# Blue Star International FZCO
Dubai Airport Free Zone
Dubai - United Arab Emirates

## Report and consolidated financial statements for the year ended 31 March 2019

Contents

Pages

Independent auditor's report 1 - 2

Consolidated statement of financial position 3

Consolidated statement of profit or loss and other comprehensive income 4

Consolidated statement of changes in equity 5

Consolidated statement of cash flows 6

Notes to the consolidated financial statements 7 - 43

Deloitte.

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax:+971 (0) 4 376 8899
www.deloitte.com

# INDEPENDENT AUDITOR'S REPORT

**The Shareholder**
**Blue Star International FZCO**
**Dubai Airport Free Zone**
**Dubai**
**United Arab Emirates**

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of **Blue Star International FZCO** (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2019, and 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, 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.

### Other matter

The financial statements of Blue Star International FZCO, for the period from 18 April 2017 to 31 March 2018, were audited by another auditor who expressed an unmodified opinion on those statements on 30 July 2018.

### Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and the provision of the Dubai Airport Free Zone implementing regulation No.1/98 issued pursuant to the law No.2 of 1996, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Cont'd...

## INDEPENDENT AUDITOR'S REPORT (continued)

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

### Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of accounts. We obtained all the information and explanations which we considered necessary for our audit. There were no contraventions during the year of the provisions of the Dubai Airport Free Zone Implementing Regulations No. 1/98 issued pursuant to the Law No. 2 of 1996, as amended which might have materially affected the financial position of the Group or the results of its financial performance.

**Deloitte & Touche (M.E.)**

Mohammad Jallad
Registration No. 1164
24 October 2019
Dubai
United Arab Emirates

ديلويت آند توش
120206
Deloitte & Touche

## Blue Star International FZCO

## Consolidated statement of financial position
## As at 31 March 2019

| | Notes | 2019<br>AED'000 | 2018<br>AED'000<br>(Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 6 | **565** | 794 |
| Capital work in progress | | **648** | - |
| Intangible assets | 7 | **5** | - |
| Investment in joint venture | 8 | **11,266** | 11,127 |
| **Total non-current assets** | | **12,484** | 11,921 |
| **Current assets** | | | |
| Trade and other receivables | 9 | **31,832** | 14,440 |
| Cash and cash equivalents | 10 | **2,988** | 258 |
| **Total current assets** | | **34,820** | 14,698 |
| **Total assets** | | **47,304** | 26,619 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 11 | **5,350** | 2,800 |
| Accumulated losses | | **(1,399)** | (2,218) |
| Foreign currency translation reserve | | **44** | 436 |
| **Total equity** | | **3,995** | 1,018 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | **4,419** | 6,026 |
| Provisions | 13 | **179** | 74 |
| **Total non-current liabilities** | | **4,598** | 6,100 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **36,093** | 18,934 |
| Borrowings | 12 | **2,315** | 402 |
| Provisions | 13 | **303** | 165 |
| **Total current liabilities** | | **38,711** | 19,501 |
| **Total equity and liabilities** | | **47,304** | 26,619 |

Blue Star International * FZCO

**Director**
**Dawood Bin Ozair**

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2019

| | Notes | Year ended 31 March 2019 AED'000 | Period from 18 April 2017 to 31 March 2018 AED'000 (Restated) |
|---|---|---|---|
| Sales | | **89,296** | 30,438 |
| Cost of sales | | **(77,689)** | (27,279) |
| **Gross profit** | | **11,607** | 3,159 |
| Employee benefits expense | 16 | **(7,389)** | (4,228) |
| Other expenses | 17 | **(5,247)** | (2,172) |
| Depreciation and amortization expense | 6 & 7 | **(242)** | (99) |
| Finance costs | 18 | **(617)** | (239) |
| **Net loss for the year** | | **(1,888)** | (3,579) |
| Share of profit of joint venture | 8 | **2,707** | 1,361 |
| **Profit/(loss) for the year/period** | | **819** | (2,218) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation reserve | | **(392)** | 436 |
| **Other comprehensive (loss)/income for the year/period** | | **(392)** | 436 |
| **Total comprehensive income/(loss) for the year/period** | | **427** | (1,782) |

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity for the year ended 31 March 2019

| | Share capital AED'000 | Accumulated losses AED'000 | Foreign currency translation reserve AED'000 | Total AED'000 |
|---|---|---|---|---|
| Issue of share capital | 2,800 | - | - | 2,800 |
| Loss for the period (restated) (Note 8) | - | (2,218) | - | (2,218) |
| Other comprehensive income for the period | - | - | 436 | 436 |
| As at 31 March 2018 | 2,800 | (2,218) | 436 | 1,018 |
| Issue of share capital | 2,550 | - | - | 2,550 |
| Profit for the year | - | 819 | - | 819 |
| Other comprehensive loss for the year | - | - | (392) | (392) |
| **As at 31 March 2019** | **5,350** | **(1,399)** | **44** | **3,995** |

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows for the year ended 31 March 2019

| | Notes | Year ended 31 March 2019 AED'000 | Period from 18 April 2017 to 31 March 2018 AED'000 (Restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) for the year/period | | **819** | (2,218) |
| Adjustments for : | | | |
| Depreciation and amortisation | 6 | **242** | 99 |
| Share of profit of joint venture | 8 | **(2,707)** | (1,361) |
| Finance cost | 18 | **617** | 239 |
| **Operating profit before working capital changes** | | **(1,029)** | (3,241) |
| Increase in trade and other payables | | **16,448** | 18,934 |
| Increase in provisions | | **243** | 239 |
| Increase in trade and other receivables | | **(16,719)** | (14,440) |
| **Net cash (used in)/from operating activities** | | **(1,057)** | 1,492 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 6 | **(629)** | (893) |
| Investment in joint venture | | **-** | (9,330) |
| Dividend received from joint venture | | **2,178** | - |
| **Net cash from/(used in) investing activities** | | **1,549** | (10,223) |
| **Cash flows from financing activities** | | | |
| Issue of share capital | | **2,550** | 2,800 |
| Proceeds from borrowings | | **707** | 6,428 |
| Repayments of borrowings | | **(402)** | - |
| Finance cost paid | | **(617)** | (239) |
| **Net cash from financing activities** | | **2,238** | 8,989 |
| **Net increase in cash and cash equivalents** | | **2,730** | 258 |
| Cash and cash equivalents at the beginning of the year | | **258** | - |
| **Cash and cash equivalents at the end of the year** | 10 | **2,988** | 258 |

The accompanying notes form an integral part of these consolidated financial statements.

## 1. Group and operations

Blue Star International FZCO (the "Company") was formed as a Free Zone Group with limited liability pursuant to law No. 25 of 2009 and Implementing Regulations issued there under by Dubai Airport Free Zone Authority (DAFZA), Dubai, United Arab Emirates (UAE) and its subsidiaries (herein after referred to as the "Group"). The registered office of the Group is at P.O. Box 293719, Dubai, UAE. The Group is wholly owned by Blue Star Limited (the Parent Group), an entity incorporated in India.

Group have incorporated subsidiary Blue Star Systems and Solutions LLC on 15th August, 2018. The registered office of subsidiary is at Showroom No 5, Al Garhood Airport, PO Box No 239869, Dubai, UAE, having principal activities of trading of air-conditioners and spare parts of air conditioners, refrigerators and electronic appliances, maintenance of air-conditioning, ventilations and air filteration systems.

The principal activities of the Group are trading of air-conditioners and spare parts of air conditioners, refrigerators and electronic appliances, maintenance of air-conditioning, ventilations and air filteration systems.

## 2. Going concern

For the year ended 31 March 2019, the Group has made a profit of AED 819 thousands (previous year loss of AED 2,218 thousands) and, as of that date, the Group has working capital deficit of AED 3,891 thousands (previous year AED 4,803 thousands); accumulated losses of AED 1,399 thousands (previous year AED 2,218 thousands) and total equity of AED 3,995 thousands (previous year AED 1,018 thousands). Note 20 sets out the Group's objectives, policies and processes for managing the Group's financial risks including capital management and provides details of the Group's exposure to credit risk, liquidity risk, currency risk and interest rate risk from financial instruments.

Management has made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has adequate financial resources including the financial support from the shareholders to continue in business for the foreseeable future. The Parent Group has confirmed in writing to provide or arrange for financial support necessary for the continuation of the operations of the Group and to enable it to meet its obligation as they fall due in the foreseeable future.

Given that the Parent Company has committed to provide the required financial support, management is not aware of any other material uncertainties that may cast a significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

## 3. Application of new and revised International Financial Reporting Standards ("IFRS")

### 3.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements.

**Impact of initial application of IFRS 9 *Financial Instruments***

The Group has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

*Classification and measurement of financial assets and financial liabilities*

The Group determines classification and measurement category of financial assets based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

**Business model assessment & Solely Payments of Principal and Interest test ("SPPI test")**

***Business model assessment***

The Group determines its business model at the level that best reflects how it manages a Group of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of income are also important aspects of the Group's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

***The SPPI test***

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows met the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

## 3. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

### 3.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

**Financial assets**

The Group classifies their financial assets upon initial recognition of IFRS 9 into amortised cost (AC).

All financial assets are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for financial assets classified as at fair value through profit or loss. Transaction costs on financial assets classified as at fair value through profit or loss are recognised in the statement of profit or loss.

The Group classifies financial assets at AC if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the statement of profit or loss. Any gain or loss on derecognition is recognised in the statement of profit or loss.

**Financial liabilities**

The accounting for financial liabilities remains largely the same as it was under IAS 39.

**Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected Credit Loss' (ECL) model. Accordingly, the Group applies the new impairment model for its financial assets. The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

IFRS 9 introduces three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL - For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired: For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as permitted by IFRS 9. Accordingly, trade receivables which are not credit impaired and which do not have significant financing component is categorised under stage 2 and lifetime ECL is recognised.

## 3. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

### 3.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

**Impairment of financial assets (continued)**

Stage 3: Lifetime ECL - credit impaired: Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

Objective evidence that debt instrument is impaired includes whether any payment of principal or profit is overdue by more than 180 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. The Group assesses whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant. Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

*Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 has been applied using the retrospective approach. The Group has trade receivables, due from related parties and bank balances. Based on the expected credit loss model applied on the balance, the application of IFRS 9 impairment requirement has not resulted in any material impact on the consolidated financial statements.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

*Disclosures in relation to the initial application of IFRS 9*

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

## 3. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

### 3.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

**Impairment of financial assets (continued)**

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at 31 March 2018:

| | Original measurement category under IAS 39 | New measurement category under IFRS 9 | Original carrying amount under IAS 39 AED | Additional loss allowance recognised under IFRS 9 AED | New carrying amount under IFRS 9 AED |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | Loans and receivables | Financial assets at amortized cost | 258 | - | 258 |
| Trade and other receivables | Loans and receivables | Financial assets at amortized cost | 13,551 | - | 13,551 |
| **Financial liabilities** | | | | | |
| Trade and other payables | Other financial liabilities | Other financial liabilities | 18,571 | - | 18,571 |

IFRS 15 *Revenue from Contracts with Customers* 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 the scope of other standards. The new standard establishes 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 for transferring goods or services to a customer. The standard requires entities 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 a contract and the costs directly related to fulfilling a contract. The Group adopted IFRS 15 effective 1 January 2018.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e.1 April 2018). Accordingly, the information presented as at 31 March 2018 has not been restated - i.e., it is presented, as previously reported under IAS 18. The adoption of IFRS 15 has not had any impact on the disclosures or on the amounts reported in these consolidated financial statements.

### 3.2 New and amended IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which also became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

## 3. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

### 3.2 New and amended IFRS applied with no material effect on the consolidated financial statements (continued)

| New and revised IFRSs | **Effective for annual periods beginning on or after** |
|---|---|
| Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions. | 1 January 2018 |
| Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive. | 1 January 2018 |
| Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 and IAS 28 | 1 January 2018 |
| Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard. | 1 January 2018 |
| IFRIC 22 *Foreign Currency Transactions and Advance Consideration* | 1 January 2018 |

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

### 3.3 New and amended IFRSs in issue but not yet effective and not early adopted

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective.

| New and revised IFRSs | **Effective for annual periods beginning on or after** |
|---|---|
| IFRS 16 *Leases* | 1 January 2019 |

General impact of application of IFRS 16 *Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019.

## 3. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

### 3.3 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRS 16 *Leases (continued)* | 1 January 2019 |

General impact of application of IFRS 16 *Leases (continued)*

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether the existing contracts contains lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

*Operating leases*

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, as off-balance sheet items.

On initial application of IFRS 16, for all leases the Group will:

a. Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position;
b. Estimate the incremental borrowing rate and use it to determine the present value of the future lease payments;
c. Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
d. Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest expense (presented within operating activities) in the statement of cash flow.

For short-term leases and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Group plans to apply modified retrospective approach upon adoption of IFRS 16.

In preparation for the first time application of IFRS 16, the Group has carried out an implementation project. The impact of applying the Standard is still under final assessment.

## 3. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 3.3 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRS 17 *Insurance Contracts* | 1 January 2021 |
| IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as at 1 January 2021. | |
| Amendments to IFRS 9 *Prepayment Features with Negative Compensation* | 1 January 2019 |
| The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.<br>The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.<br>Management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements. | |
| Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. | 1 January 2019 |
| Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to* IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* | 1 January 2019 |
| The *Annual Improvements* include amendments to four Standards. | 1 January 2019 |
| IAS 12 *Income Taxes* | 1 January 2019 |
| The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. | |
| IAS 23 *Borrowing costs* | 1 January 2019 |
| The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. | |

## 3. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 3.3 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRS 3 *Business Combinations*<br>The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. | 1 January 2019 |
| IFRS 11 *Joint Arrangements*<br>The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation.<br>All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.<br>Management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements. | 1 January 2019 |
| Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement* | 1 January 2019 |
| Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. | Effective date deferred indefinitely. Adoption is still permitted. |
| IFRIC 23 *Uncertainty over Income Tax Treatments*<br>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:<br>• Whether tax treatments should be considered collectively;<br>• Assumptions for taxation authorities' examinations;<br>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and<br>• The effect of changes in facts and circumstances. | 1 January 2019 |

## 3. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 3.3 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

The Management does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future year, except as noted below:

**IFRS 16 *Leases***

*General impact of application of IFRS 16 Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting year beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 April 2019.

*Impact of the new definition of a lease*

The Group will make use of the practical expedient available on transition to IFRS 16 to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

**Impact on Lessee Accounting**

*Operating leases*

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

(a) Recognise right of use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

(b) Recognise depreciation of right of use assets and interest on lease liabilities in the statement of profit or loss and other comprehensive income;

(c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flow.

## 3. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 3.3 New and amended IFRSs in issue but not yet effective and not early adopted (continued)

**Impact on Lessee Accounting (continued)**

*Operating leases (continued)*

Lease incentives (e.g. rent free period) will be recognised as part of the measurement of the right of use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right of use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short term leases (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight line basis as permitted by IFRS 16.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

## 4. Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are set out below:

**Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and the applicable provisions of Implementing Regulations of DAFZA and the UAE Laws. The financial statements have been prepared on a historical cost basis. The functional currency of the Group is United States Dollars ("USD"). Management uses United Arab Emirates Dirhams ("AED") for controlling and monitoring the performance and financial position of the Group and accordingly the consolidated financial statements are presented in AED and all values are rounded to the nearest thousands (AED '000), except when otherwise indicated. As AED is currently pegged to USD, there are no exchange differences on translation from functional currency to presentation currency.

**Basis of consolidation**

*Subsidiaries*

The Parent consolidates the financial statements of all subsidiaries it controls. Financial statements of Group entities are consolidated on a line by line basis. If a subsidiary of the Group uses accounting policies other than those adopted in the consolidated financial statements for similar transactions and events in similar circumstances, appropriate adjustments are made to that Group entity's financial statements in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies. All intragroup assets, liabilities, equity, income, expense, cash flows and unrealised gains / losses relating to transactions between Group entities are eliminated on consolidation.

## 4. Summary of significant accounting policies (continued)

### Basis of consolidation (continued)

*Investments in joint ventures*

The Group's interests in joint ventures are accounted for using the equity method, after initially recognising investment at cost, and the carrying amount is increased or decreased to recognise the Group's share in profit or loss of the joint venture after the date of acquisition.

### Revenue recognition

*Change in accounting policy*

During the year ended 31 March 2019, the Company has adopted IFRS 15 *Revenue from Contracts with Customers* with date of initial application of 1 April 2018.

Revenue accounting policy under IFRS 15 as applied at the beginning of the year ended 31 March 2019

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance found across several Standards and Interpretations within IFRSs. It establishes a new five-step model that will apply to revenue arising from contracts with customers.

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

Under IFRS 15 *Revenue from Contracts with Customers*, the Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Company determines that the performance obligations are satisfied at a point in time and the revenue is recognised when control of goods or services is transferred to the customer.

Revenue is measured at the fair value of consideration received or receivable, taking into account the contractually agreed terms of payment excluding taxes and duties. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or an agent and has concluded that it is acting as a principal in all of its revenue arrangements.

## 4. Summary of significant accounting policies (continued)

### Revenue recognition (continued)

*Previous accounting policy (applied prior to 31 March 2018)*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The Group has concluded that it is a principal in all its revenue arrangements, since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to credit risks. The specific recognition criteria described below must also be met before revenue is recognised:

*Sales of goods*

Revenue from sale of goods is recognised at the point in time when control is transferred to the customer. Indicators that control has been transferred include, the establishment of the Group's present right to receive payment for the goods sold, transfer of legal title to the customer, transfer of physical possession to the customer, transfer of significant risks and rewards of ownership in the goods to the customer, and the acceptance of the goods by the customer.

### Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Costs comprise of all costs incurred to bring the assets to their location and working condition up to the date the assets are put to their intended use. When significant components of plant and equipment are replaced separately, the Group depreciates them based on the useful lives of the components.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Machinery | 3 years |
| Leasehold improvements | 3 years or life based on lease period, whichever is lower |
| Furniture and fixtures | 3 years |
| Office equipment | 3 years |
| Vehicles | 5 years |
| Computers | 3 years |

Any gain or loss arising on derecognition/disposal of an asset is included in profit or loss.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, as appropriate.

### Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Subsequent to initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Intangible assets with finite lives are amortised over the estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives of intangible assets are as mentioned below:

| | |
|---|---|
| Software | 3 years |

## 4. Summary of significant accounting policies (continued)

### Impairment of non - financial assets

Property and equipment and intangible assets with finite lives are evaluated for recoverability whenever there is any indication that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount (i.e. higher of the fair value less cost to sell and the value-in-use) is determined for the individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount and an impairment loss is recognised in profit or loss

### Employee benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Provision is made for amounts payable in accordance with the employees' contracts of employment applicable to their accumulated periods of service at the reporting date.

### Financial instruments (applied from 1 April 2018)

Financial instruments policies of the Group under IFRS 9 as applied at the beginning of the year ended 31 March 2019

Financial assets and liabilities are recognized in the Group's statement of financial position when the Group's becomes a party to the contractual provisions of the instruments.

***Financial assets***

Financial assets are recognised when an entity becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

## 4. Summary of significant accounting policies (continued)

### Financial instruments (applied from 1 April 2018) (continued)

***Financial assets (continued)***

*Classification of financial assets*

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

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

All other financial assets are subsequently measured at fair value.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Cash and cash equivalents*

Cash and cash equivalents are comprised of cash and balances with banks in current accounts.

*Trade and other receivables*

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. These are recognised initially at cost plus directly attributable transaction costs, if any, and subsequently measured at amortised cost using effective interest rate method less provision for impairment (also referred to as 'loss allowance'), if any.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## 4. Summary of significant accounting policies (continued)

### Financial instruments (applied from 1 April 2018) (continued)

***Financial assets (continued)***

*Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses on investments in trade and other receivables as well as on financial guarantee contracts, if any. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime 'Expected Credit Loss' (ECL) for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

## 4. Summary of significant accounting policies (continued)

### Financial instruments (applied from 1 April 2018) (continued)

***Financial assets (continued)***

*Impairment of financial assets (continued)*

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as permitted by IFRS 9. Accordingly, trade receivables which are not credit impaired and which do not have significant financing component is categorised under stage 2 and lifetime ECL is recognised.

Objective evidence that debt instrument is impaired includes whether any payment of principal or profit is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. The Group assesses whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

## 4. Summary of significant accounting policies (continued)

### Financial instruments (applied from 1 April 2018) (continued)

***Financial liabilities and equity instruments (continued)***

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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

*Financial liabilities measured subsequently at amortised cost*

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

*Foreign exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other income'/'other expenses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

## 4. Summary of significant accounting policies (continued)

### Financial instruments (applied from 1 April 2018) (continued)

***Financial liabilities and equity instruments (continued)***

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

### Financial instruments (applied prior to 31 March 2018)

Financial instruments policies of the Group under IAS 39 as applied in the year ended 31 March 2018 and prior years

*Financial instruments – Initial recognition and subsequent measurement*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Financial instruments - Recognition and initial measurement*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized by the Group when it becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument are adjusted to fair value, except where the financial instrument is measured at Fair Value through profit or loss, in which case the transaction costs are immediately recognized in profit or loss.

***Financial assets***

*Cash and cash equivalents*

The Group considers all highly liquid financial instruments, which are readily convertible into known amounts of cash that are subject to an insignificant risk of change in value and having original maturities of three months or less from the date of purchase, to be cash equivalents. Cash and cash equivalents consist of balances with banks which are unrestricted for withdrawal and usage.

## 4. Summary of significant accounting policies (continued)

### Financial instruments (applied prior to 31 March 2018) (continued)

***Financial assets (continued)***

*Financial assets at amortised cost*

Financial assets are subsequently measured at amortised cost if these financial assets are held within a business whose objective is to hold these assets to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

*Financial assets at fair value through other comprehensive income*

Financial assets are measured at fair value through other comprehensive income if these financial assets are held within a business whose objective is achieved by both collecting contractual cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and selling financial assets.

*Financial assets at fair value through profit or loss*

Financial assets are measured at fair value through profit or loss unless they are measured at amortised cost or at fair value through other comprehensive income on initial recognition. The transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are immediately recognised in profit or loss.

*Investment in subsidiaries and joint ventures*

The Group accounts for its investments in subsidiaries and joint ventures at cost.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

*Other financial liabilities*

Other financial liabilities (including borrowings, financial guarantee contracts and trade and other payables) are subsequent to initial recognition, measured at amortised cost using the effective interest (EIR) method.

*Derecognition of financial instruments*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition under IFRS 9. A financial liability (or a part of a financial liability) is derecognised from the Group's Balance Sheet when the obligation specified in the contract is discharged or cancelled or expires.

## 4. Summary of significant accounting policies (continued)

### Fair value measurement

When the fair values of financial assets or financial liabilities recorded or disclosed in the consolidated financial statements cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include consideration of inputs such as liquidity risk, credit risk and volatility.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### Current versus non-current classification

The Group 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 date of the statement of financial position.

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 date of the statement of financial position.

The Group classifies all other liabilities as non-current.

### Value added taxes

Value Added Tax (VAT) has been introduced in United Arab Emirates (UAE) effective 1 April 2018. The Group is incorporated under the laws of the Dubai Airport Free Zone (DAFZA), which is exempt from VAT.

## 4. Summary of significant accounting policies (continued)

### Cash dividends

The Group recognises a liability to pay dividend when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate law of UAE, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

### Provisions

A provision is recognised when the Group has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

### Warranty provisions

The estimated liability for product warranties is recorded when products are sold. These estimates are established using management estimates regarding possible future incidence based on corrective actions on product failures. The timing of outflows will vary as and when warranty claims arise.

### Leases

*Finance lease*

Assets taken on lease by the Group in its capacity as lessee, where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Such leases are capitalised at the inception of the lease at lower of the fair value of the leased property and the present value of the minimum lease payments, and a corresponding liability of an equivalent amount is recognised. Each lease rental paid is allocated between the liability and the interest cost so as to obtain a constant periodic rate of interest on the outstanding liability for each year.

*Operating lease*

Lease arrangements where the risks and rewards incidental to ownership of an asset substantially vest with the lessor, are recognised as operating lease. Operating lease payments are recognised on a straight line basis over the lease term in profit or loss, unless the lease agreement explicitly states that increase is on account of inflation.

### Foreign currencies

Income and expenses in foreign currencies are recorded at exchange rates prevailing on the date of the transaction. Foreign currency denominated monetary assets and liabilities are translated at the exchange rate prevailing on the reporting date and exchange gains and losses arising on settlement and restatement are recognised in profit or loss. Foreign currency denominated non-monetary assets and liabilities that are measured at historical cost are not retranslated.

## 5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Group's financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

## 5. Critical accounting judgments and key sources of estimation uncertainty (continued)

### Critical judgements in applying the Company's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 4 to the consolidated financial statements, management made the following judgement that have significant effect on the amounts recognised in the consolidated financial statements.

*Revenue recognition*

Management has considered the detailed criteria for the recognition of revenue of the performance obligations at a point of time at which a customer obtained control of a promised goods or services as set out in IFRS 15 *Revenue from Contracts with Customers*. Based on the acceptance by the customer of the liability for the goods sold, management is satisfied that the customer obtains control of a promised goods or services.

### Key sources of estimation uncertainty

The key assumptions 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 described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Impairment of trade receivables (prior to 1 April 2018)*

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

*Expected credit loss calculation (from 1 April 2018)*

The Group applies the Expected credit loss model (ECL) in accordance with IFRS 9. The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

*Useful lives of property and equipment*

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

## 5. Critical accounting judgments and key sources of estimation uncertainty (continued)

### Key sources of estimation uncertainty

*Warranties*

Provision for warranties involves a significant amount of estimation. The provision is based on the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

*Impairment of non-financial assets*

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

**Notes to the consolidated financial statements for the year ended 31 March 2019 (continued)**

## 6. Property and equipment

| | Leasehold improvements AED'000 | Equipment AED'000 | Furniture and fixtures AED'000 | Office equipment AED'000 | Vehicles AED'000 | Computers AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 18 April 2017 | - | - | - | - | - | - | - |
| Additions | 177 | 36 | 151 | 136 | 341 | 52 | 893 |
| At 31 March 2018 | 177 | 36 | 151 | 136 | 341 | 52 | 893 |
| Additions | - | - | 6 | - | - | 7 | 13 |
| **At 31 March 2019** | **177** | **36** | **157** | **136** | **341** | **59** | **906** |
| **Accumulated depreciation** | | | | | | | |
| At 18 April 2017 | - | - | - | - | - | - | - |
| Charge for the period | 28 | 6 | 24 | 19 | 14 | 8 | 99 |
| At 31 March 2018 | 28 | 6 | 24 | 19 | 14 | 8 | 99 |
| Charge for the year | 56 | 11 | 48 | 43 | 65 | 19 | 242 |
| **At 31 March 2019** | **84** | **17** | **72** | **62** | **79** | **27** | **341** |
| **Carrying amount** | | | | | | | |
| **At 31 March 2019** | **93** | **19** | **85** | **74** | **262** | **32** | **565** |
| At 31 March 2018 | 149 | 30 | 127 | 117 | 327 | 44 | 794 |

## 7. Intangible assets

| | Software<br>AED'000 | Total<br>AED'000 |
|---|---|---|
| **Cost** | | |
| At 1 April 2018 | - | - |
| Additions | 5.4 | 5.4 |
| **At 31 March 2019** | **5.4** | **5.4** |
| **Amortisation and impairment** | | |
| At 1 April 2018 | - | - |
| Charge for the year | 0.4 | 0.4 |
| **At 31 March 2019** | **0.4** | **0.4** |
| **Carrying amount** | | |
| **At 31 March 2019** | **5** | **5** |
| At 31 March 2018 | - | - |

## 8. Investment in a joint venture

The Group has 49% interest in Blue Star M & E Engineering (Sdn) Bhd, a joint venture involved in the field of mechanical, electrical and plumbing contracting which include operation and maintenance of heating, ventilation and air conditioning in Malaysia. The Company's interest in Blue Star M & E Engineering (Sdn) Bhd is accounted for using the equity method in the financial statements. Summarised financial information of the joint venture and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

| | 2019<br>AED'000 | 2018<br>AED'000<br>(Restated) |
|---|---|---|
| Current assets, including cash and cash equivalents and prepayments | **43,826** | 44,731 |
| Non-current assets | **7,398** | 10,237 |
| Current liabilities, including tax payable | **(32,583)** | (35,154) |
| Non-current liabilities, including deferred tax liabilities and long-term borrowing | **(3,376)** | (4,335) |
| **Equity** | **15,265** | 15,497 |
| Company's share in equity (49%) | **7,480** | 7,585 |
| Goodwill | **3,542** | 3,542 |
| Foreign exchange fluctuation | **244** | - |
| **Company's carrying amount of the investment [Note 8(a)]** | **11,266** | 11,127 |

## 8. Investment in a joint venture (continued)

| | **2019**<br>**AED'000** | 2018<br>AED'000<br>(Restated) |
|---|---|---|
| Revenue | **53,790** | 27,846 |
| Cost of sales | **(42,344)** | (19,694) |
| Administrative expenses, including depreciation | **(3,295)** | (3,482) |
| Finance costs, including interest expense | **(78)** | (69) |
| Profit before tax | **8,073** | 4,601 |
| Income tax expense | **(2,548)** | (1,822) |
| Comprehensive income for the year | **5,524** | 2,779 |
| **Company's share of profit for the year (49%) [Note 8(a)]** | **2,707** | 1,361 |

The joint venture had no other contingent liabilities or commitments as at 31 March 2019. Blue Star M & E Engineering (Sdn) Bhd cannot distribute its profits without the consent from other venture partner.

a) The joint venture has adopted IFRS 9 on 1 April 2018. The standard was applied retrospectively by the Group to the comparative information in the financial statements, including the statement of financial at 31 March 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial period then ended and related disclosures where the share in profit of the joint venture pertaining to the previous year has been restated. The effect of the same has been given in the investment towards the joint venture and the corresponding effect in the previous year Statement of changes in equity. The same has been tabulated as under:

| | Amount<br>as previously<br>reported<br>AED'000 | Effect<br>of adoption<br>of IFR9<br>AED'000 | Amount<br>Restated<br>AED'000 |
|---|---|---|---|
| **Statement of financial position** | | | |
| Investment in Joint Venture | 11,071 | 56 | 11,127 |
| Accumulated losses | (2,274) | (56) | (2,218) |
| **Statement of profit of loss** | | | |
| Share of profit of joint venture | 1,305 | 56 | 1,361 |
| Loss for the period | (2,274) | (56) | (2,218) |

## 9. Trade and other receivables

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---|---|
| Trade receivables | **30,135** | 13,551 |
| Prepayments | **524** | 618 |
| Advances to suppliers | **1,126** | 236 |
| Loans to employees | **9** | 21 |
| Balance with Statutory Authorities | **38** | 14 |
| | **31,832** | 14,440 |

## 9. Trade and other receivables (continued)

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

As at 31 March 2019 there were no impaired amounts towards trade receivables (refer Note 20 for ageing of trade receivables).

At 31 December 2018, the Group measured the expected credit losses at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

## 10. Cash and cash equivalents

| | **2019<br>AED'000** | 2018<br>AED'000 |
|---|---|---|
| Balances with Banks | **2,922** | 258 |
| Cash on hand | **66** | - |
| | **2,988** | 258 |

Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the central bank of U.A.E. Accordingly, the management of the Group estimates the loss allowance on balances with bank at the end of the reporting period at an amount equal to 12 month ECL. None of the balance with bank at the end of the reporting period are past due, and taking into account the historical default experience and the current credit ratings of the bank, the management of the Group have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

## 11. Share capital

| **Equity Shares of AED 1,000 each issued, subscribed & fully paid up** | **No.** | **AED'000** |
|---|---|---|
| *Authorised, issued and fully paid up 5,350 share of AED 1,000 each* | | |
| At 31 March 2018 | **2,800** | **2,800** |
| Shares issued during financial year 2018-19 | **2,550** | **2,550** |
| **At 31 March 2019** | **5,350** | **5,350** |

## 12. Borrowings

| | **2019<br>AED'000** | 2018<br>AED'000 |
|---|---|---|
| Term loan from bank | **6,734** | 6,428 |
| Less:- Non-current portion | **(4,419)** | (6,026) |
| Current portion | **2,315** | 402 |

## 12. Borrowings (continued)

Term loan is obtained from a commercial bank in United Arab Emirates. It carries interest @ 3m Libor plus 1.60% p.a. and is repayable in sixteen equated quarterly instalments. The loan is secured against irrecoverable corporate guarantee issued by the Parent Company (Note 19). The instalments due within 12 months from the date of statement of financial position are included under current liabilities.

## 13. Provisions

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---|---|
| **Provision for employee benefits** | | |
| Provision for employees' end of service indemnity [Note 13 (a)] | **179** | 74 |
| Provision for leave benefits [Note 13(b)] | **165** | 126 |
| Provision for warranties [Note 13(c)] | **138** | 39 |
| | **482** | 239 |
| Less: Non-current portion | **(179)** | (74) |
| Current portion | **303** | 165 |

### *a) Provision for employees' end of service indemnity*

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---|---|
| At the beginning of the year | **74** | - |
| Arising during the year | **134** | 74 |
| Utilized during the year | **(29)** | - |
| | **179** | 74 |

### *b) Provision for leave benefits*

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---|---|
| At the beginning of the year | **126** | - |
| Arising during the year | **89** | 126 |
| Utilized during the year | **(50)** | - |
| At the end of the year | **165** | 126 |

## 13. Provisions (continued)

### *c) Provision for warranties*

Provision for warranty costs in respect of products sold which are still under warranty is based on the best estimate of the expenditure that will be required to settle the present obligation at the end of the reporting period.

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---|---|
| At the beginning of the year | **39** | - |
| Arising during the year | **99** | 39 |
| Utilized during the year | **-** | - |
| At the end of the year | **138** | 39 |

## 14. Trade and other payables

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---|---|
| Trade payables | **35,461** | 18,571 |
| Advances from customers | **632** | 363 |
| | **36,093** | 18,934 |

## 15. Related party balances and transactions

Related parties represent the Shareholder, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the statement of comprehensive income are as follows:

| | **Year ended**<br>**31 March**<br>**2019**<br>**AED'000** | Period from<br>18 April 2017<br>to 31 March<br>2018<br>AED'000 |
|---|---|---|
| **Blue Star Limited (Parent Company)** | | |
| Equity investment | **2,550** | 2,800 |
| Purchase of goods | **47,940** | 14,527 |
| Guarantee commission | **20** | 23 |
| Reimbursement of expenses | **1,634** | - |
| **Blue Star M & E Engineering (Sdn) Bhd (Joint Venture)** | | |
| Purchase of shares in joint venture | **-** | 7,468 |

## 15. Related party balances and transactions (continued)

Balances with related parties included in the statement of financial position are as follows:

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---|---|
| **Due to a related party** | | |
| Shareholder and Parent Company - Blue Star Limited: | **23,079** | 9,481 |

### Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement generally occurs in cash. For the period ended 31 March 2019, the Company has not recorded any impairment of amounts owed by the related parties. The impairment assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

***Compensation of key management personnel***

Mr. Dawood Bin Ozair is the key management personnel of the Company. The remuneration of Director during the year ended 31 March 2019 were as follows:

| | **Year ended**<br>**31 March**<br>**2019**<br>**AED'000** | Period from<br>18 April 2017<br>to 31 March<br>2018<br>AED'000 |
|---|---|---|
| Short term benefits | **1,452** | 1,075 |
| Employees end of service benefits | **105** | 36 |
| | **1,557** | 1,111 |

## 16. Employee benefits expense

| | **Year ended**<br>**31 March**<br>**2019**<br>**AED'000** | Period from<br>18 April 2017<br>to 31 March<br>2018<br>AED'000 |
|---|---|---|
| Salaries, wages and bonus | **6,811** | 3,963 |
| Gratuity expense | **126** | 74 |
| Other employment benefits | **70** | 88 |
| Staff welfare expenses | **382** | 103 |
| | **7,389** | 4,228 |

## 17. Other expenses

| | **Year ended 31 March 2019 AED'000** | Period from 18 April 2017 to 31 March 2018 AED'000 |
|---|---|---|
| Freight and forwarding charges | **1,602** | 212 |
| Advertising and sales promotion | **1,457** | 779 |
| Travelling and conveyance | **629** | 451 |
| Rent | **529** | 7 |
| Legal and professional fees | **138** | 127 |
| Communication expenses | **107** | 40 |
| Warranty cost | **100** | 37 |
| Insurance | **83** | 39 |
| Audit fees | **46** | 28 |
| Repairs and maintenance buildings | **40** | 17 |
| Printing and stationery | **16** | 40 |
| Others | **10** | 5 |
| Miscellaneous expenses | **490** | 390 |
| | **5,247** | 2,172 |

## 18. Finance costs

| | **Year ended 31 March 2019 AED'000** | Period from 18 April 2017 to 31 March 2018 AED'000 |
|---|---|---|
| Interest | **320** | 91 |
| Bank charges | **297** | 148 |
| | **617** | 239 |

## 19. Commitments and contingencies

| | **2019 AED'000** | 2018 AED'000 |
|---|---|---|
| Corporate guarantee issued by the Parent Company | **37,548** | 37,548 |

The Company has taken term loan from a bank which is secured against irrecoverable corporate guarantee of the Parent Company (Note 12).

## 20. Financial risk management objectives and policies

The Group's principal financial liabilities comprise trade payables, accrued expenses, provision for incentives, current portion of provisions, interest bearing loans and borrowings and other payables. The Group's financial assets comprises trade receivables, bank balances and balance with statutory authorities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group's senior management oversees the management of these risks.

The main risks arising from these financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The Group's financial risk management processes and policies relating to these risks are discussed in detail below:

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the borrowings.

The sensitivity analysis below has been determined based on the exposure to interest rates for borrowings at the reporting date. The analysis is prepared assuming that these amounts outstanding at the reporting date were outstanding throughout the year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables held constant, the Group's profit for the period end 31st March, 2019 would increase/decrease by AED 63.61 thousands (previous year loss for the period end 31st March, 2018 would increase/decrease by AED 64.27 thousands). There is no direct impact on the Group's equity other than the impact resulting from the effect on the loss for the year.

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to credit risk on the following financial assets:

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---:|---:|
| Trade receivables | **30,135** | 13,551 |

## 20. Financial risk management objectives and policies (continued)

### Credit risk (continued)

| | Neither past due nor impaired AED'000 | Less than 1 year AED'000 | Expected Credit Losses AED'000 | Total AED'000 |
|---|---|---|---|---|
| Trade receivables as of 31 March 2019 | **25,272** | **4,863** | - | **30,135** |
| Trade receivables as of 31 March 2018 | 12,738 | 813 | - | 13,551 |

Credit risks related to trade receivables are managed subject to the Group's policy, procedures and control relating to customer credit risk management. Credit limits are established by management for all customers based on internal assessment of the credit quality of customers. Outstanding trade receivables are regularly monitored. The requirement for impairment is analysed at each reporting date on an individual basis.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group, and arises principally from the Group's trade and other receivables, due from related parties and bank balances. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties and assessing creditworthiness of counterparties on a routine and regular basis.

The Group's current credit risk grading framework comprises the following categories:

| *Category* | *Description* | *Basis for recognizing expected credit losses* |
|---|---|---|
| Performing | The counterparty has a low risk of default and does not have any past-due amounts | 12 month ECL |
| Doubtful | Amount is more than 90 days past due or there has been a significant increase in credit risk since initial recognition | Lifetime ECL - not credit impaired |
| In default | Amount is more than 365 days past due or there is evidence indicating the asset is credit-impaired | Lifetime ECL - credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Establishment has no realistic prospect of recovery. | Amount is written off |

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Details on concentration of trade receivable are disclosed in Note 9. Management believes that the concentration of credit risk is mitigated by high credit worthiness and financial stability of its customer.

## 20. Financial risk management objectives and policies (continued)

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group limits its liquidity risk by retaining sufficient funds generated from operations. The Group's terms of sales require amounts to be paid within an average of 120 days from the date of sale. Trade payables are normally settled within 60 to 180 days from the date of purchase.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 March 2019, based on contractual payment dates and current market interest rates.

| | Less than 1 year AED'000 | More than 1 year AED'000 | Total AED'000 |
|---|---|---|---|
| **At 31 March 2019** | | | |
| Trade payables - Non-interest bearing instruments | **35,461** | **-** | **35,461** |
| Borrowings - Interest bearing instruments* | **2,315** | **4,419** | **6,734** |
| **Total** | **37,776** | **4,419** | **42,195** |
| **At 31 March 2018** | | | |
| Trade payables - Non-interest bearing instruments | 18,571 | - | 18,571 |
| Borrowings - Interest bearing instruments* | 402 | 6,026 | 6,428 |
| **Total** | 18,973 | 6,026 | 24,999 |

*Effective Interest rate of borrowing is @ 3m Libor plus 1.60% p.a.

### Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency).

The Group's currency transactions are principally in AED and United States Dollars (USD). The Group's statement of financial position is not affected significantly by movements in currencies which are currently pegged to the USD.

As at reporting date, there are no significant foreign currency risk with respect to the Group's financial assets and liabilities denominated in foreign currencies.

## 20. Financial risk management objectives and policies (continued)

### Capital management

The Group's objective for capital management is to maximize shareholder wealth, safeguard business continuity and support the growth of the Group. The Group determines the capital management requirement based on annual operating plans and long term and other strategic investment plans. The funding requirements are met through optimum mix of borrowed and owned funds.

The Group's adjusted net debt and equity position is as follows:

| | **2019**<br>**AED'000** | 2018<br>AED'000 |
|---|---|---|
| Borrowings | **6,734** | 6,428 |
| Cash and cash equivalents | **2,988** | 258 |
| Net debts | **3,746** | 6,170 |
| Equity | **3,995** | 1,018 |
| Capital and net debt | **7,741** | 7,189 |
| Gearing ratio | **48.39%** | 85.83% |

## 21. Disclosure in connection with Revenue from Contract with Customers

### (a) Disaggregation of revenue:

The table below presents disaggregated revenues from contracts with customers for the year ended 31 March 2019 by offerings and contract-type. The Group believes that this disaggregation best depicts how the nature, amount, timing and uncertainty of revenues and cash flows are affected by industry, market and other economic factors:

**Revenue by type of contract**

| | **31 March 2019** | | | **31st March, 2018** | | |
|---|---|---|---|---|---|---|
| | **At a point in time AED'000** | **Over time AED'000** | **Total AED'000** | **At a point in time AED'000** | **Over time AED'000** | **Total AED'000** |
| Electro Mechanical Projects and Packaged Air Conditioning Systems | 89,296 | - | 89,296 | 30,438 | - | 30,438 |

## 21. Disclosure in connection with Revenue from Contract with Customers (continued)

### (b) Reconcilliation of contracted price with the revenue recognised in profit or loss:

| | **2019** | 2018 |
|---|---|---|
| | **AED'000** | AED'000 |
| Sale of products at transaction price | **89,296** | 30,438 |
| Reductions towards variable consideration components* | - | - |
| Revenue recognised on sale of products | **89,296** | 30,438 |

* Reduction towards variable consideration components include discounts, service level credits etc.

## 22. Comparative amounts

The prior period's amounts are not necessarily comparable to the current year's amounts since the prior period financial statements are for the period from 18 April 2017 to 31 March 2018, whereas the current year's amounts are for the year ended 31 March 2019.

## 23. Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 March 2019 were approved by the board of directors and authorized for issue on 24 October 2019.