AL SEER MARINE SUPPLIES AND EQUIPMENT COMPANY LLC

Reports and financial statements for the year ended 31 December 2020

AL SEER MARINE SUPPLIES AND EQUIPMENT COMPANY LLC

Reports and financial statements
for the year ended 31 December 2020

Directors' report
for the year ended 31 December 2020

The Directors have the pleasure to present their report together with the audited financial statements of Al Seer Marine Supplies and Equipment Company LLC (the "Company") for the year ended 31 December 2020.

Principal activities

The principal activities of the company are importing, maintaining and trading of marine machinery and equipment, boats repairing and trading, trading in marine transportation spare parts, trading in factories preparation equipment, machinery and accessories thereof and repair and maintenance of light and heavy marine equipment, wholesale of spare parts and section trading of ships and boats, retail sale of ships and boats, retail sale of airplanes spare parts and its components, ships management and operation & yachts management and running.

Results and appropriation of income

Revenue for the year was AED 507,088,019 (2019: AED 653,349,097). Profit for the year was AED 33,943,352 (2019: AED 52,977,605).

	AED
Retained earnings at the beginning of the year	237,314,922
Profit for the year	33,943,352
Retained earnings at the end of the year	**271,258,274**

Release

The Directors release from liability the management and the external auditor in connection with their duties for the year ended 31 December 2020.

Auditors

Deloitte & Touche (M.E.) have expressed their willingness to be re-appointed as external auditor of the Company for the year ending 31 December 2021.

On behalf of the Board of Directors

Director

Deloitte.

Deloitte & Touche (M.E.)
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL SEER MARINE SUPPLIES AND EQUIPMENT COMPANY LLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Al Seer Marine Supplies and Equipment Company LLC (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, 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 Financial Statements section of our report. We are independent of the Company 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 Company's 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 Information

Management is responsible for the other information. The other information comprises the Directors' report which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

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

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

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

Those Charge with Governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AL SEER MARINE SUPPLIES AND EQUIPMENT COMPANY LLC (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements of the Company have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Company has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Company's books of account;
- as disclosed in note 1 to the financial statements, the Company has not purchased or invested in shares during the financial year ended 31 December 2020;
- note 10 to the financial statements of the Company discloses material related party balances, transactions and the terms under which they were conducted; and
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2020.

Deloitte & Touche (M.E.)

Mohammad Khamees Al Tah
Registration No. 717
18 February 2021
Abu Dhabi
United Arab Emirates

Statement of financial position
as at 31 December 2020

	Notes	2020 AED	2019 AED
ASSETS			
Non-current assets			
Property and equipment	5	**34,302,989**	36,474,992
Right of use assets	6	**7,063,966**	8,973,136
Total non-current assets		**41,366,955**	45,448,128
Current assets			
Inventories	7	**1,029,925**	1,119,596
Trade and other receivables	8	**403,553,691**	195,019,918
Contract assets	9	**93,725,787**	71,205,423
Due from related parties	10	**4,099,956**	18,264,374
Cash and bank balances	11	**174,040,700**	145,679,522
Total current assets		**676,450,059**	431,288,833
Total assets		**717,817,014**	476,736,961
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**6,000,000**	6,000,000
Statutory reserve	13	**3,000,000**	3,000,000
Retained earnings		**271,258,274**	237,314,922
Total equity		**280,258,274**	246,314,922
Liabilities			
Non-current liabilities			
Provision for employees' end of service benefit	14	**10,773,746**	9,921,163
Lease liabilities	6	**6,881,235**	6,966,900
Total non-current liabilities		**17,654,981**	16,888,063
Current liabilities			
Trade and other payables	15	**201,491,248**	96,411,271
Contract liabilities	16	**216,840,063**	111,483,414
Lease liabilities	6	**515,814**	2,215,281
Due to related parties	10	**1,056,634**	3,424,010
Total current liabilities		**419,903,759**	213,533,976
Total liabilities		**437,558,740**	230,422,039
Total equity and liabilities		**717,817,014**	476,736,961

General Manager **Finance Manager**

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	Notes	2020 AED	2019 AED
Revenue	**17**	**507,088,019**	653,349,097
Cost of sales	**18**	**(451,323,375)**	(570,330,964)
Gross profit		**55,764,644**	83,018,133
General and administrative expenses	**19**	**(22,429,486)**	(30,188,729)
Other income	**20**	**138,300**	139,025
Finance income		**676,470**	937,118
Finance costs		**(206,576)**	(927,942)
Profit for the year		**33,943,352**	52,977,605
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**33,943,352**	52,977,605

Statement of changes in equity
for the year ended 31 December 2020

	Share capital AED	Statutory reserve AED	Retained earnings AED	Total equity AED
Balance at 1 January 2019	6,000,000	3,000,000	204,337,317	213,337,317
Total comprehensive income for the year	-	-	52,977,605	52,977,605
Dividends paid	-	-	(20,000,000)	(20,000,000)
Balance at 1 January 2020	6,000,000	3,000,000	237,314,922	246,314,922
Total comprehensive income for the year	-	-	33,943,352	33,943,352
Balance at 31 December 2020	**6,000,000**	**3,000,000**	**271,258,274**	**280,258,274**

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

Statement of cash flows
for the year ended 31 December 2020

	Notes	2020 AED	2019 AED
Operating activities			
Profit for the year		**33,943,352**	52,977,605
Adjustments for:			
Depreciation of property and equipment	**5**	**7,907,556**	7,419,711
Amortisation of right of use assets	**6**	**1,909,170**	1,909,170
Allowance for slow moving and obsolete inventories	**7**	**162,973**	492,418
Employees end of service benefit charge	**14**	**2,123,111**	1,614,027
Impairment loss allowance of trade receivables	**8**	**398,558**	234,250
Gain on disposal of property and equipment	**20**	**(133,633)**	(50,000)
Finance income		**(676,470)**	(937,118)
Finance costs		**636,725**	927,942
Operating cash flows before changes in operating assets and liabilities		**46,271,342**	64,588,005
(Increase)/decrease in inventories		**(73,302)**	1,035,088
Increase in trade and other receivables		**(208,932,331)**	(20,206,539)
Increase in contract assets		**(22,520,364)**	(38,732,889)
Decrease in due from related parties		**14,164,418**	1,917,769
Increase/(decrease) in trade and other payables		**105,079,977**	(10,555,351)
Increase in contract liabilities		**105,356,649**	65,216,806
(Decrease)/increase in due to related parties		**(2,367,376)**	2,673,878
Cash generated from operations		**36,979,013**	65,936,767
Employees' end of service benefits paid	**14**	**(1,270,528)**	(1,286,142)
Net cash generated from operating activities		**35,708,485**	64,650,625
Investing activities			
Payment for purchase of property and equipment	**5**	**(5,764,048)**	(3,139,605)
Proceeds from disposal of property and equipment		**162,128**	50,000
Interest income		**676,470**	937,118
Net cash used in investing activities		**(4,925,450)**	(2,152,487)
Financing activities			
Dividends paid		**-**	(20,000,000)
Repayment of lease liabilities	**6**	**(2,215,281)**	(2,215,281)
Finance costs		**(206,576)**	(412,786)
Net cash used in financing activities		**(2,421,857)**	(22,628,067)
Net increase in cash and cash equivalents		**28,361,178**	39,870,071
Cash and cash equivalents at the beginning of the year	**11**	**145,679,522**	105,809,451
Cash and cash equivalents at the end of the year		**174,040,700**	145,679,522

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

Notes to the financial statements
for the year ended 31 December 2020

1 General information

Al Seer Marine Supplies and Equipment Co. was a Partnership registered in the Emirate of Abu Dhabi, United Arab Emirates. In March 2008, the legal status of the Partnership was changed to a Limited Liability Company and the name was changed to Al Seer Marine Supplies and Equipment Company LLC (the "Company").

The principal activities of the company are importing, maintaining and trading of marine machinery and equipment, boats repairing and trading, trading in marine transportation spare parts, trading in factories preparation equipment, machinery and accessories thereof and repair and maintenance of light and heavy marine equipment, wholesale of spare parts and section trading of ships and boats, retail sale of ships and boats, retail sale of airplanes spare parts and its components, ships management and operation & yachts management and running.

The Company has not purchased or invested in shares during the financial year ended 31 December 2020.

2 Application of new and revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these 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.

- **Amendments to *Interest Rate Benchmark Reform in IFRS 9 and IFRS 7*:**
  The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

- **Amendments to IFRS 16 *Leases* relating to Covid-19-Related Rent Concessions:**
  The amendments provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID- 19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 01 June 2020.

- **Amendments to *Reference to the Conceptual Framework in IFRS Standards*:**
  The amendments include consequential amendments to affected Standards so that they refer to the new Framework. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

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

- **Amendments to IFRS 3 *Definition of a business*:**
  The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

- **Amendments to IAS 1 and IAS 8 *Definition of material*:**
  The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term ‘material’ to ensure consistency.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

The Company has not yet 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 17 *Insurance Contracts*	1 January 2023

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policy holders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

Notes to the financial statements
for the year ended 31 December 2020

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.	Effective date not yet decided
Amendments to IAS 1 *Presentation of Financial Statements*: Classification of Liabilities as Current or Non-current The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively.	1 January 2023

Notes to the financial statements
for the year ended 31 December 2020

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 3 *Business Combinations*: Reference to the Conceptual Framework	1 January 2022
The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.	
The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022	
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* related to Onerous Contracts—Cost of Fulfilling a Contract	1 January 2022
The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.	

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	**Effective for annual periods beginning on or after**
Amendments to IAS 16 *Property, Plant and Equipment* related to proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost. The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 cycle amending IFRS 1, IFRS 9, IFRS 16 and IAS 41	The amendments to IFRS 1, IFRS 9 and IAS 41 are effective from 1 January 2022 and the effective date for amendments to IFRS 16 Leases are not yet decided.

The above stated new standards and amendments are not expected to have any significant impact on financial statement of the Company.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued that would be expected to have a material impact on the financial statement of the Company.

3 Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of preparation

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted are set out below.

Revenue recognition

Revenue is measured at an amount that reflects the considerations, to which an entity expects to be entitled in exchange for transferring goods or services to customer, excluding amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over goods or services to its customers.

Rendering of services

The Company provides specialized yacht management, maintenance and operational support services to its customer. Such services are recognised as a performance obligation satisfied at point in time on monthly nbasis under IFRS 15. Revenue from rendering of services is based on the contractual rates agreed with the customer including other permissible direct expenses, and is recognised on a straight line basis over the period of each contract.

Revenue from construction contracts

The Company construct specialized assets for its customers under long term contracts. Under the terms of the contracts, the Company is contractually restricted from redirecting the properties to another customer and has enforceable right to payment for work done. Revenue from construction is therefore recognised over time using output method to recognise revenue on the basis of entity's efforts to the satisfaction of a performance obligation in accounting for its construction contracts. The management consider that this input method is an appropriate measure of the progress towards complete satisfaction of the performance obligations under IFRS 15.

Where the outcome of a construction contract cannot be estimated reliably, revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. Contract costs incurred are amortised over the period of service.

When it is possible that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Costs of contracts include all direct costs of labour, materials, depreciation of property and equipment and costs of subcontracted works, plus an appropriate portion of construction overheads and general and administrative expenses of the year allocated to construction contracts in progress during the year at a fixed rate of the value of work done on each contract. Any under recovery at the end of the fiscal year, is charged to profit or loss as unallocated overheads.

3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Contract assets and liabilities

The Company has determined that contract assets and liabilities are to be recognised at the performance obligation level and not at the contract level and both contract assets and liabilities are to be presented separately in the financial statements. The Company classifies its contract assets and liabilities as current and non-current based on the timing and pattern of flow of economic benefits.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit or loss in the period in which they are incurred.

The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is calculated using the straight-line method to allocate the assets' cost to their residual values over their estimated useful lives as follows:

	Years
Building improvements	5 – 10
Office equipment	4
Furniture and fixtures	4
Industrial equipment	4
Motor vehicles	4
Prototype boats	5

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3 Summary of significant accounting policies (continued)

Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to investment properties or the appropriate property and equipment category and is depreciated in accordance with the Company's policies.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis and, for materials, comprises invoiced cost, related freight charges and import duties. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

Employee benefits

Accrual is made for estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of reporting period.

Provision is made for the full amount of end of service benefits due to employees in accordance with the UAE Labour Law, for their period of service up to the end of the reporting period.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. (2), 2000 for Pension and Social Security. Such contributions are charged to profit or loss during the employees' period of service.

Foreign currencies

For the purpose of these financial statements, the UAE Dirhams (AED) is the functional and the presentation currency of the Company.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranties
Provisions for the expected cost of warranty obligations are recognised at the date of sale of the relevant products, to settle the Company's obligation based on past experience of the Company.

3 Summary of significant accounting policies (continued)

Leases

The Company as a lessee

The Company assesses whether contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item in the statement of financial position.
The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

3 Summary of significant accounting policies (continued)

Leases (continued)

The Company as a lessee (continued)

The Company did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

The Company applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of profit or loss.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities 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.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

<u>Classification of financial assets</u>

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

(i) Amortised cost and effective interest method (continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "finance income – interest income".

(ii) Debt instruments classified as at FVTOCI

The corporate bonds held by the Company are classified as at FVTOCI. Fair value is determined in the manner described in note 62(a)(i). The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these corporate bonds had been measured at amortised cost. All other changes in the carrying amount of these corporate bonds are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

<u>Classification of financial assets (continued)</u>

iii) Equity instruments designated as at FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.
A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs.
Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not being reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iv)Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called ‘accounting mismatch’) that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’ line item.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. 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 Company always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company'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 Company 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 Company 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.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company 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 Company 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 Company'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 Company's core operations.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument,
- e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has aninternal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive from the holder, the debtor or any other party.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

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 arrangement.

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 Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Trade and other payables and due to related parties, classified as 'financial liabilities', are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short term liabilities when the recognition of interest is immaterial.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

4 Critical accounting judgments and key sources of estimation uncertainty

While applying the accounting policies as stated in note 3, management of the Company has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgments and estimate made by management are summarised as follows:

4.1 Critical judgments in applying the Company's accounting policies

The following are the critical judgments, apart from those involving estimations (see 4.2 below), that the management have made in the process of applying the Company's accounting policies and have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Management considers recognising revenue over time, if one of the following criteria is met, otherwise revenue will be recognised at a point in time:

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

Significant increase in credit risk

As explained in note 3, ECL are measured as an allowance equal to 12 month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative and quantitative reasonable and supportable forward looking information.

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

4.2 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 discussed below:

Impact of COVID-19 – Going concern

The Company has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared covering the Company's future performance and liquidity. The impact of COVID 19 may continue to evolve, but as on the date of issuance of these financial statements, the projections show that the Company has ample resources to continue in operational existence and its going concern position remains largely unaffected and unchanged from 31 December 2019.

Useful lives and residual value of property and equipment

Management reviews the residual values and estimated useful lives of property, plant and equipment at the end of each annual reporting period in accordance with IAS 16 *Property, Plant and Equipment*. Management determined that current year expectations do not differ from previous estimates based on its review.

Allowance for slow moving and obsolete inventories

When inventories become old or obsolete, an estimate is made of their net realisable value. Inventory items are categorised based on their movements during the year, their physical condition and their expected future use, and accordingly, different proportions of the value of each category are recognised as an allowance for impairment of slow moving and obsolete inventories. Based on the factors, management has identified inventory items as slow and now moving to calculate the allowance for slow moving inventories. Revisions to the allowance for slow moving inventories would require if the outcome of these indicative factors differ from the estimates. Allowance for slow moving inventories at 31 December 2020 AED 2,841,297 (2019: AED 2,678,324).

Calculation of loss allowance

When measuring ECL the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. The Company uses estimates for the computation of loss rates.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. As per ECL model, the impairment loss allowance for trade receivables required as at 31 December 2020 is AED 1,943,885 (2019: AED 1,545,327).

5 Property and equipment

	Building improvements AED	Office equipment AED	Furniture and fixtures AED	Industrial equipment AED	Motor Vehicles AED	Prototype boats AED	Capital work in progress AED	Total AED
Cost								
At 1 January 2019	46,468,542	1,455,990	1,152,624	1,930,837	5,835,531	11,040,000	-	67,883,524
Additions	1,964,016	-	31,775	549,092	594,722	-	-	3,139,605
Disposals	-	-	-	-	(189,000)	-	-	(189,000)
At 1 January 2020	48,432,558	1,455,990	1,184,399	2,479,929	6,241,253	11,040,000	-	70,834,129
Additions	2,529,248	281,600	185,803	556,448	-	-	2,210,949	5,764,048
Disposals	-	-	-	-	(1,190,100)	-	-	(1,190,100)
At 31 December 2020	**50,961,806**	**1,737,590**	**1,370,202**	**3,036,377**	**5,051,153**	**11,040,000**	**2,210,949**	**75,408,077**
Accumulated depreciation								
At 1 January 2019	15,000,262	1,447,838	982,611	1,309,223	3,884,778	4,503,714	-	27,128,426
Charge for the year	3,807,362	8,152	63,789	373,398	959,010	2,208,000	-	7,419,711
Eliminated on disposals	-	-	-	-	(189,000)	-	-	(189,000)
At 1 January 2020	18,807,624	1,455,990	1,046,400	1,682,621	4,654,788	6,711,714	-	34,359,137
Charge for the year	4,179,644	62,291	90,413	497,102	870,106	2,208,000	-	7,907,556
Eliminated on disposals	-	-	-	-	(1,161,605)	-	-	(1,161,605)
At 31 December 2020	**22,987,268**	**1,518,281**	**1,136,813**	**2,179,723**	**4,363,289**	**8,919,714**	**-**	**41,105,088**
Carrying amount								
At 31 December 2020	**27,974,538**	**219,309**	**233,389**	**856,654**	**687,864**	**2,120,286**	**2,210,949**	**34,302,989**
At 31 December 2019	29,624,934	-	137,999	797,308	1,586,465	4,328,286	-	36,474,992

Building improvements includes (i) Company's office premises built on a plot of land in Musaffah ICAD, provided by a related party free of cost and (ii) warehouse in Musaffah build on a plot of land leased from Zone Corporation for a period of 30 years commencing from May 2005. A right of use asset is recognised on adoption of IFRS 16 "*Lease*" effective 1 January 2019 (refer note 6).

Notes to the financial statements
for the year ended 31 December 2020 (continued)

5 Property and equipment (continued)

Allocation of depreciation charge for the year is as follows;

	2020 AED	2019 AED
Cost of sales (note 18)	**6,410,057**	5,988,911
General and administrative expenses (note 19)	**1,497,499**	1,430,800
	7,907,556	7,419,711

6 Leases

Right-of-use assets

	Land AED	Labour accommodation AED	Total AED
Cost			
1 January 2019	7,837,389	3,044,917	10,882,306
Additions	-	-	-
At 31 December 2019	7,837,389	3,044,917	10,882,306
Additions	-	-	-
At 31 December 2020	**7,837,389**	**3,044,917**	**10,882,306**
Accumulated amortisation			
1 January 2019	-	-	-
Charge for the year	477,424	1,431,746	1,909,170
At 31 December 2019	477,424	1,431,746	1,909,170
Charge for the year	477,424	1,431,746	1,909,170
At 31 December 2020	**954,848**	**2,863,492**	**3,818,340**
Carrying value			
At 31 December 2020	**6,882,541**	**181,425**	**7,063,966**
At 31 December 2019	7,359,965	1,613,171	8,973,136

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6 Leases (continued)

Right-of-use assets (continued)

The recognised right-of-use assets related to;

i. A plot of land leased from Abu Dhabi Zone Corporation for a period of 30 years starting 30 May 2005 and expiring on 29 May 2035 in Musaffah Abu Dhabi; and
ii. Labour accommodation in Musaffah Abu Dhabi, for a period of 3 years starting 13 February 2018 expiring 12 February 2021.

Lease liabilities

Movement of lease liabilities during the year ended 31 December 2020 and 2019 is as follows:

	2020 AED	2019 AED
At 1 January	**9,182,181**	10,882,306
Add: accreditation of finance cost	**430,149**	515,156
Less: repayments during the year	**(2,215,281)**	(2,215,281)
At 31 December	**7,397,049**	9,182,181

Lease liabilities as of 31 December 2020 and 2019 is presented in the statement of financial position as follows:

	2020 AED	2019 AED
Amounts due for settlement within 12 months	**515,814**	2,215,281
Amounts due for settlement after 12 months	**6,881,235**	6,966,900
Lease liabilities	**7,397,049**	9,182,181

Amounts recognised in statement of profit and loss and other comprehensive income during the year ended 31 December 2020 and 2019 is as follows:

	2020 AED	2019 AED
Depreciation expense on right-of-use assets	**1,909,170**	1,909,170
Finance cost of lease liabilities	**430,149**	515,156
	2,339,319	2,424,326

Notes to the financial statements
for the year ended 31 December 2020 (continued)

7 Inventories

	2020 AED	2019 AED
Spare parts	**3,871,222**	3,797,920
Less: allowance for slow moving and obsolete inventories	**(2,841,297)**	(2,678,324)
	1,029,925	1,119,596

Cost of inventories recognised as an expense during the year in respect of operations was AED 3,067,805 (2019: AED 4,499,963).

The movement in provision for slow moving and obsolete inventories are as follows:

	2020 AED	2019 AED
At 1 January	**2,678,324**	2,185,906
Charge for the year	**162,973**	492,418
At 31 December	**2,841,297**	2,678,324

8 Trade and other receivables

	2020 AED	2019 AED
Trade receivables	**303,427,911**	135,921,969
Less: allowance for doubtful receivables	**(1,943,885)**	(1,545,327)
	301,484,026	134,376,642
Advances to suppliers	**96,818,863**	52,920,769
Prepayments	**3,039,989**	4,967,085
Labour deposits	**2,148,626**	2,048,626
Other receivables	**62,187**	706,796
	403,553,691	195,019,918

The average credit period of trade receivables is 60 days (2019: 60 days). No interest is charged on trade and other receivables. The Company has adopted a policy of dealing with only creditworthy counterparties. Adequate credit assessment is made before accepting a new customer. Of the trade receivables balance at the end of the reporting period, AED 296.5 million (2019: AED 124.1 million) representing 97.2% (2019: 91.3%) of the total trade receivables is due from 5 (2019: 5) major customers of the Company.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

8 Trade and other receivables (continued)

The Company measures the provision for impairment for trade receivables at an amount equal to lifetime ECL. The expected credit losses 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.

The following table details the risk profile of trade receivables based on the Company's provision matrix. For risk profiling purpose, the Company has segregated its trade receivable portfolio into two sub groups namely ‘receivables from government related entities’ and ‘receivables from corporates’ based on the historical credit loss and recovery patterns from the customers.

	Trade receivables						
	Collectively assessed					Individually assessed	
31 December 2020	**Not past due AED**	**1-60 AED**	**61 – 120 AED**	**121 -180 AED**	**181 – 365 AED**	**AED**	**Total AED**
Government customers							
Expected credit loss	**0.27%**	**0.27%**	**0.27%**	**0.27%**	**19.8%**	**100%**	
Estimated total gross carrying amount as default	**11,971,220**	**72,829,985**	**145,770,921**	**70,719,072**	**1,254,808**	**846,205**	**303,392,211**
Lifetime ECL	32,322	196,641	393,581	190,941	248,494	**846,205**	**1,908,185**
Corporate customers							
Expected credit loss	-	-	-	-	-	**100%**	
Estimated total gross carrying amount as default	-	-	-	-	-	**35,700**	**35,700**
Lifetime ECL	-	-	-	-	-	**35,700**	**35,700**
31 December 2019							
Government customers							
Expected credit loss	0.27%	0.27%	0.27%	0.27%	33.1%	100%	
Estimated total gross carrying amount as default	65,043,012	52,054,3971	16,834,076	197,344	911,235	846,205	135,886,269
Lifetime ECL	175,616	40,547	45,452	533	301,274	846,205	1,509,627
Corporate customers							
Expected credit loss	-	-	-	100%	-	-	
Estimated total gross carrying amount as default	-	-	-	35,700	-	-	35,700
Lifetime ECL	-	-	-	35,700	-	-	35,700

Notes to the financial statements for the year ended 31 December 2020 (continued)

8 Trade and other receivables (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9.

	Collectively assessed AED	Individually assessed AED	Total AED
Balance as at 31 December 2018	464,872	846,205	**1,311,077**
Net re-measurement of loss allowance	198,550	35,700	**234,250**
Balance as at 31 December 2019	663,422	881,905	**1,545,327**
Net re-measurement of loss allowance	398,558	-	**398,558**
Balance as at 31 December 2020	**1,061,980**	**881,905**	**1,943,885**

9 Contract assets

	2020 AED	2019 AED
Contract assets		
- *construction contracts*	**60,368,373**	45,341,787
- *rendering of services*	**16,346,346**	19,863,636
Contract costs	**17,011,068**	6,000,000
	93,725,787	71,205,423

Contract assets

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Company receives payments from customers in line with a series of performance related milestones. The Company will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

	2020 AED	2019 AED
Construction contracts	**60,368,373**	45,341,787

All of the contract assets are current as on 31 December 2020 and 2019.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

9 Contract assets (continued)

Management of the Company always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the construction industry. None of the amounts due from customers at the end of the reporting period is past due.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under construction contracts. As per management impairment assessment using ECL, no impairment loss required against contract assets as on 31 December 2020 and 2019.

10 Related parties

The Company enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 24 *Related Party Disclosures*. Related parties comprise Shareholders, Directors, Key management and entities under common ownership and/or common management and control. The Shareholders and management decide on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges.

The Company maintains balances with these related parties as follows:

	2020 **AED**	2019 AED
Due from related parties *(ultimate parent)*:	**4,099,956**	18,264,374
Due to related parties:		
Zee Stores LLC	**950,632**	3,080,723
Sushi Bar 99 Restaurant LTD	**32,586**	271,330
Al Jaraf Travel and Tourism LLC	**59,013**	58,480
Dar Al Ummah Printing Publishing and Distribution	**11,372**	13,477
Cine Royal Cinema LLC	**3,031**	-
	1,056,634	3,424,010

Significant transactions with related parties are as follows:

	2020 **AED**	2019 AED
Revenue	**24,891,899**	32,587,892
Purchases of goods and services	**4,286,389**	21,820,673

Notes to the financial statements
for the year ended 31 December 2020 (continued)

11 Cash and bank balances

	2020	2019
	AED	AED
Cash on hand	**150,000**	150,001
Cash at banks – current accounts	**170,871,178**	20,759,999
Fixed deposits	**3,019,522**	124,769,522
	174,040,700	145,679,522

Fixed deposits comprise short term deposits placed with commercial banks bearing interest rates ranging from 1% per annum to 1.75% per annum (2019: from 1% per annum to 1.75% per annum).

Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries. Accordingly, management of the Company estimates the loss allowance on balances with banks at the end of the reporting period at an amount equal to 12 month ECL. None of the balances with banks 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 Company have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

12 Share capital

The share capital of the Company comprises of 1,000,000 authorised, issued and fully paid shares of AED 6 each (2019: 6,000 shares of AED 1,000 each). The shareholding of the Company are as follows:

	31 December 2019		
	% of Holding	**No. of Shares**	**Value AED**
Royal Group Holding LLC	99.98	5,999	5,999,000
Royal Group Companies Management LLC	0.02	1	1,000
	100	**6,000**	**6,000,000**

On 1 January 2020, Royal Group Holding LLC and Royal Group Companies Management LLC transferred their shares in the Company to IHC Industrial Holding LLC and IHC Companies Management LLC. As at 31 December 2020, the Company has completed the process of registration of change in share capital structure with the relevant authorities.

	31 December 2020		
	% of Holding	**No. of Shares**	**Value AED**
IHC Industrial Holding LLC	99.95	999,500	5,997,000
IHC Companies Management LLC	0.05	500	3,000
	100	**1,000,000**	**6,000,000**

13 Statutory reserve

In accordance with the UAE Federal Law No. 2 of 2015 and the Company's Articles of Association, 10% of the profit for the year is transferred to a statutory reserve, which is non-distributable. Transfers to this reserve are required to be made until such time as it equals at least 50% of the share capital of the Company.

Notes to the financial statements for the year ended 31 December 2020 (continued)

14 Provision for employees' end of service benefit

	2020 AED	2019 AED
At 1 January	**9,921,163**	9,593,278
Charge for the year	**2,123,111**	1,614,027
Paid during the year	**(1,270,528)**	(1,286,142)
At 31 December	**10,773,746**	9,921,163

15 Trade and other payables

	2020 AED	2019 AED
Trade payables	**179,060,939**	66,759,568
Accrued and other payables	**22,430,309**	29,651,703
	201,491,248	96,411,271

The average credit period on the purchase of goods is 90 days (2019: 90 days). The Company has financial risk management policies in place to ensure that all payables are paid within credit time frame. No interest is charged on trade and other payables.

Accrued and other payables include accrual of staff bonus of AED 4.12 million (2019: AED 9.9 million) and value added tax payable of AED 10.89 million (2019: AED 6.5 million).

16 Contract liabilities

	2020 AED	2019 AED
Amounts received in advances from customers	**216,840,063**	111,483,414

Revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. When the customer paid for the goods before the promised goods and service provided to the customer, the transaction price received the Company is recognised as contract liability until the control of promised goods and services transferred to the customer.

17 Revenue

The Company derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major product lines.

	2020 AED	2019 AED
Disaggregation of revenue – at a point in time		
Rendering of services	**483,678,833**	608,880,569
Disaggregation of revenue – over time		
Construction income	**23,409,186**	44,468,528
	507,088,019	653,349,097

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2020 are set out below:

	2020 AED	2019 AED
Remaining construction revenue	**2,713,433**	21,719,007

18 Cost of sales

	2020 AED	2019 AED
Rendering of services	**430,582,717**	530,969,216
Construction contract	**20,740,658**	39,361,748
	451,323,375	570,330,964

Cost of sales is allocated as under:

	2020 AED	2019 AED
Direct cost	**386,801,933**	504,123,689
Staff costs	**56,202,216**	58,309,194
Depreciation of property and equipment (note 5)	**6,410,056**	5,988,911
Amortisation of right of use assets (note 6)	**1,909,170**	1,909,170
	451,323,375	570,330,964

Notes to the financial statements
for the year ended 31 December 2020 (continued)

19 General and administrative expenses

	2020 AED	2019 AED
Staff costs	**14,282,292**	16,905,358
Management fees (note 10)	**3,771,484**	5,933,083
Directors' remuneration (note 10)	**-**	2,682,182
Depreciation of property and equipment (note 5)	**1,497,499**	1,430,800
Allowance for slow moving inventories (note 7)	**162,973**	492,418
Impairment loss allowance for doubtful debts (note 8)	**398,558**	234,250
Others	**2,316,680**	2,510,638
	22,429,486	30,188,729

20 Other income

	2020 AED	2019 AED
Gain from disposal of property and equipment	**133,633**	50,000
Other income	**4,667**	89,025
	138,300	139,025

21 Contingent liabilities

	2020 AED	2019 AED
Letter of guarantees	**39,388,112**	37,890,572

Above letters of guarantees were issued in the normal course of business on which the bank charges a fee of 1% per annum.

22 Financial instruments

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return on equity. The Company does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objectives. The Company's overall strategy remains unchanged from the prior year.

Financial risk management

The Company's finance department monitors and manages the financial risks relating to the operations of the Company. These risks include credit risk and liquidity risk. The Company does not enter into or trade in derivative financial instruments for speculative or risk management purposes.

The Company does not have significant exposure to foreign currency risk as all of its monetary assets and liabilities are denominated in UAE Dirhams.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. As at 31 December 2020 and 2019, the Company's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company arises from:

- the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

22 Financial instruments (continued)

Credit risk management (continued)

In order to minimise credit risk, the management develop and maintain the Company's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, management uses other publicly available financial information and the Company's own trading records to rate its major customers and other debtors. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The tables below detail the credit quality of the Company's financial assets, contract assets and financial guarantee contracts, as well as the Company's maximum exposure to credit risk by credit risk rating grades.

31 December 2020	**Notes**	**External credit ratings**	**Internal credit ratings**	**12 month or lifetime ECL**	**Gross carrying amount AED**	**Loss allowance AED**	**Net carrying amount AED**
Trade receivables	8	N/A	(i)	Lifetime ECL	303,427,911	(1,943,885)	301,484,026
Contract assets	9	N/A	N/A	12-month ECL	93,725,787	-	93,725,787
Due from related parties	10	N/A	N/A	12-month ECL	4,099,956	-	4,099,956
Bank balances	11	AA	N/A	12-month ECL	173,890,700	-	173,890,700
Other receivables	8	N/A	N/A	12-month ECL	62,187	-	62,187
31 December 2019							
Trade receivables	8	N/A	(i)	Lifetime ECL	135,921,969	(1,545,327)	134,376,642
Contract assets	9	N/A	N/A	12-month ECL	71,205,423	-	71,205,423
Due from related parties	10	N/A	N/A	12-month ECL	18,264,374	-	18,264,374
Bank balances	11	AA	N/A	12-month ECL	145,529,521	-	145,529,521
Other receivables	8	N/A	N/A	12-month ECL	706,796	-	706,796

(i) For trade receivables, the Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

22 Financial instruments (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk rests with the Shareholders' team, which has built an appropriate liquidity risk management framework for the planning of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Within 1 year AED	**Between 1 to 3 years AED**	**Total AED**
31 December 2020			
Trade and other payables	**195,075,253**	**-**	**195,075,253**
Lease liabilities	**515,814**	**6,881,235**	**7,397,049**
Due to related parties	**3,885,247**	**3,587,382**	**7,472,629**
	199,476,314	**10,468,617**	**209,944,931**
31 December 2019			
Trade and other payables	84,360,682	-	84,360,682
Lease liabilities	2,215,281	6,966,900	9,182,181
Due to related parties	10,752,780	4,721,819	15,474,599
	97,328,743	11,688,719	109,017,462

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings and by use of interest rate swap contracts and forward interest rate contracts.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

22 Financial instruments (continued)

Currency risk management

The Company undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	31 December 2020		31 December 2019	
	Liabilities AED	**Assets AED**	Liabilities AED	Assets AED
Euro	**124,810,396**	**3,397,344**	19,269,852	26,187,817
US Dollars	**23,563,371**	**79,349,023**	7,223,198	6,528,026
Great Britain Pound	**440,666**	**3,100,305**	9,214,919	1,138,584
Moroccan Dirham	**137,304**	**-**	44,560	137,304
Australian Dollar	**23,398**	**24,772**	1,409	1,801
Saudi Riyal	**-**	**-**	258,786	3,954
New Zealand Dollar	**-**	**-**	282,217	-

Foreign currency sensitivity analysis

The Company is mainly exposed to United States Dollars (USD), Great Britain Pound and Euro. The exchange rate of UAE Dirham is pegged to the US Dollars and therefore the risks associated therewith are considered to be insignificant.

Based on the sensitivity analysis to a 10% (2019: 10%) increase/decrease in the Euros against the AED with all other variables held constant profit for the year would have been lower or higher by AED 12.14 million (2019: lower/higher by AED 0.69 million) mainly as a result of foreign exchange loss on translation of Euro denominated outstanding.

Based on the sensitivity analysis to a 10% (2019: 10%) increase/decrease in the Great Britain Pound against the AED with all other variables held constant profit for the year would have been lower or higher by AED 0.26 million (2019: lower/higher by AED 0.81 million) mainly as a result of foreign exchange loss on translation of Euro denominated outstanding.

Fair value measurement

Management considers that the fair values of financial assets and financial liabilities approximate their carrying values as stated in the financial statements since all the financial assets and financial liabilities are of short term nature.

23 Subsequent events

The Federal Decree-Law No. 26 of 2020 on the amendment of certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and shall take effect starting from the 2 January 2021. The Company shall apply and adjust their status in accordance with the provisions thereof by no later than one year from the date on which this Decree-Law takes effect.

24 Reclassification of comparative information

Certain comparative figures have been reclassified to comply with current year presentation. These reclassifications did not have any impact on net profit or retained earnings of current or prior years.

25 Approval of financial statements

The financial statements were approved by management and authorised for issue on 18 February 2021.