ELECTROSTEEL CASTINGS GULF FZE

Financial statements and independent auditor's report

Year ended 31 March 2019

ELECTROSTEEL CASTINGS GULF FZE

Financial statements and independent auditor's report
Year ended 31 March 2019

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

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 2019, 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 2019, 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.

Key audit matters	How our audit addressed the key audit matter
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.

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INDEPENDENT AUDITOR'S REPORT
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Key audit matters	How our audit addressed the key audit matter
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 2019 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
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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 give 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 regulation.

PKF

PKF
Dubai
United Arab Emirates
20 April 2019

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Note	2019 AED	2018 AED
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,803	4,053
Non-current financial assets	7	104,340	104,340
		107,143	108,393
Current assets			
Inventories	8	1,178,174	1,256,330
Trade and other receivables	9	2,870,595	9,342,881
Other current assets	10	190,641	91,123
Amount due from related parties	11	2,252,337	--
Short term loan to a related party	12	1,835,000	4,236,169
Cash and cash equivalents	13	569,236	331,090
		8,895,983	15,257,593
Total assets		9,003,126	15,365,986
EQUITY AND LIABILITIES			
Shareholder's funds			
Share capital	14	1,000,000	1,000,000
Retained earnings		7,346,308	6,872,423
		8,346,308	7,872,423
Non-current liabilities			
Provision for staff end-of-service benefits	15	30,567	22,517
		30,567	22,517
Current liabilities			
Trade and other payables	16	476,121	7,432,546
Other current liabilities	17	150,130	38,500
		626,251	7,471,046
Total liabilities		656,818	7,493,563
Total equity and liabilities		9,003,126	15,365,986

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 14 April 2019 and signed on their behalf by Mr. Shivendra Agarwal

For **ELECTROSTEEL CASTINGS GULF FZE**

MANAGER

ELECTROSTEEL CASTINGS GULF FZE

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 AED	2018 AED
Revenue from contracts with customers	19	7,765,488	18,070,081
Purchases of inventories		(6,439,581)	(15,642,955)
Changes in inventories		2,599	(333,081)
Gross profit		1,328,506	2,094,045
Other operating income	20	1,669,416	197,291
Staff costs	21	(645,411)	(642,792)
Depreciation	6	(1,250)	(1,250)
Other operating expenses	22	(1,939,544)	(1,646,757)
Interest income	23	62,168	128,450
PROFIT FOR THE YEAR		473,885	128,987
Other comprehensive income:			
Other comprehensive income for the year		--	--
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		473,885	128,987

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 2019

	Share capital AED	Retained earnings AED	Total AED
Balance at 1 April 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
Total comprehensive income for the year	--	473,885	473,885
Balance at 31 March 2019	**1,000,000**	**7,346,308**	**8,346,308**

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 2019

	2019 AED	2018 AED
Cash flows from operating activities		
Profit for the year	473,885	128,987
Adjustments for:		
Depreciation of property, plant and equipment	1,250	1,250
Interest income	(62,166)	(128,450)
Provision for end-of-service benefits	8,050	22,517
	421,019	24,304
Changes in:		
- Inventories	78,156	(715,193)
- Trade and other receivables	6,469,346	(6,667,409)
- Other current assets	(99,518)	108,384
- Trade and other payables	(6,956,425)	3,493,266
- Other current liabilities	111,630	34,120
Net cash from/(used in) operating activities	24,208	(3,722,528)
Cash flows from financing activities		
Payment for property, plant and equipment	--	(1,323)
Payments to related parties	(2,252,337)	--
Receipt of short-term loan to a related party	2,401,169	--
Interest received	65,106	95,017
Net cash from financing activities	213,938	93,694
Net increase/(decrease) in cash and cash equivalents	238,146	(3,628,834)
Cash and cash equivalents at beginning of year	331,090	3,959,924
Cash and cash equivalents at end of year (note 13)	569,236	331,090

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 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 2018, 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.

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

Standards and interpretations effective for the current period

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:

- IFRS 9: Financial instruments
- IFRS 15: Revenue from Contracts with Customers

The impact of adoption of these standards and the new accounting policies are explained below in more detail:

IFRS 9: Financial instruments

Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements for the year ended 31 December 2017. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

Changes in accounting policies resulting from the adoption of IFRS 9 have not resulted in any material impact on opening balances of retained earnings or equity as of 1 January 2018.

(i) Classification and measurement

On the date of initial application of IFRS 9, i.e. 1 January 2018, the Establishment's management has assessed which business models apply to the financial assets held by the Establishment and has classified its financial instruments into the appropriate IFRS 9 categories. Management has concluded that there is no material reclassification of financial assets other than disclosed below.

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**
Non-current financial assets	Loans and receivables	Amortised cost
Trade and other receivables	Loans and receivables	Amortised cost
Short-term loan to a related party	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost

The adoption of IFRS 9 has not resulted in any change in classification or measurement of financial liabilities.

(ii) Impairment of financial assets

The Establishment has the following types of financial assets that are subject to IFRS 9's new Expected Credit Loss (ECL) model:

- Non-current financial asset
- Trade and other receivables
- Short-term loan to a related party
- Due from related parties
- Cash and cash equivalents

For trade receivables, the Establishment has applied simplified approach permitted by IFRS 9. Further, the simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected losses, trade receivables have been grouped based on credit risk characteristics and past dues. The identified impairment loss under the new ECL model was immaterial.

For non-current financial assets, short-term loan to a related party, amount due from related parties and cash and cash equivalents and other receivables, the Establishment has applied 12-month ECL model and the identified impairment loss was immaterial.

IFRS 9 accounting policies

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

IFRS 15: Revenue from contracts with customers

Impact of adoption

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in scope of other standards. The new standard established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange of transferring goods or services to customers.

The standard requires the Establishment to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining contract and the costs directly related to fulfilling a contract.

The Establishment has adopted IFRS 15 using the cumulative effect method (without practical expedients), in which the effect of initially applying this standard are recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated - i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Changes in accounting policies resulting from the adoption of IFRS 15 have not resulted in any material impact on the opening balance of retained earnings/equity as of 1 January 2018.

IFRS 15 accounting policies
The application of the new standard required the management to apply the new accounting policies, which are summarised in note 3 (d) to the financial statements under significant accounting policies.

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 16: Leases (1 January 2019)
  IFRS 16, published in January 2016 replaces 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. Under this revised guidance, leases will be brought onto the lessee's statement of financial position, increasing the visibility of their assets and liabilities. It further removes the classification of leases as either operating leases or finance leases treating all leases as finance leases from the perspective of the lessee, thereby eliminating the requirement for lease classification test.

The revised guidance has an increased focus on who controls the asset and may change which contracts are leases.

The above standard is currently being assessed by the management to determine any material impact on the financial statements.

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 from contract with customers**

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.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. 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.

Commission income
Commission income represents commission earned on service provided to customers/related party/parent company.

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.

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, 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.

h) **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.

i) **Financial instruments**

IFRS 9 contains three principal classification categories for financial assets - i.e. measured at: amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). The existing IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale are removed.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Classification

Under IFRS 9, 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 depends on the Establishment's business model for managing the financial assets that whether the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the cash flows that whether contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Management determines the classification of its investment at initial recognition.

Financial liabilities within the scope of IFRS 9 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

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. This includes all derivative financial assets. 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.

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

IFRS 9 Replaces the 'incurred loss' model in IAS 39 with a forward looking 'expected credit loss' (ECL) model. This requires considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVTOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than IAS 39.

The Establishment recognises an allowance for expected credit losses. Expected credit losses 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.

The financial assets at amortised cost comprise of trade and receivables, amounts due from related parties, short-term loan to a related party, non-current financial assets and cash and cash equivalents.

Under IFRS 9, 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, amounts due from related parties, short term loan to a related party 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 90 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/receivable towards interest in share capital of the Establishment.

j) **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 1,178,174 (previous year AED 1,256,330) 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(i).

Staff end-of-service benefits

The Establishment computes the provision for the liability to staff end-of-service benefits stated at AED 30,567 (previous year AED 22,517), 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 2017	9,000
Additions	1,323
At 31 March 2018 and at 31 March 2019	10,323
Accumulated depreciation	
At 1 April 2017	5,020
Depreciation	1,250
At 31 March 2018	6,270
Depreciation	1,250
At 31 March 2019	7,520
Carrying amount	
At 1 April 2017	3,980
At 31 March 2018	4,053
At 31 March 2019	2,803

	2019 AED	2018 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.

	2019 AED	2018 AED
8. INVENTORIES		
Goods held for sale	7,715	5,116
Goods in transit	1,170,459	1,251,214
	1,178,174	1,256,330
9. TRADE AND OTHER RECEIVABLES		
Trade receivables	2,049,931	9,051,636
Deposits	31,582	28,848
Other receivables	789,082	262,397
	2,870,595	9,342,881

An age analysis of trade receivables that are past due but not impaired is as follows: -

	2019 AED	2018 AED
91-180 days	172,716	--
Above 180 days	5,456	--
Trade receivables not past due and not impaired	1,871,759	9,051,636

The Establishment holds letters of credit amounting to AED 2,049,931 (previous year AED 9,051,636) as security against not past due and not impaired receivables.

10. OTHER CURRENT ASSETS

	2019	2018
Prepayments	180,731	84,571
Advance for goods and services	4,896	--
VAT receivable (net)	5,014	6,552
	190,641	91,123

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 and companies under common ownership.

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

	Ultimate parent company AED	Companies under common ownership AED	Total 2019 AED	Total 2018 AED
Due from related parties	1,518,337	734,000	2,252,337	
	--	--		--
Trade and other receivables	726,916	62,166	789,082	
	197,291	65,106		262,397
Trade and other payables	7,715	--	7,715	
	6,678,585	--		6,678,585
Short-term loan to a related party	--	1,835,000	1,835,000	
	566,169	3,670,000		4,236,169

All balances are unsecured and are expected to be settled in cash. Repayment and other terms are set out in notes 12 and 24.

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

	Ultimate parent company AED	Companies under common ownership AED	Total 2019 AED	Total 2018 AED
Commission income	935,418	--	935,418	
	197,291	--		197,291
Consultancy income	--	734,000	734,000	
	--	--		--
Service charges	566,169	--	566,169	
	--	--		--
Interest income	--	62,166	62,166	
	--	128,450		128,450
Purchases	5,998,727	--	5,998,727	
	10,577,000	1,736,556		12,313,556

The Establishment provides funds to related parties at fixed rate of interest.

		2019 AED	2018 AED
12.	**SHORT-TERM LOAN TO A RELATED PARTY**		
	Loan to a shareholder	--	566,169
	Loan to a related party [a]	1,835,000	3,670,000
		1,835,000	4,236,169

(a) Loan to a related party is at a fixed interest rate.

		2019 AED	2018 AED
13.	**CASH AND CASH EQUIVALENTS**		
	Bank balance in current account	569,236	331,090
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	22,517	--
	Provision for the year	8,050	22,517
	Closing balance	30,567	22,517

		2019 AED	2018 AED
16.	**TRADE AND OTHER PAYABLES**		
	Trade payables	405,553	7,278,071
	Accruals	70,568	93,838
	Other payables	--	60,637
		476,121	7,432,546

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

		2019 AED	2018 AED
17.	**OTHER CURRENT LIABILITIES**		
	Advance for goods and services	101,030	--
	Other staff accruals	49,100	38,500
		150,130	38,500

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 current and non-current loan to related parties short-term loans to a related party and amount 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 FROM CONTRACTS WITH CUSTOMERS**

The Establishment generates revenue from the transfer of goods and services over time and 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.

	2019 AED	2018 AED
Primary Geographical segments		
- UAE	7,765,488	18,070,081
Major goods/service lines		
Trading		
- Revenue	7,765,488	18,070,081
Timing of revenue recognition		
- At a point in time	7,765,488	18,070,081

		2019	2018
		AED	AED
20.	**OTHER OPERATING INCOME**		
	Commission income	935,418	197,291
	Other miscellaneous income	734,000	--
		1,669,418	197,291
21.	**STAFF COSTS**		
	Staff salaries and benefits	637,361	620,275
	Staff end-of-service benefits	8,050	22,517
		645,411	642,792
22.	**OTHER OPERATING EXPENSES**		
	Operating lease expenses	54,061	59,641
	Carriage outward	472,947	757,880
	Commission expenses	21,630	47,257
	Business travel expenses	103,233	120,110
	Other expenses	1,287,673	661,869
		1,939,544	1,646,757
23.	**INTEREST INCOME**		
	Interest on loan to related parties	62,166	128,450

24. **FINANCIAL INSTRUMENTS**

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

At 31 March 2019	**At amortised cost**
	AED
Financial assets	
Non-current financial assets	104,340
Trade and other receivables	2,870,595
Amount due from related parties	2,252,337
Cash and cash equivalents	569,236
Short term loan to a related party	1,835,000
	7,631,508
Financial liabilities	
Trade and other payables	476,121
	476,121

The effect of initially applying IFRS 9 on Establishment's financial instruments was immaterial. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

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, short term loan to a related party, amount 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, amounts due from related parties, short-term loans to a related party 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.

	2019 AED	2018 AED
GCC countries		
Non-current financial assets	104,340	104,340
Trade receivables	2,049,830	7,037,559
Amount due from related parties	734,000	--

	2019 AED	2018 AED
Asian countries		
Short term loan to a shareholder	--	566,169
Amount due from related parties	1,518,337	--
Other receivables	726,916	197,291
U.S. A		
Short term loan to a related party	1,835,000	3,670,000
Other receivables	62,166	65,106

At the reporting date, 79% of trade receivables were due from three customers (previous year 82% from three customers).

At the reporting date, 100% amount is due from two related parties. (Previous year Nil).

At the reporting date, 100% of short-term loan is due from one related party. (Previous year 100% from two related parties).

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

Based on the assessment, the management believes that the new impairment requirement under IFRS 9 does not have any significant impact on the financial statements.

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 734,000 and short-term loan to a related party of AED 1,835,000 are 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 non-current receivable, cash and cash equivalents, trade and other receivables, amounts due from related parties, short - term loan to a related party and trade and other payable approximate their carrying amounts largely due to the short-term maturities of these instruments.

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 its carrying value.

For **ELECTROSTEEL CASTINGS GULF FZE**

MANAGER