by Board of Directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

An impairment charge of AED 163,172 thousand against goodwill (Note 6) has been recorded in the current year.

The results of sensitivity analysis performed by management in relation to the key assumptions used in the value-in-use calculations are disclosed in Note 6.

The Group has determined that the smallest cash generating units ("CGU") are its restaurant level. It has developed financial and operating performance indicators for each of its stores and performs an annual study to identify indications of impairment. If necessary, it also performs an impairment analysis according to IAS 36, Impairment of Assets ("IAS 36"), in which discounted future cash flows are calculated to ascertain whether the value of assets has become impaired. However, a risk exists whereby the assumptions utilised by management to calculate future cash flows may not be fair based on current conditions and those prevailing in the foreseeable future. The non-financial assets assessed for impairment are property and equipment and intangible assets other than goodwill and brand name. Impairment charges have been included in the "Impairment of property and equipment and intangible assets other than goodwill and brand name – net" line in the consolidated statement of comprehensive income. Net impairment charges of AED 4,316 thousand against property and equipment (Note 5) and AED 13,652 thousand against intangible assets (Note 6) have been recorded in the current year.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 5 PROPERTY AND EQUIPMENT

	Land AED'000	Building AED'000	Furniture and fixtures AED'000	Office and electrical equipment AED'000	Motor vehicles AED'000	Kitchen equipment AED'000	Capital work-in- progress AED'000	Total AED'000
<b>Cost</b>								
At 1 January 2017	2,267	21,756	158,519	24,318	738	14,744	19,506	241,848
Additions	-	-	5,367	5,828	118	1,687	18,614	31,614
Disposals	(2,267)	(21,756)	(1,448)	(348)	(245)	(167)	(11,251)	(37,482)
Transfers	-	-	202	699	-	-	(901)	-
Assets included in a disposal group classified as held for sale and other disposals	-	-	(36,186)	(3,157)	-	-	(675)	(40,018)
At 31 December 2017	-	-	126,454	27,340	611	16,264	25,293	195,962
Additions	-	-	1,668	1,033	-	1,251	4,683	8,635
Disposals	-	-	(467)	(300)	(162)	(678)	-	(1,607)
Transfers	-	-	14,722	960	-	499	(16,181)	-
<b>At 31 December 2018</b>	-	-	142,377	29,033	449	17,336	13,795	202,990
<b>Accumulated depreciation and impairment</b>								
At 1 January 2017	-	1,645	22,706	4,571	5	2,766	-	31,693
Charge for the year	-	2,148	18,175	5,128	124	2,104	-	27,679
Disposals	-	(3,793)	(180)	(83)	(76)	(28)	-	(4,160)
Impairment charge	-	-	36,826	5,602	81	4,973	22,428	69,910
Assets included in a disposal group classified as held for sale and other disposals	-	-	(18,940)	(1,380)	-	-	-	(20,320)
At 31 December 2017	-	-	58,587	13,838	134	9,815	22,428	104,802
Charge for the year	-	-	14,063	4,185	92	1,862	-	20,202
Disposals	-	-	(182)	(150)	(104)	(153)	-	(589)
Impairment charge/(reversal)	-	-	15,577	2,269	-	(3,668)	(9,862)	4,316
<b>At 31 December 2018</b>	-	-	88,045	20,142	122	7,856	12,566	128,731
<b>Net book amount</b>								
At 31 December 2018	-	-	54,332	8,891	327	9,480	1,229	74,259
At 31 December 2017	-	-	67,867	13,502	477	6,449	2,865	91,160

Capital work-in-progress comprises of fit-outs works for the restaurants and outlets.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 5 PROPERTY AND EQUIPMENT (continued)

#### *Impairment charge and reversal*

An impairment charge of AED 17,846 has been recognised against property and equipment. This impairment has been recorded following management's impairment review of these balances due to the change in the estimates used to determine the assets' recoverable amount arising from the overall improvement in the competitive environment in which the Group operates. The impairment charge has been determined as the difference between the carrying amount of the property and equipment and the respective recoverable amount.

The impairment reversal during the year amounting to AED 13,530 mainly relates to furniture and fixtures of one of the Group's outlets which was fitted out during 2017 and the Group had taken a decision not to operate during 2017 and hence fully provided for. Subsequently, in 2018, the Group started operating the outlet and hence the amount was reversed.

The above resulted in a net impairment charge of AED 4,316 thousands.

### 6 INTANGIBLE ASSETS

	<b>Goodwill</b>	<b>Brand</b>	<b>Supplier</b>	<b>Computer</b>	<b>Franchise</b>	<b>Total</b>
	<b>AED'000</b>	<b>name</b>	<b>agreements</b>	<b>software</b>	<b>AED'000</b>	<b>AED'000</b>
		<b>AED'000</b>	<b>AED'000</b>	<b>AED'000</b>		
<b>Cost</b>						
<b>As at 1 January 2017</b>	412,516	58,170	3,915	3,020	16,863	494,484
Additions	2,177	-	-	-	5,079	7,256
Disposals	-	-	-	(651)	-	(651)
Assets included in a disposal group classified as held for sale and other disposals	(182,099)	-	-	(7)	-	(182,106)
At 31 December 2017 and 31 December 2018	232,594	58,170	3,915	2,362	21,942	318,983
<b>Accumulated amortisation and impairment</b>						
<b>As at 1 January 2017</b>	53,812	-	3,915	549	2,003	60,279
Charge for the year	-	-	-	340	1,851	2,191
Impairment charge	-	-	-	133	2,178	2,311
Assets included in a disposal group classified as held for sale and other disposals	(52,420)	-	-	(4)	-	(52,424)
At 31 December 2017	1,392	-	3,915	1,018	6,032	12,357
Charge for the year	-	-	-	327	2,258	2,585
Impairment charge	163,172	-	-	-	13,652	176,824
At 31 December 2018	164,564	-	3,915	1,345	21,942	191,766
<b>Net book amount</b>						
At 31 December 2018	68,030	58,170	-	1,017	-	127,217
At 31 December 2017	231,202	58,170	-	1,344	15,910	306,626

The intangible assets (other than goodwill) of the Group mainly consist of Reem Al Bawadi brand name with a carrying amount of AED 58,170,000 (2017: AED 58,170,000). The brand name is considered to have an indefinite useful life as it has been active in the market for a considerably long period of time and management has no intentions of discontinuing use of the brand.

The Group has a franchise agreement with Morelli's Gelato to operate and sell gelato under Morelli's brand name exclusively in the UAE, KSA, Bahrain, Kuwait and Qatar. Franchise agreement from acquisition of Morelli's with carrying value of AED 13.7 million has been written-off during the current year.

#### *Goodwill*

Goodwill represents the excess of purchase consideration paid over the fair value of the net assets and identifiable intangible assets acquired in 2015.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 6 INTANGIBLE ASSETS (continued)

*Goodwill* (continued)

Goodwill is allocated to the Group's cash generating units ("CGU"s) identified on each business acquisition. A summary of the allocation of goodwill to CGUs is presented below:

	Reem Al Bawadi AED'000	Morelli's Bahrain AED'000	Morelli's UAE AED'000	Morelli's KSA AED'000	Total AED'000
Goodwill	68,030	-	-	-	68,030
Brand name	58,170	-	-	-	58,170
At 31 December 2018	126,200	-	-	-	126,200
Goodwill	223,051	1,640	4,334	2,177	231,202
Brand name	58,170	-	-	-	58,170
At 31 December 2017	281,221	1,640	4,334	2,177	289,372

#### Value in use method

In accordance with the International Accounting Standard 36 (impairment of assets), the Group is required to carry out an impairment assessment whenever there is an indication that the asset may be impaired. In addition, the standard also requires that goodwill be tested for impairment annually irrespective of whether there is any indication of impairment. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the terminal growth rates stated below. These terminal growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

For the purpose of impairment assessment of goodwill and brand name, the management has determined the recoverable amount of Reem Al Bawadi and Morelli's Bahrain, UAE and KSA are based on value in use calculation which required the use of estimate of the future cash flows the Group expects to derive from those CGUs in addition to other estimates such as the terminal growth rates and discount rates for the time value of money. Based on the assessment, management concluded that there is an impairment of AED 155 million to the goodwill for the CGU of Reem Al Bawadi, impairment of AED 4.3 million to the goodwill for the CGU of Morelli's UAE, impairment of AED 2.2 million to the goodwill for the CGU of Morelli's KSA and an impairment of AED 1.6 million to the goodwill for the CGU of Morelli's Bahrain in addition to its assets (Notes 5, 10 and 11).

Key assumptions used in value in use calculations are:

#### *Terminal growth rates in sales*

	2018	2017
Reem Al Bawadi	3%	N/A*
Morelli's Bahrain	3%	N/A*
Morelli's UAE	3%	N/A*

#### *Discount rate*

Discount rate reflects management's benchmark for evaluating investment proposals.

	2018	2017
Reem Al Bawadi	11.80%	N/A*
Morelli's Bahrain	11.20%	N/A*
Morelli's UAE	11.20%	N/A*

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 6 INTANGIBLE ASSETS (continued)

##### Gross margin

Gross margin is based on past performance, current level of activity and estimated future charter rates.

	2018	2017
Reem Al Bawadi	80%	N/A*
Morelli's UAE	83%	N/A*
Morelli's Bahrain	83%	N/A*

\* As at 31 December 2017, an impairment assessment was not carried out by management in accordance with IAS 36 'Impairment of assets' to assess whether goodwill and brand name are subject to impairment. Subsequently, management carried out an impairment assessment as at 30 June 2018 and 31 December 2018. The current financial position and cash deficit of the Group as 31 December 2018 have negatively impacted the operations of the Group which resulted in significant decrease in cash flows from operations along with other factors i.e. significant delays in Capital Restructuring (Note 2.1) which have curtailed the performance of the operations.

##### Sensitivity analyses

Below is the sensitivity analyses as at 31 December 2018:

	Change in assumption 2018	Headroom / (impairment of goodwill)	
		Increase in assumption 2018 AED'000	Decrease in assumption 2018 AED'000
<i>Reem Al Bawadi</i>			
Terminal growth rate	+/-1%	13,053	(9,942)
Discount rate	+/-1%	(13,728)	17,849
Gross margin	+/-1%	9,833	(9,348)

Goodwill for Morelli's UAE, KSA and Bahrain has been fully impaired during the year ended 31 December 2018; sensitivity analysis resulted in neither a headroom nor any additional impairment.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Terminal growth rate	Based on past performance and management's expectations of market development.
Gross margin	Based on past performance and management's expectations for the future.
Discount rate	Based on the capital asset pricing model and reflect specific risks relating to the countries of operation.

#### 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (PREVIOUSLY AVAILABLE FOR SALE FINANCIAL ASSETS)

	2018 AED'000	2017 AED'000
Financial assets at fair value through other comprehensive income	42,650	50,000

Financial assets at fair value through other comprehensive income pertains to an investment in Tier 1 Capital Certificates ("Sukuk") issued at their par value. The Sukuk are unquoted perpetual instruments and carry non-cumulative interest at a rate of 7.5% per annum payable every six months at the discretion of the issuer. In 2018, the Group sold AED 7,350,000 worth of the instrument to third parties and the proceeds were used to settle the loan from Finance House.

The Group has classified them as financial assets at fair value through other comprehensive income under IFRS 9 as the Sukuk is not held for trading. The Group received interest of AED 5,344 thousands during the year ended 31 December 2018.

The Sukuk certificates are placed as a security against the term financing facilities obtained from Finance House.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 8 INVESTMENT IN A JOINT VENTURE

On 31 May 2015, the Group acquired 65% effective ownership interest in Icons Shop Limited (“Icons”) for a consideration of AED 15 million. The shares acquired comprised of 2,632 ordinary shares of Great British Pound (GBP) 1 each. Total identifiable net assets acquired from this acquisition amounted to AED 13.9 million. Icons Shop Limited is a company incorporated under the laws of England and Wales (registered number 06791294), whose registered office is at 64 New Cavendish Street, London W1G 8TB. Its principal activity is merchandising of signed sporting memorabilia. The shareholder’s agreement requires consent of both parties to the arrangement on a significant portion of the relevant activities of the business. As such the investment was deemed to be a joint venture.

The details of the investment are set out below:

	2018 AED’000	2017 AED’000
At the beginning of the year	14,731	13,526
Share of profit for the year	194	662
Share of other comprehensive (loss)/income for the year	(2,150)	543
At the end of the year	12,775	14,731

The tables below provide summarised financial information for Icons (Joint Venture). The information disclosed reflects the amounts presented in the financial statements of the joint venture:

#### Summarised statement of financial position

	2018 AED’000	2017 AED’000
Current assets		
Cash and cash equivalents	168	264
Other current assets	10,821	15,163
Total current assets	10,989	15,427
Non-current assets	2,004	304
Current liabilities	2,484	2,212
Net assets	10,509	13,519
Group’s share in %	65%	65%
Group’s share in AED	6,831	8,787
Goodwill	5,944	5,944
Carrying Amount	12,775	14,731

#### Summarised statement of income

	Year ended 31 December 2018 AED’000	Year ended 31 December 2017 AED’000
Revenue	19,266	17,801
Cost of sales	(10,984)	(9,182)
<b>Gross profit</b>	8,282	8,619
General and administrative expenses	(6,861)	(5,900)
Selling and distribution expenses	(1,000)	(1,546)
Other expenses	(69)	(114)
Finance costs - net	(54)	(41)
Profit for the year	298	1,018



# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 9 INVESTMENT IN AN ASSOCIATE

	2018 AED'000	2017 AED'000
At the beginning of the year	200	120
Share of profit for the year	-	80
At the end of the year	200	200

In 2016, the Group acquired 40% investment in Marka Fitout Group FZ-LLC (“Marka Fitout Group”) amounting to AED 120,000. Marka Fitout Group is a free zone limited liability company incorporated in Dubai, United Arab Emirates on 17 October 2016. Its principal activities include architectural design, consultancy, assembling, and importation of fit-outs.

### 10 INVENTORIES

	2018 AED'000	2017 AED'000
Goods held for sale	11,961	17,001
Provision for obsolete inventories	(8,033)	(10,592)
	3,928	6,409

The cost of inventories recognised as expense and included in costs of sales for the year ended 31 December 2018 amounted to AED 21,675 thousand (2017: AED 37,386 thousand).

Movement on the Group’s provision for impairment of inventories is as follows:

	2018 AED'000	2017 AED'000
At the beginning of the year	10,592	490
Charge for the year (Note 20)	2,597	10,102
Write off during the year	(5,156)	-
At the end of the year	8,033	10,592

### 11 TRADE AND OTHER RECEIVABLES

	2018 AED'000	2017 AED'000
Trade receivables	1,782	2,511
Less: loss allowance on trade receivables	(699)	(593)
	1,083	1,918
Receivables from the sale of a subsidiary	-	115,000
Other financial receivables	22,382	28,643
Less: loss allowance on non-trade financial assets	(9,902)	(10,278)
Total financial assets within trade and other receivables	13,563	135,283
Advances to suppliers	12,430	23,473
Prepayments	2,695	11,971
Less: impairment provision	(10,155)	(1,466)
	18,533	169,261

Other financial receivables mostly pertain to security deposits held by lessors related to the leased spaces for the Group’s restaurants, cafes and retail stores.

#### *Receivables from the sale of a subsidiary*

On 2 May 2017, the Group sold its subsidiary (“Retailcorp”) to GMG Holding Limited for the total consideration of AED 200 million. In October 2018, the outstanding balance of receivables amounting to AED 115 million was settled for AED 102 million. Accordingly, an impairment of AED 13 million was recorded during the year ended 31 December 2018.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 11 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2018, trade receivables of AED 216 thousand (2017: AED 851 thousand) were fully performing. The gross amount of AED 834 thousands was considered credit impaired and a provision of AED 674 was provided for against the gross amount.

As at 31 December 2018, trade receivables of AED 867 thousand (2017: AED 1.1 million) were past due but not impaired. These relate to independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2018 AED'000	2017 AED'000
Up to 3 months	123	276
3 to 6 months	7	264
Over 6 months	737	527
	<b>867</b>	<b>1,067</b>

As at 31 December 2018, trade receivables of AED 699 thousand (2017: AED 593 thousand) were impaired and fully provided for. The individually impaired receivables mainly relate to long outstanding overdue balances considering the history of default and the existing or anticipated disputes with the customers.

At 31 December 2018, the ageing analysis of trade receivables and corresponding loss allowance is as follows:

	Total AED'000	Not past due AED'000	Up to 3 months AED'000	Between 3 to 6 months AED'000	Over 6 months AED'000
31 December 2018					
Gross carrying amount- trade receivables	1,782	243	168	14	1,357
Loss allowance	699	27	45	7	620

	Total AED'000	Not past due AED'000	Up to 3 months AED'000	Between 3 to 6 months AED'000	Over 6 months AED'000
31 December 2017					
Gross carrying amount – trade receivables	2,511	913	369	445	784
Loss allowance	593	62	93	181	257

Movement on the Group's loss allowance is as follows:

	Trade receivables AED'000	Loss allowance Other financial receivables AED'000	Total AED'000
Opening loss allowance as at 1 January 2017 (calculated under IAS 39)	-	-	-
Charge for the year	593	15,100	15,693
Write-off during the year	-	(4,822)	(4,822)
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	593	10,278	10,871
Amounts restated through opening retained earnings	-	-	-
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9)	593	10,278	10,871
Charge for the year	106	15,409	15,515
Write-off during the year	-	(15,785)	(15,785)
At 31 December 2018	<b>699</b>	<b>9,902</b>	<b>10,601</b>

The total gross amount of other financial receivables amounting to AED 15,409 was considered credit impaired and a fully provided for.

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 12 TRADE AND OTHER RECEIVABLES (continued)

Movement on the Group's provision for impairment of non-financial assets is as follows:

	2018 AED'000	2017 AED'000
At 1 January	1,466	-
Charge for the year	10,688	1,466
Write offs	(1,999)	-
At 31 December	10,155	1,466

Non-financial assets comprise of advances to suppliers and prepayments.

All trade receivables are denominated in United Arab Emirates Dirham ('AED') or currencies pegged with AED.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable. The Group does not hold any collateral as security.

#### 13 CASH AND BANK BALANCES

	2018 AED'000	2017 AED'000
Cash on hand	418	646
Cash at bank	1,069	14,013
Term deposits	-	200
Cash and bank balances	1,487	14,859

Bank balances are held with local branches of international banks. Management views these banks as having a sound performance history and satisfactory credit ratings.

#### 13 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	31 December 2017 AED'000
<i>Assets classified as held for sale (Investment in associate)</i>	
Balance at the beginning of the year	28,122
Share in loss for the year	(34)
Dividend received	(2,243)
Disposal	(25,845)
Balance at the end of the year	-

In August 2016, the Directors of Marka PJSC approved the sale of the Group's ownership in Cheeky Monkeys Management Services LLC ("Cheeky Monkeys") on intervals.

On 25 September 2016, the Group entered into a sale and purchase agreement to sell 15% stake in Cheeky Monkeys to Evolve Knowledge Investments (an entity controlled by one of the Group's key management personnel) for a total consideration of AED 21 million. It was determined by the Group that it has lost its control over Cheeky Monkeys but retained significant influence over it. The loss of control resulted in the derecognition of Cheeky Monkeys' net assets, including non-controlling interests, and the recognition of the remaining stake in Cheeky Monkeys at fair value. The fair value of the remaining stake was computed by an external valuation expert and is based on several assumptions including the terminal growth rate of the subsidiary and the discount rate.

On 29 December 2016, the Group entered into another sale and purchase agreement to sell another 15% stake in Cheeky Monkeys to Evolve Knowledge Investments for a total consideration of AED 21 million.

As at 31 December 2016, the retained 30% stake in Cheeky Monkeys was presented as assets classified as held for sale.

In January 2017, the Group received dividends from its investment in Cheeky Monkeys amounting to AED 2.2 million.

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 13 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (continued)

On 31 March 2017, the Group entered into another sale and purchase agreement to sell the remaining 30% stake in Cheeky Monkeys to Evolve Knowledge Investments for a total consideration of AED 42 million.

	31 March 2017 AED'000
Fair value of the consideration	42,000
Carrying value of non-current assets classified as held for sale	(25,845)
Gain on sale of assets held for sale	16,155

During its annual general meeting held on 30 April 2017, the Group obtained approval from the shareholders for the sale of ownership in Cheeky Monkeys to Evolve Knowledge Investments, a related party, in order to comply with the requirements of UAE Federal Law No. (2) of 2015 (the "Companies Law") and the Securities and Commodities Authority ("SCA") in connection with transactions with a related party which exceeded 5% of its issued capital.

Total receivables of the Group from Evolve Knowledge Investments related to the sale of Cheeky Monkeys amounted to AED 16.4 million were collected in July 2018.

#### 14 SHARE CAPITAL

	Number of ordinary shares	2018 AED'000	2017 AED'000
Issued and paid share capital:	500,000,000	500,000	500,000

As of 30 March 2014, the founders of the Company had fully paid for 225,000,000 shares of AED 1 each. Each shareholder also paid AED 0.03 per share by way of subscription fees. Gross proceeds from these collections amounted to AED 231,750,000. On 23 June 2014, Marka PJSC was incorporated and the founders of the Company subscribed to 225,000,000 ordinary shares of AED 1 each.

The Company went for an Initial Public Offering ("IPO") commencing on 13 April 2014. The Company was listed on the Dubai Financial Market on 25 September 2014. The IPO was priced at AED 1.00 per share with subscription fees of AED 0.03 per share. Gross proceeds amounted to AED 283,250,000.

During the Annual General Assembly held on 30 April 2017, the shareholders approved the Board of Directors' recommendation by a special resolution to increase the authorised capital from AED 500 million to the amount of AED 1 billion and to amend the articles of association of the Company and issue the additional shares during the year. As at 31 December 2017, the Company's issued share capital was AED 500 million divided into 500 million shares with a nominal value of AED 1 per share.

#### 15 BORROWINGS

	2018 AED'000	2017 AED'000
Commodity murabaha	284,319	283,408
Mudaraba	78,982	78,982
Mezzanine finance*	54,808	23,000
Term finance	24,207	156,250
	442,316	541,640
Accrued interest	11,478	15,294
	453,794	556,934

\*The Sukuk certificates (Note 7) are placed as a security against this financing facility.

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 15 BORROWINGS (continued)

The maturity profile of the Group's total borrowings is as follows:

	2018 AED'000	2017 AED'000
Within one year	356,294	198,148
After one year but not more than five years	19,014	108,263
More than five years	78,486	250,523
	<u>453,794</u>	<u>556,934</u>

All borrowings are denominated in AED. Interest rates on the Group's borrowings ranged from 5.00% to 12.00% per annum in 2018 (2017: 4.60% to 7.82%).

As at 31 December 2018, the Group was overdue paying interest on its bank borrowings amounting to AED 9.9 million. As a result, borrowings amounting to AED 343 million were fully classified as current borrowings as at 31 December 2018. Currently, management is in the process of renegotiating the terms of these borrowings with one of the banks to extend the payment terms over a minimum period of 12 years with a reduced interest rate. The outcome of this renegotiation is expected to materialise within 2019.

In September 2018, the Group entered into a restructuring plan of all of its outstanding loans with Ajman Bank. The restructured loan is payable in instalments over 10 years starting from 2019. Subsequently, in October 2018, the Group partially settled the loan of AED 96 million to Ajman Bank from the proceeds of the sale of a subsidiary (Note 27).

In January 2018, the Group signed a facility letter with Finance House for AED 64 million for the purpose of full settlement of a loan worth AED 41.8 million from Ajman Bank and partially offsetting the previous loan from Finance House up to AED 22.2 million. The loan was approved by the Board of Directors in January 2018 and the proceeds of the loan were received in April 2018.

There was no material gain or loss on restructuring of borrowings during the year ended 31 December 2018.

On 26 December 2017 the Group restructured two of its facilities with one of its banks. Based on updated terms of the facility agreement, principal amount will be paid on quarterly basis starting from 2020. Since the restructuring resulted in the significant change in the repayment schedule of the facility, the Group has assessed the impact and recognised a discount within current year's finance income of AED 1,225,061. Facility fees recorded under the previous terms of the agreement amounting to AED 3,650,000 were fully amortised in 2017.

Due to the fact that the Group restructured the repayment plan of its borrowings, respective maturity was presented in line with updated repayment schedules.

In 2017, the Group settled 3 loans worth AED 56.7 million from Ajman Bank, Emirates Islamic Bank and Dubai Islamic Bank.

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 15 BORROWINGS (continued)

Details of the borrowings as at 31 December 2018 and 2017 are as follows:

Type of facility	Counterparty	Type	Collateral	As at 31 December 2018		As at 31 December 2017	
				Principal AED'000	Accrued interest AED'000	Principal AED'000	Accrued interest AED'000
Commodity murabaha	A	Restructured	N-1	263,775	7,193	263,775	8,424
Mudaraba	A	Restructured	N-1	78,982	2,335	78,982	1,131
Mezzanine finance	B	Restructured	N-2	54,808	857	23,000	932
Term finance	C	Restructured	N-3	24,207	879	156,250	4,516
Commodity murabaha	C	Restructured	N-4	20,544	214	19,633	291
				442,316	11,478	541,640	15,294

The following are the securities and collaterals related to the Group's borrowings as of 31 December 2018:

N-1: Corporate Guarantee of AED 375,000,000 from Marka PJSC & subordination of Marka PJSC's loan balance/due to related parties of AED 170,000,000 in favour of the bank.

N- 2: The Sukuk certificates are placed as a security (Note 7).

N-3: Letter of Comfort from Marka PJSC favoring the bank on behalf of Marka Sports LLC, Corporate Guarantee in favor of the bank from Marka Sports Investments LLC.

N-4: Corporate Guarantee from Marka Hospitality LLC, assignment of cash and Point of Sale from Morellis Gelato outlets in favor of the bank to be routed through Marka Hospitality 1 LLC account with the bank.

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 16 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	3,606	3,360
Charge for the year (Note 23)	1,567	1,621
Payments during the year	(791)	(1,375)
Balance at the end of the year	4,382	3,606

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2018, using the projected unit credit method, in respect of employees' end of service benefits payable under the applicable Local Labour Laws. Under this method an assessment has been made of the employees' expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 3% (2017: 3%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 3.45% (2017: 3.08%).

#### 17 TRADE AND OTHER PAYABLES

	2018 AED'000	2017 AED'000
Trade payables	82,029	64,683
Accruals	9,365	29,445
Other payables	2,543	8,277
	93,937	102,405

#### 18 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties include the shareholders, key management personnel, associated companies, joint venture, directors and businesses including affiliates controlled directly or indirectly by the shareholders and directors or over which they exercise significant management influence.

The details of transactions and balances with related parties are shown below:

Description of transaction and name of related party	Relationship	Year ended 31 December 2018 AED'000	Year ended 31 December 2017 AED'000
<i>Sale of ownership interest in a subsidiary</i> (Note 13)			
Evolve Knowledge Investments *	Entity controlled by one of the Group's key management personnel	-	42,000
<b>Key management compensation</b>			
Salaries and other short term employee benefits		1,836	3,742
Bonus and termination benefits		-	9,652
Other benefits		1,682	1,347
		3,518	14,741

Balances with related parties relate to multiple transactions including sale of goods at prices that would be available to third parties and are repayable within 12 months from the date of sale. These receivables are unsecured, unguaranteed, non-interest bearing, collectible in cash at net amount.

There were no fees paid to the Board of Directors during the years ended 31 December 2018 and 2017.

No loans have been provided to the Directors, their spouses, children and relatives of the second degree or any corporates in which they own 20% or more.

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Balances with related parties are as follows:

Name of related party	Relationship	2018 AED'000	2017 AED'000
<b>Due from related parties</b>			
Marka Fitout Group	Associate	8,765	8,765
Universal Beauty Products FZE	Entity controlled by one of the Group's key management personnel	8,753	-
Ginza Restaurants LLC	Entity controlled by one of the Group's key management personnel	2,930	2,283
Repton School FZ LLC	Entity controlled by one of the Group's key management personnel	707	541
Evolve Knowledge Investments	Entity controlled by one of the Group's key management personnel	-	46,200
		21,155	57,789

All balances above are due from entities controlled by one key management personnel.

Balances due from related party were not considered past due nor credit impaired. As per Note 3.1 (b), impairment provision against these receivables was not considered significant to the consolidated financial statements.

#### 19 REVENUE

	Year ended 31 December 2018 AED'000	Year ended 31 December 2017 AED'000
Food and beverage	74,202	93,253
Sale of merchandise	1,823	6,357
	76,025	99,610

#### 20 COST OF SALES

Staff costs (Note 23)	27,785	30,892
Cost of goods sold:		
Food and beverage	18,590	23,523
Provision for obsolete inventories (Note 10)	2,597	10,102
Merchandise	488	3,761
	49,460	68,278



# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 21 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2018 AED'000	Year ended 31 December 2017 AED'000
Staff costs (Note 23)	12,888	36,967
Provision for lease penalty	9,209	7,145
Professional and legal	5,653	4,037
Depreciation and amortisation	4,787	5,928
Rent	3,262	2,227
Repairs and maintenance	2,011	4,480
Trade licenses and related fees	1,779	2,136
Transportation	1,099	4,510
Royalty	705	2,054
Credit card expenses	637	918
Travelling and accommodation	440	420
Office administration costs	407	671
Printing and stationery	276	482
Others	3,392	8,315
	<u>46,545</u>	<u>80,290</u>

There were no social contributions made during the year ended 31 December 2018 (2017: nil).

### 22 SELLING AND DISTRIBUTION EXPENSES

Rent	27,920	43,106
Depreciation and amortisation	17,999	22,859
Utilities	5,294	8,077
Staff costs (Note 23)	1,777	3,098
Advertisement and business development	845	2,197
	<u>53,835</u>	<u>79,337</u>

### 23 STAFF COSTS

Salaries and wages	36,020	54,520
Other benefits	4,863	14,816
End of service benefits (Note 16)	1,567	1,621
	<u>42,450</u>	<u>70,957</u>

#### *Included under*

Cost of sales (Note 20)	27,785	30,892
General and administrative expenses (Note 21)	12,888	36,967
Selling and distribution expenses (Note 22)	1,777	3,098
	<u>42,450</u>	<u>70,957</u>

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 24 OTHER INCOME - NET

	Year ended 31 December 2018 AED'000	Year ended 31 December 2017 AED'000
Waiver of supplier liabilities no longer needed*	6,011	-
Reversal of supplier balances	1,835	-
Franchise income	1,733	2,072
Loss on disposal of property and equipment	(1,018)	(7,602)
Loss on disposal of intangible assets	-	(651)
Gain on sale of subsidiary (Note 27)	-	9,710
Others	557	2,134
	9,118	5,663

\* Based on settlement agreements with various suppliers, the Group was granted discounts on its outstanding balances amounting to AED 6 million which has been released to profit or loss in the current year. The liabilities were considered extinguished and no further obligation exists for the Group.

#### 25 FINANCIAL INSTRUMENTS

The accounting policies for the financial instruments have been applied to the line items below:

	2018 AED'000	2017 AED'000
<b>Financial assets</b>		
Financial assets at fair value through other comprehensive income (Note 7)	42,650	50,000
<i>Loans and receivables at amortised cost</i>		
Cash and bank balances (Note 12)	1,487	14,859
Due from related parties (Note 18)	21,657	57,789
Trade and other receivables (excluding advances to suppliers and prepayments) (Note 11)	13,563	135,283
	36,707	207,931
<b>Financial liabilities</b>		
<i>Other financial liabilities at amortised cost</i>		
Trade and other payables (Note 17)	93,937	102,405
Borrowings (Note 15)	453,794	556,934
	547,731	659,339

#### 26 BUSINESS COMBINATIONS

In 2017, the Group acquired the business and assets of Morelli's Gelato ("Morelli's") franchise in the Kingdom of Saudi Arabia. The business and assets were acquired through a business and asset transfer agreement for a total consideration of AED 7.6 million. Total identifiable net asset acquired from this acquisition amounted to AED 5.4 million.

The following summarises the purchase consideration and fair value of net assets acquired and liabilities assumed at the acquisition date:

	Morelli's KSA AED'000
Cash consideration	7,600
Total consideration	7,600
Less: share of identifiable assets acquired and liabilities assumed	
Trade and other receivable	582
Inventories	13
Franchise agreement	5,079
Trade and other payable	(251)
Total identifiable net assets - acquired	5,423
Goodwill	2,177

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 27 DISCONTINUED OPERATION

#### *Description*

On 12 April 2017, the Group entered into a sale and purchase agreement with GMG Holding Limited (“GMG”) for the sale of the entire issued share capital of Retailcorp UAE LLC (“Retailcorp”) for a consideration of AED 200 million which was kept in an escrow account. An amount of AED 40 million was paid by GMG as an initial consideration while the remaining balance was payable subject to obtaining written consent from the lessors in relation to the change in control for key leases locations as stipulated in the agreement. The shares of Retailcorp were transferred to GMG on 2 May 2017 based on a share transfer agreement certified by the notary public.

In 2017, the Group had successfully obtained non-objection letters from three of its lessors and collected the AED 45 million from the escrow account. However, consent from one lessor has not been obtained and hence the balance of AED 115 million remained on hold in the escrow account.

In October 2018, the outstanding balance of receivables amounting to AED 115 million was settled for AED 102 million. Accordingly, an impairment of AED 13 million was recorded during the year ended 31 December 2018.

#### *Financial performance and cash flow information*

The financial performance and cash flow information from 1 January 2017 to 2 May 2017 are presented below:

	2 May 2017 AED'000
Revenue	13,446
Cost of sales	(12,684)
<b>Gross profit</b>	<b>762</b>
General and administrative expenses	(1,833)
Selling and distribution expenses	(16,897)
Other income - net	19
Finance costs - net	(238)
<b>Loss from discontinued operation</b>	<b>(18,187)</b>
Net cash generated from operating activities	430
Net cash used in investing activities	(693)
Net cash used in discontinued operation	(263)

#### *Details of the sale of the subsidiary*

	2 May 2017 AED'000
Consideration received or receivable:	
Cash	85,000
Fair value of consideration	115,000
Total disposal consideration	200,000
Less: carrying amount of net assets sold	(190,290)
Gain on sale	9,710

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 27 DISCONTINUED OPERATION (continued)

The carrying amounts of assets and liabilities as at 2 May 2017 were:

	2 May 2017 AED'000
<b>Assets</b>	
Property and equipment	19,702
Intangible assets	5
Inventories	36,856
Trade and other receivables	11,683
Cash and bank balances	169
	<b>68,415</b>
<b>Liabilities</b>	
Trade and other payables	7,804
Adjusted book value of net assets	60,611
Goodwill	129,679
<b>Book value of net assets, including goodwill</b>	<b>190,290</b>

#### 28 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer ('CEO') makes strategic decisions.

Sales are reviewed by brand which includes Reem Al Bawadi, Morellis, etc. The sales are also monitored by stream which includes Hospitality, Fashion and sports along with the brand information.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The CEO is also provided with multiple levels of information which comprise of revenue, gross profit and net profit, aggregated for higher level components by stream. The financial accounting system of the Group is currently configured in this manner and this information is readily available. However, for decision making purposes, the CEO relies mainly on the revenue and net profit information that contains lower level components. Hence, the segment information provided is primarily to the net profit level of the Group.

There were no sales between intersegments during the year.

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 28 SEGMENT INFORMATION (continued)

	Hospitality UAE AED'000	Fashion UAE AED'000	Sports UAE and UK AED'000	Others* UAE AED'000	Inter-segment eliminations AED'000	Total AED'000
Segment revenue for the year ended 31 December 2018	74,498	905	3	619	-	76,025
Share of profit of joint venture accounted for using the equity method for the year ended 31 December 2018	-	-	194	-	-	194
Net loss from continuing operations for the year ended 31 December 2018	237,739	7,348	19,992	30,770	-	295,849
Total assets as at 31 December 2018	207,680	2,424	59,486	398,111	(365,497)	302,204
Total liabilities as at 31 December 2018	597,494	66,298	196,293	57,525	(365,497)	552,113
Segment revenue for the year ended 31 December 2017	93,248	3,704	1,456	1,202	-	99,610
Share of profit of joint venture accounted for using the equity method for the year ended 31 December 2017	-	-	628	80	-	708
Net loss from continuing operations for the year ended 31 December 2017	124,113	34,932	17,432	48,029	-	224,506
Total assets as at 31 December 2017	498,734	18,133	318,733	435,464	(560,029)	711,035
Total liabilities as at 31 December 2017	651,078	74,648	433,855	63,393	(560,029)	662,945

“Others” includes the corporate function of the Group.

# MARKA PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 29 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2018 AED'000	Year ended 31 December 2017 AED'000
Total comprehensive loss attributable to equity holders of the Company (in AED'000)	297,999	242,150
Weighted average number of shares in issue (in thousands)	500,000	500,000
Basic and diluted loss per share (in AED per share)	0.595998	0.484300

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At 31 December 2018 and 2017, the Company did not have such dilutive ordinary shares. Therefore, diluted earnings per share equal the basic earnings per share.

### 30 CONTINGENCIES AND COMMITMENTS

The Group has entered into non-cancellable operating leases in respect of the rent agreement for its head office, retail outlets and restaurants spaces in Dubai. Future minimum rentals payable under non-cancellable operating leases as at 31 December 2018 are as follows:

	2018 AED'000	2017 AED'000
Not later than 1 year	19,828	28,775
Later than 1 year and not later than 5 years	28,824	48,560
Later than 5 years	-	482
	48,652	77,817

### 31 NET DEBT RECONCILIATION

	2018 AED'000	2017 AED'000
Cash and bank balances	1,487	14,859
Borrowings – repayable within one year	(356,294)	(198,148)
Borrowings – repayable after one year	(97,500)	(358,786)
Net debt	(452,307)	(542,075)
Cash and bank balances	1,487	14,859
Gross debt – fixed interest rates	(67,801)	(142,158)
Gross debt – variable interest rates	(385,993)	(414,776)
Net debt	(452,307)	(542,075)

	Other assets		Liabilities from financing activities	
	Cash AED'000	Borrowings and bank facilities due within 1 year AED'000	Borrowings and bank facilities due after 1 year AED'000	Total AED'000
Net debt as at 1 January 2018	14,859	(198,148)	(358,786)	(542,075)
Cash flows, net	(13,372)	(158,146)	261,286	89,768
<b>Net debt as at 31 December 2018</b>	<b>1,487</b>	<b>(356,294)</b>	<b>(97,500)</b>	<b>(452,307)</b>

## MARKA PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

#### 31 NET DEBT RECONCILIATION (continued)

	Other assets	Liabilities from financing activities		Total AED'000
	Cash AED'000	Borrowings and bank facilities due within 1 year AED'000	Borrowings and bank facilities due after 1 year AED'000	
Net debt as at 1 January 2017	13,526	(92,284)	(589,708)	(668,466)
Cash flows, net	1,333	(105,864)	230,922	126,391
<b>Net debt as at 31 December 2017</b>	<b>14,859</b>	<b>(198,148)</b>	<b>(358,786)</b>	<b>(542,075)</b>