ELECTROSTEEL CASTINGS GULF FZE

Financial statements and independent auditor's report
Year ended 31 March 2020

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Financial statements and independent auditor's report
Year ended 31 March 2020

CONTENTS **PAGE**

PKF - Chartered Accountants (Dubai Br)
بيه كـي اف – تشـارترد اكـاونـتـنـتـس (فـرع دبي)

PKF
Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT

To the Shareholder 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 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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PKF Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT
(continued)

Key audit matters	How our audit addressed the key audit matter
Inventories	
The Establishment deals with various types of Finished goods products ductile & Iron pipes, pipe fittings. The total inventory of such materials amounts to AED 4,205,077 as 31 March 2020. (refer note no 8) out of AED 4,188,459 are goods-in-transit. We determined this to be a matter of significance to our audit due to quantum of the amount & estimation involved.	We have performed a combination of test of controls, analytical review procedures and specific substantive audit procedures to test closing balances of inventories including Goods-in-transit for which ensured that these are received subsequent to the reporting date.
Trade Receivables	
Significant management judgement is involved in addressing the concentration and related credit risk associated with trade receivables balances and income arising from these balances. As such, we consider this to be a key audit matter.	We have performed a combination of test of controls, analytical review procedures and specific substantive audit procedures to test trade receivables balances, related transactions and to identify inconsistencies and unusual movements, if any.
Revenue Recognition	
The Establishment focuses on revenue as a key performance measure and as a driver for growth. Due to materiality of the amounts involved and susceptibility of such revenues to overstatement and fraud risks, we assessed revenue recognition as a key audit matter.	We have: • Considered the appropriateness and tested the consistency of the Establishment's revenue recognition accounting policies; • Assessed the compliance of such policies with the applicable International Financial Reporting Standards. (IFRSs); • Evaluated the control environment and tested internal control over the completeness and occurrence of such transactions; • Obtained a representative sample of transactions and tested their proper recording and recognition; • Selected a sample of transactions before and after 31 March 2020 cut-off date to check proper recognition in the correct period; and • Performed substantive analytical procedures and data analytics on monthly gross margins and revenues to identify inconsistencies and/or unusual movements during the year.
Related party balances and transactions	
Significant management judgement is involved in determining the disclosures required by IFRS 7 and IAS 24 to address the concentration and related risks and related party disclosures arising from this balance and the income arising from it. As such, we consider this to be a key audit matter.	We have: • Performed a combination of test of controls, analytical review procedures and specific substantive audit procedures to test related party balances and transactions and to identify inconsistencies and unusual movements, if any; and • Reviewed the agreements entered into with the related parties and also re-performed the calculation of consultancy and interest income on a sample basis to determine whether it has been recognized in accordance with International Financial Reporting Standards.

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INDEPENDENT AUDITOR'S REPORT
(continued)

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, 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.

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.

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INDEPENDENT AUDITOR'S REPORT
(continued)

- 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 gives a true and fair view.

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.

Report on Other Legal and Regulatory Requirements
We further confirm that the financial statements comply with Jebel Ali Free Zone Companies Implementing Regulations 2016. Also, in our opinion, proper books of account and other records have been maintained in accordance with the said regulations.

PKF
Dubai
United Arab Emirates
10 May 2020

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	Note	2020 AED	2019 AED
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,553**	2,803
Non-current financial assets	7	**104,340**	104,340
		105,893	107,143
Current assets			
Inventories	8	**4,205,077**	1,178,174
Trade and other receivables	9	**8,686,642**	2,870,595
Other current assets	10	**207,479**	190,641
Due from related parties	11	**3,757,863**	2,252,337
Short term loan to a related party	12	**--**	1,835,000
Cash and cash equivalents	13	**1,610,226**	569,236
		18,467,287	8,895,983
Total assets		**18,573,180**	9,003,126
EQUITY AND LIABILITIES			
Shareholder's funds			
Share capital	14	**1,000,000**	1,000,000
Retained earnings		**10,026,376**	7,346,308
		11,026,376	8,346,308
Non-current liabilities			
Provision for staff end-of-service benefits	15	**38,617**	30,567
		38,617	30,567
Current liabilities			
Trade and other payables	16	**7,356,322**	476,121
Other current liabilities	17	**151,865**	150,130
		7,508,187	626,251
Total liabilities		**7,546,804**	656,818
Total equity and liabilities		**18,573,180**	9,003,126

The accompanying notes form an integral part of these financial statements.
The report of the independent auditor is set forth on pages 1 to 4.

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.

Approved and authorised for issue by the shareholder on 3 May 2020 and signed on their behalf by Mr. Shivendra Agarwal

For **ELECTROSTEEL CASTINGS GULF FZE**

Sgarwal

MANAGER

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 AED	2019 AED
Revenue	19	**17,073,648**	7,765,488
Purchases of inventories (Including direct costs)		**(14,227,101)**	(6,439,581)
Changes in inventories		**8,903**	2,599
Gross profit		**2,855,450**	1,328,506
Other operating income	20	**2,821,486**	1,669,418
Staff costs	21	**(754,560)**	(645,411)
Depreciation	6	**(1,250)**	(1,250)
Other operating expenses	22	**(1,878,201)**	(1,939,544)
Interest income	23	**97,018**	62,166
Impairment of financial assets	24	**(459,875)**	--
PROFIT FOR THE YEAR		**2,680,068**	473,885
Other comprehensive income:			
Other comprehensive income for the year		--	--
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,680,068**	473,885

The accompanying notes form an integral part of these financial statements.
The report of the independent auditor is set forth on pages 1 to 4.

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Share capital AED	Retained earnings AED	Total AED
Balance at 1 April 2018	1,000,000	6,872,423	7,872,423
Total comprehensive income for the year	--	473,885	473,885
Balance at 31 March 2019	1,000,000	7,346,308	8,346,308
Total comprehensive income for the year	--	2,680,068	2,680,068
Balance at 31 March 2020	**1,000,000**	**10,026,376**	**11,026,376**

The accompanying notes form an integral part of these financial statements.
The report of the independent auditor is set forth on pages 1 to 4.

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2020

	2020 AED	2019 AED
Cash flows from operating activities		
Profit for the year	**2,680,068**	473,885
Adjustments for:		
Depreciation of property, plant and equipment	**1,250**	1,250
Interest income	**(97,018)**	(62,166)
Allowance for expected credit losses	**459,875**	--
Provision for staff end-of-service benefits	**8,050**	8,050
	3,052,225	421,019
Changes in:		
- Inventories	**(3,026,903)**	78,156
- Trade and other receivables	**(6,275,922)**	6,469,346
- Other current assets	**(16,838)**	(99,518)
- Trade and other payables	**6,880,201**	(6,956,425)
- Other current liabilities	**1,735**	111,630
Net cash from operating activities	**614,498**	24,208
Cash flows from financing activities		
Payments to related parties	**(1,505,526)**	(2,252,337)
Receipts of short-term loan to a related party	**1,835,000**	2,401,169
Interest received	**97,018**	65,106
Net cash from financing activities	**426,492**	213,938
Net increase in cash and cash equivalents	**1,040,990**	238,146
Cash and cash equivalents at beginning of year	**569,236**	331,090
Cash and cash equivalents at end of year (note 13)	**1,610,226**	569,236

The accompanying notes form an integral part of these financial statements.
The report of the independent auditor is set forth on pages 1 to 4.

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, in accordance with Law No. 2 of 1986 and Implementing Regulation No. 1/99 (repealed by Jebel Ali Free Zone Companies Implementing Regulations 2016) issued thereunder by the Jebel Ali Free Zone Authority. The registered address is office no. LB09021, LOB 9, Jebel Ali Free Zone, Dubai, UAE. The Establishment was registered on 1 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 2019, and the requirements of Jebel Ali Free Zone companies Implementing Regulation 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 the 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 operations, or has no realistic alternative but to do so.

Further the uncertainty due to recent COVID-19 outbreak with regard to the future impact on the Establishment's business performance has been considered as part of the management's assessment of the Establishment's ability to continue as a going concern. As at the date of approval of the financial statements, management is in the process of assessing the impact of this event, if any (Refer Note 25).

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

Standards, amendments, improvements and interpretations effective for the current year

The International Financial Reporting Standard, amendments, improvements and interpretation that became effective for the current reporting period are as follows:

- IFRS 16: Leases
- Amendments to IFRS 9: Prepayment Features with Negative Compensation and Modification of financial liabilities
- Amendments to IAS 28: Investment in Associates and Joint Ventures relating to long-term interests in associates and joint ventures
- Annual Improvements 2015-2017 Cycle:
  - IFRS 3 Business Combinations
  - IFRS 11 Joint Arrangements
  - IAS 12 Income Taxes
  - IAS 23 Borrowing Costs
- Amendments to IAS 19: Employee Benefits Plan Amendment, Curtailment or Settlement
- IFRIC 23: Uncertainty over Income Tax Treatments

The impact of adoption of the above standard, amendments, improvements and interpretation and the new accounting policies are explained below in more detail:

IFRS 16: Leases

Impact of adoption

IFRS 16 was issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019, which supersedes the previous guidance in IAS 17 leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases – Initiatives and SIC-27 evaluating the substance of transactions involving the legal form of a lease. The standard requires lessees to account for most leases under a single on-balance sheet model and sets out the principles for the recognition, measurement, presentation and disclosure of leases. Lessor accounting remains similar to previous accounting policies. Lessors will continue to classify leases as either operating or finance leases using similar principals as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Establishment is the lessor.

Adoption of IFRS 16 did not have any significant impact on the Establishment's financial statements.

IFRS 16 accounting policies

The application of the new standard required the management to apply the new accounting policy, which is summarised in note 3 (h) to the financial statements under significant accounting policies.

Other amendments, improvements and interpretation
The following amendments, improvements and interpretation which became effective 1 January 2019, did not have any significant impact on the Establishment's financial statements:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation and Modification of financial liabilities
- Amendments to IAS 28: Investment in Associates and Joint Ventures relating to long-term interests in associates and joint ventures
- Annual Improvements 2015-2017 Cycle:
    - IFRS 3 Business Combinations
    - IFRS 11 Joint Arrangements
    - IAS 12 Income Taxes
    - IAS 23 Borrowing Costs
- Amendments to IAS 19: Employee Benefits Plan Amendment, Curtailment or Settlement
- IFRIC 23: Uncertainty over Income Tax Treatments

New and revised IFRSs in issue but not yet effective
The following amendments and improvements 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.

- Amendments to IAS 1 and IAS 8: Definition of Material (1 January 2020)
- The Conceptual Framework for Financial Reporting (1 January 2020)

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 of furniture, fixtures and office equipment less estimated residual value, 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) 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 recognition**

The Establishment is in the business of trading 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.

Revenue from contracts with customers is recognised when the control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Establishment expects to be entitled in exchange for those goods or services.

The Establishment recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15:

1. Identify the contracts with customers: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Establishment expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Establishment will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Establishment expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the Establishment satisfies a performance obligation at a point in time or over time.

The Establishment 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 Establishment's performance as the Establishment performs; or
- The Establishment's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Establishment's performance does not create an asset with an alternative use to the Establishment and the Establishment has an enforceable right to payment for performance completed to date.

The Establishment is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue.

Sale of goods
The Establishment has concluded that revenue from sale of goods should be recognised at a point in time when the control of the asset is transferred to the customer, generally on delivery of the goods.

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.

e) ***Commission income***

Commission income represents commission earned on service provided to parent company.

f) ***Other miscellaneous income***

Other miscellaneous income includes Consultancy charges represents charges earned for various online technical assistance support provided to related party.

g) ***Interest income***

Interest income is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

h) **Leases**

The Establishment leases its office premises. Rental contracts are typically made for fixed period one year but may have extension options terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease arrangements do not impose any covenants, however leased assets are not used as security for borrowing purposes.

Short-term leases

The Establishment applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

i) **Cash and cash equivalents**

Cash and cash equivalents comprise cash, bank current accounts, bank deposits free of encumbrance with a maturity date of three months or less from the date of deposit and highly liquid investments with a maturity date of three months or less from the date of investment that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

j) **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.

k) **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, it's carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of receivable can be measured reliably.

l) **Value added tax**

As per the Federal Decree-Law No. (08) of 2017, effective from January 1, 2018, Value Added Tax (VAT), is 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 Establishment is required to file its VAT returns and compute the payable tax (which is output tax less input tax) for the allotted tax periods and deposit the same within the prescribed due dates of filing VAT return and tax payment.

m) **Current versus non-current classification**

The Establishment presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realised within twelve months after the reporting period. or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period. or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Establishment classifies all other liabilities as non-current.

n) **Financial instruments**

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVTOCI") – debt investment; FVTOCI – equity investment; or fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends the financial assets' contractual cash flow characteristics and the Establishment's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrumental level.

The Establishment's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cashflows, selling the financial assets, or both.

Financial liabilities are classified as financial liabilities at FVTPL or at amortised cost. The Establishment determines the classification of its financial liabilities at initial recognition.

Recognition

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

Derecognition

Financial assets are de-recognised when, and only when,

- The contractual rights to receive cash flows expire or
- The Establishment 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
  (a) the Establishment has transferred substantially all the risks and rewards of the asset, or
  (b) the Establishment has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities are de-recognised when, and only when, they are extinguished i.e. when obligation specified in the contract is discharged, cancelled or expired.

Measurement

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Transactions costs of financial assets carried at FVTPL are expensed in profit or loss.

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Establishment may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies apply to the subsequent measurement of financial assets and liabilities.

Financial assets at amortised cost
Financial assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through other comprehensive income on initial recognition) using the effective interest method. All other financial assets are subsequently measured at fair value.

1. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
2. the contractual terms of the instrument give rise to cash flows on specified dates that are solely payments of principal and profit on the principal amount outstanding.

Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The financial assets at amortised cost comprise of trade and receivables, due from related parties, non-current financial assets and cash and cash equivalents.

Financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost comprise of trade and other payables.

Impairment of financial assets
The Establishment recognised an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Establishment expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Loss allowances are measured on either of the following basis:

- 12-month ECLs: ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: ECLs that result from all possible default events over the expected life of a financial instrument.

The Establishment measures the loss allowance at an amount equal to lifetime ECLs, except for the following which are measured as 12-month ECLs:

- Bank balances, due from related parties and non-current financial asset for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Establishment has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs. The Establishment applies a simplified approach in calculating expected credit losses. The Establishment does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Establishment has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Establishment considers reasonable and supportive information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Establishment's historical experience and informed credit assessment and including forward looking information.

The Establishment assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Establishment considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Establishment in full, without recourse by the Establishment to actions such as realising security (if any is held); or
- The financial asset is more than 365 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Establishment is exposed to credit risk.

At each reporting date, the Establishment assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the asset.

Offsetting

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

Equity

Share capital is recorded at the value of proceeds received towards interest in share capital of the Establishment.

o) **Fair value measurement**

The Establishment discloses the fair value of financial instruments measured at amortised cost.

The 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interests.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4. **SIGNIFICANT JUDGMENTS EMPLOYED IN APPLYING ACCOUNTING POLICIES**

The significant judgments made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

Classification of financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Establishment's business model for managing them.

Impairment

At each reporting date, management conducts an assessment of property, plant, equipment to determine whether there are any indications that they may be impaired. In the absence of such indications, no further action is taken. If such indications do exist, an analysis of each asset is undertaken to determine its net recoverable amount and, if this is below its carrying amount, a provision is made.

The Establishment applies expected credit loss (ECL) model to measure loss allowance in case of financial assets on the basis of 12-month ECLs or Lifetime ECLs depending on credit risk characteristics and how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

Recognition of revenue and allocation of transaction price

Identification of performance obligations

The Establishment determined that the *sale of goods is* provided as a single component to customers and accordingly it becomes single performance obligation in respect of the goods being sold.

Determine timing of satisfaction of performance obligation

The Establishment concluded that the revenue from sales of goods is to be recognised at a point in time when the control of the goods has transferred to the customers. Payment of the transaction price is due immediately at the point the customer purchases the goods.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

Key assumptions made concerning the future and other key sources of estimation uncertainty at the reporting date 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:

Inventory provisions

Management regularly undertakes a review of the Establishment's inventory, stated at AED 4,205,077 (previous year AED 1,178,174) in order to assess the likely realisation proceeds, taking into account purchase and replacement prices, technological changes, age, likely obsolescence, the rate at which goods are being sold and the physical damage. Based on the assessment assumptions are made as to the level of provisioning required.

Impairment

Assessments of net recoverable amounts of property, plant, equipment are based on assumptions regarding future cash flows expected to be received from the related assets.

Impairment of financial assets

The loss allowance for financial assets are based on assumptions about the risk of default and expected loss rates. The management uses judgement in making these assumptions and selecting the inputs to the impairment calculations based on the past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3(n).

Staff end-of-service benefits

The Establishment computes the provision for the liability to staff end-of-service benefits stated at AED 38,617 (previous year AED 30,567), assuming that all employees were to leave as of the reporting date. The management is of the opinion that no significant difference would have arisen had the liability been calculated on an actuarial basis as salary inflation and discount rates are likely to have approximately equal and opposite effects.

6. **PROPERTY, PLANT AND EQUIPMENT**

	Furniture, fixtures and office equipment AED
Cost	
At 1 April 2018, 31 March 2019 and at 31 March 2020	**10,323**
Accumulated depreciation	
At 1 April 2018	6,270
Depreciation	1,250
At 31 March 2019	7,520
Depreciation	1,250
At 31 March 2020	**8,770**
Carrying amount	
At 1 April 2018	4,053
At 31 March 2019	2,803
At 31 March 2020	**1,553**

	2020 AED	2019 AED
7. NON-CURRENT FINANCIAL ASSETS		
Long-term loan	**104,340**	104,340

This represents interest free long-term loan to a third party without any fixed repayment schedule. It is not the intention of the management to demand repayment of the loan within one year from the reporting date.

	2020 AED	2019 AED
8. INVENTORIES		
Goods held for sale	**16,618**	7,715
Goods in transit	**4,188,459**	1,170,459
	4,205,077	1,178,174

	2020 AED	2019 AED
9. TRADE AND OTHER RECEIVABLES		
Trade receivables	**6,958,048**	2,049,931
Less: Allowance for expected credit losses	**(459,875)**	--
	6,498,173	2,049,931
Deposits	**28,841**	31,582
Other receivables	**2,159,628**	789,082
	8,686,642	2,870,595

A reconciliation of the movements in the allowance for expected credit losses for trade receivables is as follows:

	2020 AED	2019 AED
Provision made during the year	459,875	--
Closing Balance	459,875	--

The Establishment holds letters of credit amounting to AED 6,498,173 (previous year AED 2,049,931) as security against not past due and not impaired receivables.

10. OTHER CURRENT ASSETS

Prepayments	129,895	180,731
Advance for goods and services	71,620	4,896
VAT receivable (net)	5,964	5,014
	207,479	190,641

11. RELATED PARTIES

The Establishment enters into transactions with entities that fall within the definition of a related party as contained in International Accounting Standard 24. The management considers such transactions to be in the normal course of business at agreed terms.

Related parties comprise the ultimate parent company/ parent company, fellow subsidiaries, company's under common ownership/management and key managerial personnel.

At the reporting date significant balances with related parties were as follows:

	Ultimate parent company AED	Fellow subsidiaries AED	Total 2020 AED	Total 2019 AED
Due from related parties	83,741	3,674,122	3,757,863	
	1,518,337	734,000		2,252,337
Trade and other receivables	1,344,938	824,636	2,169,574	
	726,916	62,166		789,082
Trade and other payables	6,891,301	--	6,891,301	
	7,715	--		7,715
Short-term loan to a related party	--	--	--	
	--	1,835,000		1,835,000

All balances are unsecured and are expected to be settled in cash. Repayment and other terms are set out in notes 12 and 25.

Significant transactions with related parties during the year were as follows:

	Ultimate parent company AED	Fellow Subsidiaries AED	Total 2020 AED	Total 2019 AED
Commission income	1,344,938	--	1,344,938	
	935,418	--		935,418
Consultancy income	--	1,468,000	1,468,000	
	--	734,000		734,000
Interest income	--	97,018	97,018	
	--	62,166		62,166
Purchases	13,487,250	25,484	13,512,734	
	5,998,727	--		5,998,727

The Establishment provides funds to related parties as working capital facilities at fixed rate interest of 5% per annum.

Administrative and staff related services are availed from a related party free of costs/as per agreed rates.

		2020 AED	2019 AED
12.	**SHORT-TERM LOAN TO A RELATED PARTY**		
	Loan to a related party [(a)]	--	1,835,000

(a) The loan to a related party was given at a fixed interest rate of 2.12% per annum which has been repaid in the current year.

		2020 AED	2019 AED
13.	**CASH AND CASH EQUIVALENTS**		
	Bank balance in current account	1,610,226	569,236
14.	**SHARE CAPITAL**		
	Issued and paid up:		
	1 share of AED 1,000,000 held by Electrosteel Castings Limited, a company registered in India.	1,000,000	1,000,000
15.	**PROVISION FOR STAFF END-OF-SERVICE BENEFITS**		
	Opening balance	30,567	22,517
	Provision for the year	8,050	8,050
	Closing balance	38,617	30,567
16.	**TRADE AND OTHER PAYABLES**		
	Trade payables	7,314,756	405,553
	Accruals	41,566	70,568
		7,356,322	476,121

The entire trade and other payables are due for settlement in one year.

		2020	2019
		AED	AED
17.	**OTHER CURRENT LIABILITIES**		
	Advance for goods and services	**149,621**	101,030
	Other staff accruals	**2,244**	49,100
		151,865	150,130

18. **MANAGEMENT OF CAPITAL**

The Establishment's objectives when managing capital are to ensure that the Establishment continues as a going concern and to provide the shareholder with a rate of return on their investment commensurate with the level of risk assumed.

Capital, which is unchanged from the previous year, comprises equity funds as presented in the statement of financial position together with due from related parties. Debt comprises total amounts owing to third parties, net of cash and cash equivalents.

The Establishment is not subject to externally imposed capital requirements.

Funds generated from internal accruals together with net of funds provided to related parties are retained in the business according to the business requirements and maintain capital at desired levels.

19. **REVENUE**

The Establishment generates revenue from the transfer of goods at a point in time. The disaggregated revenue from contracts with customers by is presented below. The management believes that this best depicts the nature, amount, timing and uncertainty of the Establishment's revenue and cash flows.

	2020	2019
Primary Geographical segments		
- UAE	**9,308,123**	3,260,307
- Other Middle east countries	**7,765,525**	4,505,181
	17,073,648	7,765,488
Major goods/service lines		
Trading		
- Goods	**17,073,648**	7,765,488
Timing of revenue recognition		
- At a point in time	**17,073,648**	7,765,488

		2020	2019
20.	**OTHER OPERATING INCOME**		
	Commission income	**1,344,938**	935,418
	Other miscellaneous income	**1,476,548**	734,000
		2,821,486	1,669,418

		2020 AED	2019 AED
21.	**STAFF COSTS**		
	Staff salaries and benefits	746,510	637,361
	Staff end-of-service benefits	8,050	8,050
		754,560	645,411
22.	**OTHER OPERATING EXPENSES**		
	Operating lease expenses	54,292	54,061
	Carriage outward	831,003	472,947
	Commission expenses	98,073	21,630
	Business travel expenses	132,056	103,233
	Other expenses	762,777	1,287,673
		1,878,201	1,939,544
23.	**INTEREST INCOME**		
	On amount due from related party	80,690	4,122
	On short term loan from related party	16,328	58,044
		97,018	62,166
24.	**IMPAIRMENT OF FINANCIAL ASSETS**		
	On trade receivables	459,875	--

25. **FINANCIAL INSTRUMENTS**

The net carrying amounts as at the reporting date of financial assets and financial liabilities are as follows:

	At amortised cost	
	2020	2019
Financial assets	AED	AED
Non-current financial assets	104,340	104,340
Trade and other receivables	8,686,642	2,870,595
Due from related parties	3,757,863	2,252,337
Cash and cash equivalents	1,610,226	569,236
Short term loan to a related party	--	1,835,000
	14,159,071	7,631,508
Financial liabilities		
Trade and other payables	7,356,322	476,121
	7,356,322	476,121

Management of risks

The management conducts and operates the business in a prudent manner, taking into account the significant risks to which the business is or could be exposed.

The primary risks to which the business is exposed, which are unchanged from the previous year, comprise credit risks, liquidity risks and market risks (including currency risks, cash flow interest rate risks and fair value interest rate risks).

Credit risk is managed by assessing the creditworthiness of potential customers and the potential for exposure to the market in which they operate, combined with regular monitoring and follow-up. As part of the Establishment's credit risk management, where it is considered necessary, such receivables are covered by letters of credit or bank guarantees in favour of the Establishment, issued by high credit quality financial institutions.

Management continuously monitors its cash flows to determine its cash requirements in order to manage exposure to liquidity risk.

The Establishment buys and sells goods and services in foreign currencies. Exposure is minimised where possible by denominating such transactions in US Dollars to which the UAE Dirham is pegged.

Exposures to the aforementioned risks are detailed below:

Credit risk

Financial assets that potentially expose the Establishment to concentrations of credit risk comprise principally non-current financial asset, trade and other receivables, due from related parties, cash and cash equivalents and outstanding receivables.

The Establishment's bank accounts are placed with high credit quality financial institutions.

The management assesses the credit risk arising from trade and other receivables, due from related parties and non-current financial asset taking into account their financial position, past experience and other factors. Based on the assessment individual risk limits are determined.

	2020 AED	2019 AED
GCC countries		
Non-current financial assets	**104,340**	104,340
Trade receivables	**4,231,434**	2,049,931
Due from related parties	**3,674,122**	734,000
Other receivables	**814,690**	--
Asian countries		
Due from related parties	**83,741**	1,518,337
Other receivables	**1,344,938**	726,916
U.S. A		
Short term loan to a related party	--	1,835,000
Other receivables	--	62,166

At the reporting date, 80% of trade receivables were due from three customers (previous year 79% from three customers).

At the reporting date, 99% amount is due from one related party. (Previous year 100% amount was due from two related parties).

At the reporting date, there is no short-term loan to a related party. (Previous year 100% of short-term loan was due from one related party).

At the reporting date, there was no significant concentration of credit risk from customers outside the industry in which the Establishment operates.

The Establishment uses an allowance matrix to measure the expected credit losses of trade receivables, which comprise a very large number of small balances. Loss rates are calculated using a 'flow rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Flow rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and type of product purchased.

	Loss rate		Gross carrying amount		Loss allowance	
	2019	2018	**2019**	2018	**2019**	2018
	%	%	**AED**	AED	**AED**	AED
Not past due	**0.00%**	0.00%	**6,498,173**	2,049,931	**--**	--
More than 180 days past due	**100.00%**	100.00%	**459,875**	--	**(459,875)**	--
			6,958,048	2,049,931	**(459,875)**	--

Loss rates are based on actual credit loss experience over the past 2 years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Establishment's view of economic conditions over the expected lives of the receivables.

Currency risk

There are no significant currency risks as substantially all financial assets and financial liabilities are denominated in UAE Dirhams or US Dollars to which the Dirham is fixed.

Interest rate risk

The Establishment's amounts due from a related party of AED 3,674,122 is subject to fixed interest rates at levels generally obtained in the UAE and are therefore exposed to fair value interest rate risk.

Fair values

The management assesses the fair values of all its financial assets and financial liabilities at each reporting date.

The fair values of cash and cash equivalents, trade and other receivables, due from related parties and trade and other payable approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to determine the fair values of other financial assets:

The fair value of non-current financial asset is estimated by discounting future cash flows using rates currently available for debts on similar items, credit risk and remaining maturities. As at the reporting date, the carrying amounts of such non-current financial assets which due to its terms has fair value lower than their carrying value.

26. **SIGNIFICANT EVENTS**

During the last quarter of the year, there was an outbreak of Covid-19 (Coronavirus) across the globe, causing disruptions to economic activity and business operations. Thus, the Establishment's operations may have been affected by this outbreak of Covid-19. However, the extent to which the Covid-19 may impact the operating results, financial position, and cash flows will depend on future events, and management is the process of assessing the same as of the date of these financial statements [Note 2(c)].

For **ELECTROSTEEL CASTINGS GULF FZE**

MANAGER