ELECTROSTEEL CASTINGS GULF FZE

Financial statements and independent auditor's report
Year ended 31 March 2018

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Year ended 31 March 2018

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PKF - Chartered Accountants (Dubai Br)
بيه كي اف - تشارترد اكاونتنتس (فرع دبي)

PKF
Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ELECTROSTEEL CASTINGS GULF FZE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **ELECTROSTEEL CASTINGS GULF FZE** (the "Establishment"), which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Establishment as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Establishment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the UAE, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and for their compliance with the applicable provisions of the Jebel Ali Free Zone Companies Implementing Regulations 2016 issued by Jebel Ali Free Zone Authority pursuant to Law No. 9 of 1992, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Establishment'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 Establishment or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Establishment's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT
(continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Establishment'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 Establishment's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Establishment to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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INDEPENDENT AUDITOR'S REPORT
(continued)

Report on Other Legal and Regulatory Requirements
We further confirm that the financial statements comply with Jebel Ali Free Zone Companies Implementing Regulations 2016 issued by Jebel Ali Free Zone authority pursuant to Law No. 9 of 1992. Also, in our opinion, proper books of account and other records have been maintained in accordance with the said regulation.

PKF

PKF
Dubai
United Arab Emirates
29 April 2018

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	Note	2018 AED	2017 AED
ASSETS			
Non-current assets			
Property, plant and equipment	6	4,053	3,980
Non-current financial assets	7	104,340	104,340
		108,393	108,320
Current assets			
Inventories	8	1,256,330	541,137
Short-term loans to related parties	9	4,236,169	4,236,169
Trade and other receivables	10	9,434,004	2,841,546
Cash and cash equivalents	12	331,090	3,959,924
		15,257,593	11,578,776
Total assets		15,365,986	11,687,096
EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	13	1,000,000	1,000,000
Retained earnings		6,872,423	6,743,436
		7,872,423	7,743,436
Non-current liabilities			
Provision for staff end-of-service benefits	14	22,517	--
		22,517	--
Current liabilities			
Trade and other payables	15	7,471,046	3,943,660
Total liabilities		7,493,563	3,943,660
Total equity and liabilities		15,365,986	11,687,096

The accompanying notes form an integral part of these financial statements.
The report of the independent auditor is set forth on pages 1 to 3.

I confirm that I am responsible for these financial statements, including selecting the accounting policies and making the judgments underlying them. I confirm that I have made available all relevant accounting records and information for their compilation.

Authorised for issue by the shareholder on 22 April 2018.

For **ELECTROSTEEL CASTINGS GULF FZE**

Bgarwal.

MANAGER

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 AED	2017 AED
Revenue		18,070,081	29,521,167
Purchases of inventories		(15,642,955)	(21,355,036)
Changes in inventories		(333,081)	(2,838,112)
Gross profit		2,094,045	5,328,019
Other operating income	17	197,291	553,788
Staff costs	18	(521,517)	(600,760)
Depreciation		(1,250)	(2,020)
Other operating expenses	19	(1,768,032)	(3,591,189)
Interest income	20	128,450	145,237
PROFIT FOR THE YEAR		128,987	1,833,075
Other comprehensive income:			
Other comprehensive income for the year		--	--
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		128,987	1,833,075

The accompanying notes form an integral part of these financial statements.
The report of the independent auditor is set forth on pages 1 to 3.

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Share capital AED	Retained earnings AED	Total AED
Balance at 1 April 2016	1,000,000	4,910,361	5,910,361
Total comprehensive income for the year	--	1,833,075	1,833,075
Balance at 31 March 2017	1,000,000	6,743,436	7,743,436
Total comprehensive income for the year	--	128,987	128,987
Balance at 31 March 2018	**1,000,000**	**6,872,423**	**7,872,423**

The accompanying notes form an integral part of these financial statements.
The report of the independent auditor is set forth on pages 1 to 3.

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	2018 AED	2017 AED
Cash flows from operating activities		
Profit for the year	128,987	1,833,075
Adjustments for:		
Depreciation of property, plant and equipment	1,250	2,020
Interest income	(128,450)	(145,237)
Credit balances written back	--	(66,900)
Provision for end-of-service benefits	22,517	--
	24,304	1,622,958
(Increase)/decrease in inventories	(715,193)	7,094,615
(Increase)/decrease in trade and other receivables	(6,559,025)	14,197,424
Increase/(decrease) in trade and other payables	3,527,386	(22,388,175)
Net cash (used in)/from operating activities	(3,722,528)	526,822
Cash flows from financing activities		
Payment for property, plant and equipment	(1,323)	(5,000)
Increase in short term loan to a related party	--	(2,589,779)
Interest received	95,017	113,565
Net cash from/(used in) financing activities	93,694	(2,481,214)
Net decrease in cash and cash equivalents	(3,628,834)	(1,954,392)
Cash and cash equivalents at beginning of year	3,959,924	5,914,316
Cash and cash equivalents at end of year (note 12)	331,090	3,959,924

The accompanying notes form an integral part of these financial statements.
The report of the independent auditor is set forth on pages 1 to 3.

1. **LEGAL STATUS AND BUSINESS ACTIVITY**

a) **ELECTROSTEEL CASTINGS GULF FZE** (the "Establishment") is a free zone establishment with limited liability registered in the Jebel Ali Free Zone, United Arab Emirates, pursuant to Law No. 9 of 1992 of late H.H. Shaikh Maktoum Bin Rashid Al Maktoum, the former Ruler of Dubai, and Implementing Regulation No. 1/99 issued thereunder by the Jebel Ali Free Zone Authority (repealed by Jebel Ali Free Zone Companies Implementing Regulations 2016). The registered address is office no. LB09021, LOB 9, Jebel Ali Free Zone, Dubai, UAE. The Establishment was registered on 2 August 2012 and commenced operations since then.

b) The Establishment trades in basic steel products, non-ferrous metal products, bolts, nuts, screws and building metal products, pipes and fittings, reinforcement steel bars and building and construction materials.

c) The Establishment is a wholly owned subsidiary of Electrosteel Castings Limited, ("the parent company"), a company incorporated in India, which is considered by the directors to be the ultimate parent company.

2. **BASIS OF PREPARATION**

a) **Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards issued or adopted by the International Accounting Standards Board (IASB) and which are effective for accounting periods beginning 1 January 2017, and the requirements of Jebel Ali Free Zone Companies Implementing Regulations 2016.

b) **Basis of measurement**

The financial statements are prepared using historical cost.

Historical cost is based on the fair value of the consideration given to acquire the asset or cash or cash equivalents expected to be paid to satisfy the liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c) **Going concern**

The financial statements are prepared on a going concern basis.

When preparing financial statements, management makes an assessment of the Establishment's ability to continue as a going concern. Financial statements are prepared on a going concern basis unless management either intends to liquidate the Establishment or to cease trading, or has no realistic alternative but to do so.

d) **Adoption of new International Financial Reporting Standards**

Standards and interpretations effective for the current year

The International Financial Reporting Standards, amendments thereto and interpretations that became effective for the current reporting period and which are applicable to the Establishment are as follows:

- Amendments to IAS 7 Disclosure Initiative (1 January 2017)
  The amendments require the disclosure that enable the users to evaluate the changes in liabilities arising from financing activities, including changes arising from cash flow and non cash changes.

New and revised IFRSs in issue but not yet effective
The following International Financial Reporting Standards, amendments thereto and interpretations that are assessed by management as likely to have an impact on the financial statements, have been issued by the IASB prior to the date the financial statements were authorised for issue, but have not been applied in these financial statements as their effective dates of adoption are for future accounting periods.

- IFRS 9: Financial instruments (1 January 2018)
  IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

- IFRS 15: Revenue from Contracts with Customers (1 January 2018)
  The International Accounting Standard Board (IASB) has published its new revenue Standard, IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.

- IFRS 16: Leases (1 January 2019)
  IFRS 16 introduces a number of significant changes to lease accounting model. It eliminates the classification of leases as either operating lease or finance lease for a lessee and instead all the leases are treated similar to a finance lease. The standard however, does not require an entity to recognise assets and liabilities for a) Short- term leases (for a period of twelve months or less) and b) Leases of low value assets.

e) **Functional and presentation currency**
The financial statements are presented in UAE Dirhams ("AED"), which is also the Establishment's functional currency.

3. **SIGNIFICANT ACCOUNTING POLICIES**
The significant accounting policies adopted, and which have been consistently applied, are as follows:

a) **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost less estimated residual value of furniture, fixtures and office equipment, where material, is depreciated from the date the asset is available for use until it is derecognised, using the straight-line method over the estimated useful lives of four years.

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 expenditure will flow to the Establishment and such cost can be measured reliably. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced at intervals, the Establishment recognises such parts as individual assets with specific useful lives and depreciates them accordingly. The carrying amount of replaced parts is derecognised.

All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

An assessment of depreciation method, useful lives and residual values is undertaken at each reporting date and, where material, if there is a change in estimate, an appropriate adjustment is made to the depreciation charge.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognised within 'other operating income/expenses' in profit or loss.

b) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is arrived at using the Weighted Average Cost (WAC) method and comprises invoice value plus applicable landing charges less discounts. Net realisable value is based on estimated selling price less any estimated cost of completion and disposal.

Goods in transit represents the inventory over which Establishment has legal title based on terms of purchase, but which are physically not received at the Establishment's warehouse.

c) **Staff end-of-service benefits**

Provision is made for end-of-service benefits payable to non-UAE national employees at the reporting date in accordance with the local labour laws.

d) **Revenue**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Establishment and revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, returns and other similar allowances.

Sale of goods

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that significant risks and rewards of ownership have been transferred to the buyer.

The sales also include high sea sales, i.e. the supplier ships goods directly to the customers. Revenue is recognised when significant risks and rewards relating to the ownership of goods concerned are transferred to the customer and is based on amount invoiced to customers for high sea sales made during the year.

Commission income
Commission income represents commission earned on service provided to customers.

e) **Leases**
Leases under which substantially all the risks and rewards of ownership of the related asset remain with the lessor are classified as operating leases and the lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

f) **Foreign currency transactions**
Transactions in foreign currencies are translated into UAE Dirhams at the rate of exchange ruling on the date of the transactions.

Monetary assets and liabilities expressed in foreign currencies are translated into UAE Dirhams at the rate of exchange ruling at the reporting date.

Gains or losses resulting from foreign currency transactions are taken to profit or loss.

g) **Provisions**
A provision is recognised when the Establishment has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

h) **Value added tax**
As per the Federal Decree-Law No. (08) of 2017, effective from January 1, 2018, Value Added Tax (VAT), will be charged at 5% standard rate or 0% (as the case may be) on every taxable supply and deemed supply made by the taxable person. The Company is required to file its VAT returns and compute the payable tax (which is output tax less input tax) for the allotted tax period/s and deposit the same within the prescribed due dates of filing VAT return and tax payment

i) **Financial instruments**
Financial assets and financial liabilities are recognised when, and only when, the Establishment becomes a party to the contractual provisions of the instrument.